UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008 **Commission File number:** 0-24790

TOWER SEMICONDUCTOR LTD.

(Exact name of registrant as specified in its charter and translation of registrant's name into English)

Israel
(Jurisdiction of incorporation or organization)

Ramat Gavriel Industrial Park
P.O. Box 619, Migdal Haemek, Israel 23105
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Ordinary Shares, par value New Israeli Shekels 1.00 per share	NASDAQ Global Market
Convertible Debentures	NASDAQ Capital Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 160,025,639 Ordinary Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No x

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non-accelerated filer x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP x	International Financial Reporting Standards as issued by the International Accounting Standards Board o	Other o

If "Other" has been checked in response to the previous question,

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

This annual report on Form 20-F includes certain "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934. The use of the words "projects," "expects," "may," "plans" or "intends," or words of similar import, identifies a statement as "forward-looking". There can be no assurance, however, that actual results will not differ materially from our expectations or projections. Factors that could cause actual results to differ from our expectations or projections include the risks and uncertainties relating to our business described in this annual report at "Item 3. Key Information – Risk Factors".

Beginning with the fourth quarter of 2007, Tower prepares its consolidated financial statements in United States dollars and in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). Tower recast the comparative amounts included in its financial statements and in this report to US GAAP. Prior to the fourth quarter of 2007, Tower prepared its financial reports in United States dollars and in accordance with generally accepted accounting principles in Israel ("Israeli GAAP") and provided reconciliation to US GAAP in the notes to the financial statements.

The transition to US GAAP was made as a result of Israel Accounting Standard 29, which stipulates that Israeli public companies that previously reported their financial results based on Israeli GAAP must begin reporting their financial results in accordance with International Financial Reporting Standards ("IFRS") for periods beginning on or after January 1, 2008. However, Israeli public companies that are also listed on NASDAQ are allowed to report utilizing US GAAP rather than IFRS. We elected to use US GAAP to increase transparency and comparability of our financial reports and facilitate research and analysis by shareholders, analysts and other participants in the U.S. capital markets.

All references herein to "dollars" or "$" are to United States dollars, and all references to "Shekels" or "NIS" are to New Israeli Shekels.

On September 19, 2008, we completed the merger with Jazz Technologies, Inc. ("Jazz Technologies") in a stock for stock transaction. Jazz Technologies is the parent company of its wholly-owned subsidiary, Jazz Semiconductor, Inc. ("Jazz Semiconductor'), an independent semiconductor foundry focused on specialty process technologies for the manufacture of analog intensive mixed-signal semiconductor devices. As a result of this transaction, both Jazz Technologies and Jazz Semiconductor became wholly owned subsidiaries of Tower Jazz Technologies and Jazz Semiconductor are sometimes collectively referred to in this report as "Jazz".

Following the merger with Jazz, our financial statements include Jazz's results commencing September 19, 2008 and our consolidated balance sheet as of December 31, 2008 includes Jazz's balances as of such dates.

As used in this annual report, "we," "us," "our," the "Company" and words of similar import refer to Tower Semiconductor Ltd., Jazz Technologies, Inc. and Jazz Semiconductor, Inc. References to "the Company" for dates prior to September 19, 2008 mean Tower Semiconductor Ltd. (excluding Jazz) ("Tower"), which on September 19, 2008 was merged with Jazz and references to "the Company" for periods on or after September 19, 2008 are references to Tower and its wholly-owned subsidiaries.

Manufacturing or production capacity refers to installed equipment capacity in our facilities and is a function of the process technology and product mix being manufactured because certain processes require more processing steps than others. All information herein with respect to the wafer capacity of our manufacturing facilities is based upon our estimate of the effectiveness of the manufacturing equipment and processes in use or expected to be in use during a period and the actual or expected process technology mix for such period. Unless otherwise specifically stated, all references herein to "wafers" in the context of capacity in Fab 1 are to 150-mm wafers and in Fab 2 and Jazz are to 200-mm wafers.

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*micro*FLASH® is a registered trademark of Tower

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM KEY INFORMATION

Selected Financial Data

This section presents our selected historical financial data. You should carefully read the financial statements included in this annual report, including the notes to the financial statements. The selected data in this section is not intended to replace the financial statements.

We derived the selected statement of operations data and other financial data for the years ended December 31, 2008, 2007 and 2006, and selected balance sheet data as of December 31, 2008 and 2007 from the audited financial statements in this annual report. Those financial statements were audited by Brightman Almagor & Co., a member firm of Deloitte Touche Tohmatsu, independent registered public accounting firm. We derived the selected statement of operations data and other financial data for the years ended December 31, 2005 and 2004 and the selected balance sheet data as of December 31, 2006, 2005 and 2004 from our audited financial statements that are not included in this annual report, which were recast to US GAAP. Our management believes that the financial statements contain all adjustments needed to present fairly the information included therein.

Following the merger with Jazz, our financial statements include Jazz results commencing September 19, 2008 and our consolidated balance sheet as of December 31, 2008 includes Jazz's balances as of such date.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenues	$ 251,659	$ 230,853	$ 187,438	$ 101,991	$ 126,055
Cost of revenues	298,683	284,771	267,520	238,358	228,410
Gross loss	(47,024)	(53,918)	(80,082)	(136,367)	(102,355)
Research and development	14,969	13,790	15,048	16,029	17,053
Marketing, general and administrative.	33,223	31,604	25,831	17,418	21,297
Write-off of in-process research and development	1,800	-	-	-	-
Merger related costs	520	-	-	-	-
Fixed assets impairment	120,538	-	-	-	-
Operating loss	(218,074)	(99,312)	(120,961)	(169,814)	(140,705)
Financing expense, net	(17,566)	(34,976)	(47,563)	(35,651)	(29,745)
Gain on debt restructuring	130,698	-	-	-	-
Other income (expense), net	(918)	92	597	2,383	32,682
Loss before income tax expenses	(105,860)	(134,196)	(167,927)	(203,082)	$ (137,768)
Income tax provision	(575)	-	-	-	-
Loss for the year	$ (106,435)	$ (134,196)	$ (167,927)	$ (203,082)	$ (137,768)
Basic loss per ordinary share	$ (0.79)	$ (1.13)	$ (2.03)	$ (3.06)	$ (2.13)
Other Financial Data:					
Depreciation and amortization	$ 138,808	$ 154,343	$ 171,743	$ 153,189	$ 131,576

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(in thousands)				
Selected Balance Sheet Data:					
Cash and cash equivalents, including short-term interest-bearing deposits and designated cash	$ 34,905	$ 44,536	$ 40,940	$ 38,998	$ 86,591
Working capital	22,843	46,711	29,973	(40,725)	5,848
Total assets	705,503	686,782	714,132	690,624	859,043
Current maturities of long-term bank debt and short-term bank debt	7,000	-	-	21,103	-
Current maturities of convertible debentures	8,330	7,887	6,902	5,813	-
Long-term debt from banks	222,989	379,314	432,430	497,000	497,000
Debentures	208,512	117,460	83,863	42,932	24,092
Long-term customers' advances	11,138	27,983	46,042	59,621	64,428
Shareholders' equity (deficit)	110,277	44,709	39,516	(29,228)	163,318
Weighted average number of ordinary shares outstanding (*)	134,749	118,857	82,581	66,371	64,633
Number of shares issued and outstanding (*)	160,026	124,226	100,752	66,932	65,700

(*) Net of 1,300,000 treasury shares.

Risk Factors

This annual report and statements that we may make from time to time may contain forward-looking information. There can be no assurance that actual results will not differ materially from our expectations, statements or projections. Factors that could cause actual results to differ from our expectations, statements or projections include the risks and uncertainties relating to our business described below.

Risks Affecting Our Business

If the Investment Center will not release to us the pending and over-due grants, we would be required to seek alternative financing sources to fund our on-going operations, which may not be available.

In connection with Fab 2, Tower received approval for grants and tax benefits from the Investment Center of the Israeli Ministry of Industry, Trade and Labor (Investment Center) under its Approved Enterprise Program. Under the terms of the approval, Tower was eligible to receive grants equal to 20% of up to

$1.25 billion invested in Fab 2 plant and equipment, or an aggregate of up to $250 million. As of today, Tower received a cumulative amount of approximately $165 million in grants from the Investment Center in relation to Fab 2. Tower's eligibility to receive grants was with respect to investments in Fab 2 plant and equipment made between 2001 and 2005. Any failure by Tower to meet the conditions of its grants may result in the cancellation of all or a portion of the grants and tax benefits and in the Investment Center requiring Tower to repay all or a portion of grants already received. Israeli law limits the ability of the Investment Center to extend the time for investments eligible for grants beyond a five year period, unless approved through an expansion plan. Tower has therefore been holding discussions with the Investment Center for approval of an expansion plan to commence as of January 1, 2006. On numerous occasions, Tower received assurances and commitments from governmental authorities that such an expansion plan would be approved pending positive recommendation of an economical audit by the Industrial Bank of the Investment Center. In 2005, at the Investment Center's request, Tower submitted a revised business plan to the Investment Center and its Industrial Bank for the period commencing January 1, 2006. Tower has invested from January 1, 2006 through May 31, 2009, approximately $225 million in Fab 2 plant and equipment; hence as of May 31, 2009, $45 million of cash grants are pending and over-due. While the Industrial Bank of the Investment Center gave a positive recommendation, the governmental approval process has been protracted and as a result, in May 2008, Tower filed a petition with the Israeli High Court of Justice seeking an approval certificate from the Investment Center for the expansion plan. A hearing has been scheduled for October 2009.

In August 2008, the Investment Center rejected our expansion plan request. On November 2008, Tower filed an appeal on this decision to the Israeli Ministerial Committee, which is comprised of the Israeli Minister of Finance and the Israeli Minister of Industry, Trade and Labor. No proceedings of the committee related to our appeal have been held to date. In parallel, Tower is holding discussions with the Investment Center and senior Governmental officials to obtain approval of the proposed expansion plan and/or find an alternative process to release the pending and over-due $45 million of cash grants to Tower. Currently, Tower cannot estimate when it will receive the pending and over-due grants or when it will receive a formal response to its request for an expansion plan to commence as of January 1, 2006 or if the Investment Center will approve its request or release the grants. If the Investment Center does not approve our request for an expansion plan and/or find an alternative process to release the pending and over-due grants, it will have a material adverse effect on Tower's operations and financial condition, and Tower would likely be required to obtain financing from alternative sources, in order to fund its on-going operations, which financing may not be available. Such financing sources may include potential opportunities for sale and lease-back of a portion of Tower's real estate assets, sale of other fixed assets and/or intellectual property licensing.

Our business requires a significant amount of financing and our business may be adversely affected if its sources of liquidity are unavailable or insufficient to fund its operations, or if such sources will not be available.

Our working capital requirements and cash flows are subject to quarterly and yearly fluctuations, depending on a number of factors. If we are unable to manage fluctuations in cash flow, our business, operating results and financial condition may be materially adversely affected. Factors which could lead us to suffer cash flow fluctuations include:

— the level of revenue derived from sales of wafers we manufacture, engineering services, design-related services and other sources of revenue;

— the collection of receivables;

— the timing and size of capital expenditures; and

— the servicing of financing obligations and other short-term and long-term liabilities.

In addition, current uncertainty arising from the global economic downturn, including the recent disruption in financial and credit markets, and prevailing market conditions in the semiconductor industry (including global decreased demand, downward price pressure, excess inventory and unutilized capacity) pose a risk to the overall economy that could severely impact consumer and customer demand for our and our customers' products, as well as commercial relationships with our customers, suppliers, and creditors, including our lenders. If the current situation continues or worsens significantly, our business could be negatively impacted.

In order to finance our business, we expect to use available cash and existing credit facilities as well as exploring measures to obtain funds from other sources of financing, including potential opportunities for sale and lease-back of a portion of Tower's real estate assets, sale of other fixed assets and/or intellectual property, licensing, receipt of all or part of the $45 million pending and over-due grants from the Israeli Investment Center if it approves Tower's expansion plan and other alternatives for fund raising. We are also working to mitigate the potential effects of the global economic downturn through several measures, including implementing a cost reduction plan, which is targeted at saving approximately $80 million of costs on an annual run-rate.

However, there is no assurance that we will be able to obtain sufficient funding from the financing sources detailed above and/or from such cost reduction measures in a timely manner to allow us to fully mitigate the effect of the existing economic downturn and any potential further deterioration in market conditions and maintain our ongoing operations and/or repay our short-term and long-term debt and other liabilities.

In addition, if we were to incur higher levels of debt, this would require a larger proportion of our respective operating cash flow to be used to pay principal and interest on our respective indebtedness. The increased use of cash to pay indebtedness could leave us with insufficient funds to finance our respective operating activities and capital expenditures, which could adversely affect our business and on-going operations.

If Tower fails to comply with the repayment schedule under the amended facility agreement and is unsuccessful in negotiating a revised repayment schedule, or if it fails to meet any of the covenants and financial ratios stipulated in its amended facility agreement and Tower's banks do not waive its noncompliance, Tower would likely be unable to fund its on-going operations.

Under Tower's amended facility agreement with Bank Hapoalim B.M. and Bank Leumi Le-Israel B.M., in the event that Tower fails to comply with the repayment schedule and is unsuccessful in negotiating a revised repayment schedule, or fails to meet any of the covenants and financial ratios stipulated in the amended facility agreement and its banks do not waive its noncompliance, its banks may require it to immediately repay all loans made by them to Tower, plus penalties, and they would be entitled to exercise the remedies available to them under the amended and restated credit facility, including enforcement of their lien against Tower's assets. There is no assurance that Tower would be able to generate the cash necessary to fund the scheduled payments from increased levels of

cash from operations or from additional equity or debt financing or obtain funding from other sources (including, for example, funds from a sale and lease-back of a portion of Tower's real estate assets and/or a sale of other fixed assets). If we are not able to generate increased levels of revenue and cash from operations or raise sufficient funds in a timely manner, Tower would likely be unable to comply with the repayment schedule and Tower would likely fail to meet covenants and financial ratios under the amended facility agreement. This would have a material adverse effect on Tower and it would likely be unable to fund its on-going operations unless the banks agree to a revised repayment schedule or to waive Tower's non- compliance.

The cyclical nature of the semiconductor industry and the resulting periodic overcapacity may lead to erosion of sale prices; downward price pressure may seriously harm our business.

The semiconductor industry has historically been highly cyclical. Historically, companies in the semiconductor industry have expanded aggressively during periods of increased demand. This expansion has frequently resulted in overcapacity and excess inventories, leading to rapid erosion of average sale prices. We expect this pattern to repeat itself in the future. The overcapacity and downward price pressure characteristic of a prolonged downturn in the semiconductor market, such as we are currently experiencing, may not allow us to operate at a profit, even at full utilization, and could seriously harm our financial results and business.

Our operating results fluctuate from quarter to quarter which makes it difficult to predict our future performance.

Our revenues, expenses and operating results have varied significantly in the past and may fluctuate significantly from quarter to quarter in the future due to a number of factors, many of which are beyond our control. These factors include, among others:

- The cyclical nature of both the semiconductor industry and the markets served by our customers;
- Changes in the economic conditions of geographical regions where our customers and their markets are located;
- Shifts by integrated device manufacturers (IDMs) and customers between internal and outsourced production;
- Inventory and supply chain management of our customers;
- The loss of a key customer, postponement of an order from a key customer or the rescheduling or cancellation of large orders
- The occurrence of accounts receivables write-offs, failure of a key customer to pay accounts receivables in a timely manner or the financial condition of our customers;
- The rescheduling or cancellation of planned capital expenditures;
- Our ability to satisfy our customers' demand for quality and timely production;
- The timing and volume of orders relative to our available production capacity;
- Our ability to obtain raw materials and equipment on a timely and cost-effective basis;
- Environmental events or industrial accidents such as fires or explosions;
- Our susceptibility to intellectual property rights disputes;
- Our ability to continue with existing and to enter into new partnerships and technology and supply alliances on mutually beneficial terms;

- Actual capital expenditures exceeding planned capital expenditures;
- Interest, price index and currency rate fluctuations that were not hedged;
- Technological changes and short product life cycles;
- Timing for designing and the qualification of new products; and
- New accounting rules affecting our results including the accounting treatment of our bank debt and debentures.

Due to the factors noted above and other risks discussed in this section, many of which are beyond our control, investors should not rely on quarter-to-quarter comparisons to predict our future performance. Unfavorable changes in any of the above factors may seriously harm our company, including our operating results, financial condition and ability to maintain our operations.

The lack of a significant backlog resulting from our customers not placing purchase orders far in advance makes it difficult for us to forecast our revenues in future periods.

Our customers generally do not place purchase orders far in advance, partly due to the cyclical nature of the semiconductor industry. As a result, we do not typically operate with any significant backlog. The lack of a significant backlog makes it difficult for us to forecast our revenues in future periods. Moreover,

since our expense levels are based in part on our expectations of future revenues, we may be unable to adjust costs in a timely manner to compensate for revenue shortfalls. We expect that in the future our revenues in any quarter will continue to be substantially dependent upon purchase orders received in that quarter and in the immediately preceding quarter. We cannot assure you that any of our customers will continue to place orders with us in the future at the same levels as in prior periods. If orders received from our customers differ adversely from our expectations with respect to the product, volume, price or other items, our operating results, financial condition and ability to maintain our operations may be adversely affected.

We occasionally manufacture wafers based on forecasted demand, rather than actual orders from customers. If our forecasted demand exceeds actual demand, we may have obsolete inventory, which could have a negative impact on our results of operations.

We generally do not manufacture wafers unless we receive a customer purchase order. On occasion, we may produce wafers in excess of customer orders based on forecasted customer demand, because we may forecast future excess or because of future capacity constraints. If we manufacture more wafers than are actually ordered by customers, we may be left with excess inventory that may ultimately become obsolete and must be scrapped when it cannot be sold. Significant amounts of obsolete inventory could have a negative impact on our results of operations.

We have a history of operating losses and expect to operate at a loss for the foreseeable future; our facilities must operate at high utilization rates in order to reduce our losses.

We have operated at a loss for the last number of years. Because fixed costs represent a substantial portion of the operating costs of semiconductor manufacturing operations, we must operate our facilities at high utilization rates for us to reduce our losses. We began construction of Fab 2 in 2001 and Fab 2 operations began in 2003. Our losses since 2003 are due primarily to significant depreciation and amortization expenses related mainly to Fab 2, as well as financing and operating expenses that have not yet been offset by a sufficient increase in the level of our revenues. If we do not succeed in operating our facilities at high utilization rates, we expect to continue to operate at a loss for the foreseeable future, which may adversely affect our business and company.

Our sales cycles are typically long and orders received may not meet our expectations, which may adversely affect our operating results.

Our sales cycles, which we measure from first contact with a customer to first shipment of product ordered by the customer, vary substantially and may last as long as two years or more, particularly for new technologies. In addition, even after we make initial shipments of prototype products, it may take several more months to reach full production of the product. As a result of these long sales cycles, we may be required to invest substantial time and incur significant expenses in advance of the receipt of any product order and related revenue. If orders ultimately received differ from our expectations with respect to the product, volume, price or other items, our operating results, financial condition and ability to maintain our operations may be adversely affected.

Demand for our foundry services is dependent on the demand in our customers' end markets.

In order for demand for our wafer fabrication services to increase, the markets for the end products using these services must develop and expand. For example, the success of our imaging process technologies will depend, in part, on the growth of markets for certain image sensor product applications. Because our services may be used in many new applications, it is difficult to forecast demand. If demand is lower than expected, we may have excess capacity, which may adversely affect our financial results. If demand is higher than expected, we may be unable to fill all of the orders we receive, which may result in the loss of customers and revenue.

If we do not maintain our current customers and attract additional customers, our business may be adversely affected.

During the three months ended March 31, 2009, approximately 42% of our business was generated by four significant customers that contributed 16%, 13%, 8% and 5% of our revenue, respectively. We expect to continue to receive a significant portion of our revenue from a limited number of customers for the foreseeable future. Loss or cancellation of business from, or decreases in the sales volume or sales prices to, our significant customers, or our failure to replace them with other customers, could seriously harm our financial results, revenue and business. Since the sales cycle for our services typically exceeds one year, if our customers order significantly fewer wafers than forecasted, we will have excess capacity that we may not be able to sell in a short period of time, resulting in lower utilization of our facilities. We may have to reduce prices in order to try to sell the excess capacity. In addition to the revenue loss that could result from unused capacity or lower sales prices, we might have difficulty adjusting our costs to reflect the lower revenue in a timely manner, which could harm our financial results.

We depend on a relatively small number of products for a significant portion of our revenues.

From time to time, a significant portion of our revenue is generated from a small number of very high volume products that are shipped to volatile consumer-oriented markets. The volume of orders of such products may adversely change or demand for such products may be abruptly discontinued. We expect that for the foreseeable future we will continue to be dependent upon a relatively limited number of products for a significant portion of our revenue due to the nature of our business. A decrease in the price of, or demand for, any of these products could negatively impact our financial results.

If Tower does not receive orders from its customers with whom it has signed long-term contracts, Tower may have excess capacity.

Tower has committed a portion of its capacity for future orders to some customers with whom Tower has signed long-term contracts. If these parties do not place orders with Tower in accordance with their contractual loading and purchase commitments, and if Tower is unable to fill such unutilized capacity, Tower's financial results may be adversely affected.

If we do not maintain and develop our technology processes and services, we will lose customers and may be unable to attract new ones.

The semiconductor market is characterized by rapid change, including the following:

— rapid technological developments;

— evolving industry standards;

— changes in customer and product end user requirements;

— frequent new product introductions and enhancements; and

— short product life cycles with declining prices as products mature.

Our ability to maintain our current customer base and attract new customers is dependent in part on our ability to continuously develop and introduce to production advanced specialized manufacturing process technologies and purchase the applicable equipment. Since the successful development and introduction to production of these processes may not be achieved in a timely manner or at all and we may not be able to purchase the applicable equipment required for such processes, we may be unable to maintain our current customer base and may be unable to attract new customers.

The semiconductor foundry business is highly competitive; our competitors may have competitive advantages over us.

The semiconductor foundry industry is highly competitive. We compete with more than ten independent dedicated foundries, the majority of which are located in Asia-Pacific, including foundries based in Taiwan, China, Korea and Malaysia, and with over 20 integrated semiconductor and end-product manufacturers that allocate a portion of their manufacturing capacity to foundry operations. The foundries with which we compete benefit from their close proximity to other companies involved in the design and manufacture of integrated circuits, or ICs. In addition, many of our competitors may have one or more of the following competitive advantages over us:

— greater manufacturing capacity;

— multiple and more advanced manufacturing facilities;

— more advanced technological capabilities;

— a more diverse and established customer base;

— greater financial, marketing, distribution and other resources;

— a better cost structure; and/or

— better operational performance in cycle time and yields.

If we do not compete effectively, our business and results of operations may be adversely affected.

We have a large amount of debt which could have significant negative consequences.

We have a large amount of long-term debt, which could have significant negative consequences. As of May 31, 2009, Tower had (i) approximately $208 million of bank debt under our amended facility agreement with the banks, and (ii) approximately $132 million of debt in respect of outstanding convertible and non-convertible debentures. As of May 31, 2009 Jazz had (i) $27 million under its bank loan agreement, of which $7 million is presented as short term debt and (ii) approximately $128 million of debt in respect of outstanding convertible notes. Tower has not guaranteed any of Jazz's debt, including Jazz's debt under its bank loan and Jazz's debt to its note holders.

Our current and future indebtedness could have significant negative consequences, including:

— requiring the dedication of a substantial portion of our expected cash flow from operations to service our indebtedness;

— increasing our vulnerability to general adverse economic and industry conditions;

— limiting our ability to obtain additional financing;

— limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete;

— placing us at a competitive disadvantage to less leveraged competitors and competitors that have better access to capital resources;

— affecting our ability to make interest payments and other required debt service on our indebtedness; and/or

— enforcement by the banks of their liens against Tower's and Jazz respective assets, as applicable (in the event of default).

We may incur additional indebtedness.

Although Tower and Jazz are limited by the covenants in their respective loan facilities, either Tower or Jazz could enter into certain transactions that would increase the amount of our outstanding indebtedness. If new indebtedness is added to our current indebtedness levels, the related risks, including the negative consequences associated with our increased level of indebtedness, could intensify.

If we experience difficulty in achieving acceptable device yields, product performance and delivery times as a result of manufacturing problems, our business could be seriously harmed.

The process technology for the manufacture of semiconductor wafers is highly complex, requires advanced and costly equipment and is constantly being modified in an effort to improve device yields, product performance and delivery times. Microscopic impurities such as dust and other contaminants, difficulties in the production process, defects in the key materials and tools used to manufacture a wafer and other factors can cause wafers to be rejected or individual semiconductors on specific wafers to be non-functional. We have from time to time experienced production difficulties that have caused delivery delays or returns and lower than expected device yields. We may also experience difficulty achieving acceptable device yields, product performance and product delivery times in the future as a result of manufacturing problems. Any of these problems could seriously harm our operating results, financial condition and ability to maintain our operations.

If we are unable to purchase equipment and raw materials, we may not be able to manufacture our products in a timely fashion, which may result in a loss of existing and potential new customers.

To increase the production capability of our facilities and to maintain the quality of production in our facilities, we must procure additional equipment. In periods of high market demand, the lead times from order to delivery of manufacturing equipment could be as long as 12 to 18 months. In addition, our manufacturing processes use many raw materials, including silicon wafers, chemicals, gases and various metals, and require large amounts of fresh water and electricity. Manufacturing equipment and raw materials generally are available from several suppliers. In many instances, however, we purchase equipment and raw materials from a single source. Shortages in supplies of manufacturing equipment and raw materials could occur due to an interruption of supply or increased industry demand. Any such shortages could result in production delays that could have a material adverse effect on our business and financial condition.

Our exposure to inflation and currency exchange and interest rate fluctuations may increase our cost of operations.

Almost all of our cash generated from operations and our financing and investing activities is denominated in US dollars and New Israeli Shekels, or NIS. Our expenses and costs are denominated in NIS, US dollars, Japanese Yen and Euros. We are, therefore, exposed to the risk of currency exchange rate fluctuations.

The dollar amount of our operations, which is denominated in NIS, 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 US dollar. Outstanding principal and interest on some of our debentures is linked to the Israeli consumer price index (CPI) and therefore, our dollar costs will increase if inflation in Israel exceeds the devaluation of the NIS against the US dollar, or if the timing of such devaluation lags behind inflation in Israel.

Tower's and Jazz's borrowings under their respective credit facilities provide for interest based on a floating LIBOR rate, thereby exposing us to interest rate fluctuations. Furthermore, if Tower's or Jazz's banks incur increased costs in financing the applicable credit facility due to changes in law or the unavailability of foreign currency, they may exercise their right to increase the interest rate on the credit facility or require Tower or Jazz to bear such increased cost as provided for in the respective credit facility agreement.

Tower regularly engages in various hedging strategies to reduce its exposure to some, but not all, of these risks and intends to continue to do so in the future. However, despite any such hedging activity, Tower is likely to remain exposed to interest rate and exchange rate fluctuations and inflation, which may increase the cost of its operating and financing activities.

We depend on intellectual property rights of third parties and failure to maintain or acquire licenses could harm our business.

We depend on third party intellectual property in order for us to provide certain foundry and design services to our clients. If problems or delays arise with respect to the timely development, quality and provision of such intellectual property to us, the design and production of our customers' products could be delayed, resulting in underutilization of our capacity. If any of our third party intellectual property vendors goes out of business, liquidates, merges with, or is acquired by, another company that discontinues the vendor's previous line of business, or if we fail to maintain or acquire licenses to such intellectual property for any other reason, our business may be adversely affected. In addition, license fees and royalties payable under these agreements may impact our margins and operating results.

Failure to comply with the intellectual property rights of third parties or to defend our intellectual property rights could harm our business.

Our ability to compete successfully depends on our ability to operate without infringing on the proprietary rights of others and defending our intellectual property rights. Because of the complexity of the technologies used and the multitude of patents, copyrights and other overlapping intellectual property rights, it is often difficult for semiconductor companies to determine infringement. Therefore, the semiconductor industry is characterized by frequent litigation regarding patent, trade secret and other intellectual property rights. We have been subject to such claims in the past which have been resolved through license agreements, the terms of which have not had a material effect on our business. From time to time we are a party to various litigation matters incidental to the conduct of our business.

Because of the nature of the industry, we may continue to be a party to infringement claims in the future. In the event any third party were to assert infringement claims against us or our customers, we may have to consider alternatives including, but not limited to:

— negotiating cross-license agreements;

— seeking to acquire licenses to the allegedly infringed patents, which may not be available on commercially reasonable terms, if at all;

— discontinuing use of certain process technologies, architectures, or designs, which could cause us to stop manufacturing certain integrated circuits if we were unable to design around the allegedly infringed patents;

— fighting the matter in court and paying substantial monetary damages in the event we lose; or

— seeking to develop non-infringing technologies, which may not be feasible.

Any one or several of these alternatives could place substantial financial and administrative burdens on us and hinder our business. Litigation, which could result in substantial costs to us and diversion of our resources, may also be necessary to enforce our patents or other intellectual property rights or to defend us or our customers against claimed infringement of the rights of others. If we fail to obtain certain licenses or if litigation relating to alleged patent infringement or other intellectual property matters occurs, it could prevent us from manufacturing particular products or applying particular technologies, which could reduce our opportunities to generate revenues.

As of May 31, 2009, Tower held 81 patents worldwide and Jazz held 170 patents. We intend to continue to file patent applications when appropriate. The process of seeking patent protection may take a long time and be expensive. We cannot assure you that patents will be issued from pending or future applications or that, if patents are issued, they will not be challenged, invalidated or circumvented or that the rights granted under the patents will provide us with meaningful protection or any commercial advantage. In addition, we cannot assure you that other countries in which we market our services and products will protect our intellectual property rights to the same extent as the United States. Further, we cannot assure you that we will at all times enforce our patents or other intellectual property rights or that courts will uphold our intellectual property rights, or enforce the contractual arrangements that we have entered into to protect our proprietary technology, which could reduce our opportunities to generate revenues.

We could be seriously harmed by failure to comply with environmental regulations.

Our business is subject to a variety of laws and governmental regulations in Israel and in the U.S. relating to the use, discharge and disposal of toxic or otherwise hazardous materials used in Tower's production processes in Israel and in Jazz's production processes in California. If we fail to use, discharge or dispose of hazardous materials appropriately, or if applicable environmental laws or regulations change in the future, we could be subject to substantial liability or could be required to suspend or adversely modify our manufacturing operations.

We are subject to the risk of loss due to fire because the materials we use in our manufacturing processes are highly flammable.

We use highly flammable materials such as silane and hydrogen in our manufacturing processes and are therefore subject to the risk of loss arising from fires. The risk of fire associated with these materials cannot be completely eliminated. We maintain insurance policies to reduce potential losses that may be caused by fire, including business interruption insurance. If any of our fabs were to be damaged or cease operations as a result of a fire, or if our insurance proves to be inadequate, it may reduce our manufacturing capacity and revenues.

Possible product returns could harm our business.

Products manufactured by us may be returned within specified periods if they are defective or otherwise fail to meet customers' prior agreed upon specifications. Product returns in excess of established provisions, if any, may have an adverse effect on our business and financial condition.

We are subject to risks related to our international operations.

We have made substantial revenue from customers located in Asia-Pacific and in Europe. Because of our international operations, we are vulnerable to the following risks:

— we price our products primarily in US dollars; if the Euro, Yen or other currencies weaken relative to the US dollar, our products may be relatively more expensive in these regions, which could result in a decrease in our revenue;

— the burdens and costs of compliance with foreign government regulation, as well as compliance with a variety of foreign laws;

— general geopolitical risks such as political and economic instability, international terrorism, potential hostilities and changes in diplomatic and trade relationships;

— natural disasters affecting the countries in which we conduct our business;

— imposition of regulatory requirements, tariffs, import and export restrictions and other trade barriers and restrictions including the timing and availability of export licenses and permits;

— adverse tax rules and regulations;

— weak protection of our intellectual property rights;

— delays in product shipments due to local customs restrictions;

— laws and business practices favoring local companies;

— difficulties in collecting accounts receivable; and

— difficulties and costs of staffing and managing foreign operations.

In addition, Israel, the United States or foreign countries may implement quotas, duties, taxes or other charges or restrictions upon the importation or exportation of our products, leading to a reduction in sales and profitability in that country. The geographical distance between Israel, the United States, Asia and Europe also creates a number of logistical and communication challenges. We cannot assure you that we will not experience any serious harm in connection with our international operations.

Our business could suffer if we are unable to retain and recruit qualified personnel.

We depend on the continued services of our executive officers, senior managers and skilled technical and other personnel. Our business could suffer if we lose the services of some of these personnel and we cannot find and adequately integrate replacement personnel into our operations in a timely manner. We seek to recruit highly qualified personnel and there is intense competition for the services of these personnel in the semiconductor industry. Competition for personnel may increase significantly in the future as new fabless semiconductor companies as well as new semiconductor manufacturing facilities are established. Our ability to retain existing personnel and attract new personnel is in part dependent on the compensation packages we offer. As demand for qualified personnel increases, we may be forced to increase the compensation levels and to adjust the cash, equity and other components of compensation we offer our personnel.

Tower may be unable to utilize the full benefits of our merger with Jazz

Tower merged with Jazz in September 2008. The post merger operations involve known and unknown risks that could adversely affect our future revenues and operating results. For example:

— The merger may result in the loss of key customers and/or personnel and may expose us to unanticipated liabilities.

— We may fail to successfully integrate Jazz in accordance with our business strategy.

— We may be unable to retain the skilled employees and experienced management that may be necessary to operate the business we are acquiring and, if we cannot retain such personnel, we may be unable to attract new skilled employees and experienced management to replace them.

— We may be unable to achieve the full benefits of the planned $80 million cost reduction, which might negatively affect our future financial results. Achieving the anticipated short-term and long-term benefits of the merger depends in particular on achieving the initially-anticipated cost synergies, the redeployment of both companies' respective support resources and the combination and integration of their significant global activities. There can be no assurance that these objectives will be achieved successfully.

If Tower does not fully equip Fab 2 and complete the equipment installation, and ramp-up of production in Fab 2 to its full capacity, Tower will not fully utilize the substantial investment made in the construction of Fab 2.

Depending on the process technology and product mix, when fully ramped-up, it is estimated that Fab 2 will be able to achieve capacity levels of approximately 40,000 wafers per month. The full ramp-up of Fab 2 has not been completed to date. Tower's determination as to the timing of the implementation of the ramp-up of Fab 2 and the increase in Fab 2's production levels is dependent on prevailing and forecasted market conditions and its ability to fund these increases. There can be no assurance as to the timing or Tower's ability to achieve Fab 2 capacity levels of approximately 40,000 wafers per month. The ramp-up of Fab 2 is a substantial and complex project. If Tower cannot fund the further ramp-up of Fab 2 or otherwise successfully complete the ramp-up of Fab 2, it may be unable to meet its customers' production demands and as a result may lose customers and may not attract new ones. In addition, if Tower does not acquire and install the equipment necessary to successfully complete the ramp-up of Fab 2, it will not fully utilize the substantial investment made in constructing Fab 2, which will adversely affect its financial results. In order to fully ramp-up Fab 2, Tower will need to continue to develop new process technologies in order to suit its customers' needs. In addition, Tower has and may in the future experience difficulties that are customary in the installation, functionality and operation of equipment during manufacturing. Failures or delays in obtaining and installing the necessary equipment, technology and other resources may delay the completion of the ramp-up of Fab 2, add to its cost and result in Tower not fully utilizing the substantial investment made in the construction of Fab 2, which would adversely affect Tower's future financial results.

Israeli banking laws may impose restrictions on the total debt that Tower may borrow from its banks.

Pursuant to a directive published by the Israel Supervisor of Banks, effective March 31, 2004, Tower may be deemed part of a group of borrowers comprised of the Ofer Brothers Group, the Israel Corporation Ltd. (sometimes referred to herein as Israel Corp.) and other companies which are also included in such group of borrowers pursuant to the directive, including companies under the control or deemed control of these entities. The directive imposes limitations on amounts that banks may lend to borrowers or groups of borrowers. Should Tower's banks exceed these limitations, they may limit Tower's ability to borrow additional money in the future and may require Tower to return some or all of our outstanding borrowings (which, under Tower's amended facility agreement with its banks, were approximately $208 million in the aggregate as of May 31, 2009), which may have a material adverse effect on Tower's business, financial condition and results of operations.

Tower may be required to repay grants to the Investment Center that it received in connection with Fab 1.

Tower received grants and tax benefits for Fab 1 under the government of Israel Approved Enterprise program. As of December 31, 2001, Tower completed its investments under the Fab 1 program and is no longer entitled to any further investment grants for future capital investments in Fab 1. During 2002, Tower agreed with the Investment Center that if it does not achieve Fab 1 revenues of $90 million for 2003 and $100 million for 2004 and maintains at Fab 1 at least 600 employees for 2003 and 625 employees for 2004, subject to prevailing market conditions, it will, if demanded by the Investment Center, be required to repay the Investment Center up to approximately $2.5 million. Since Tower's actual level of Fab 1 revenues and employees for 2003 and 2004 were lower than the above mentioned levels, Tower may be required to repay the Investment Center up to approximately $2.5 million.

Risks Related to Our Securities

The repayment of Tower's outstanding debentures is subordinated to Tower's indebtedness to its banks and obligations to secured creditors and Jazz's repayment of its obligations for convertible notes is subordinated to Jazz's secured indebtedness to its banks.

The repayment of Tower's outstanding debentures is subordinated to the prior payment of approximately $208 million in the aggregate payable to Tower's banks under Tower's amended facility agreement, to any obligations to the Investment Center of the Israeli Ministry of Industry, Trade and Labor related to approximately $165 million in grants received as of May 31, 2009 under the Investment Center's "Approved Enterprise" program in relation to Fab 2, and to a first ranking charge in favor of SanDisk Corporation, on approximately $10 million of equipment. Tower has not guaranteed any of Jazz's debt, including Jazz's debt under its bank loan and Jazz's debt to its note holders. In addition repayment of Jazz's convertible notes is subordinated to the prior payment of approximately $27 million payable in regard to Jazz's secured bank loans. As a result, upon any distribution to Tower's or Jazz's creditors, as applicable, in liquidation or reorganization or similar proceedings, these secured creditors will be entitled to be paid in full before any payment may be made with respect to Tower's or Jazz's outstanding debentures or note holders, as applicable. In any of these circumstances, Tower, or Jazz, as applicable, may not have sufficient assets remaining to pay amounts due on any or all of their respective debentures or notes then outstanding. In addition, neither Tower nor Jazz, as applicable, is permitted under the terms of their respective loan agreements to make a payment on account of their respective debentures or notes, as applicable, if on the date of such payment an "Event of Default" exists under the applicable bank loan agreement.

Tower's stock price may be volatile in the future.

The stock market, in general, has experienced extreme volatility that often has been unrelated to the operating performance of particular companies. In particular, the stock prices for many companies in the semiconductor industry have experienced wide fluctuations, which have often been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the market price of Tower's ordinary shares, regardless of Tower's actual operating performance.

In addition, it is possible that in some future periods Tower's operating results may be below the expectations of public market analysts and investors. In this event, the price of Tower's securities may under perform or fall.

Issuance of additional shares pursuant to Tower's financing plans and arrangements and the terms of outstanding securities which are exercisable or convertible into shares may dilute the interest of Tower's shareholders. Tower may also issue in the future additional shares and/or securities which are exercisable or convertible into shares.

As of May 31, 2009, Tower had approximately 160.0 million ordinary shares outstanding and has outstanding securities convertible or exercisable into up to approximately 624.5 million ordinary shares including: (i) up to 9.7 million ordinary shares issuable upon the conversion of the 2005 outstanding convertible debentures held by some of Tower's major shareholders and others at a conversion rate of $1.10; (ii) 8.3 million warrants issued to Tower's banks with an exercise price of $1.21; (iii) up to 46.8 million ordinary shares issuable upon the conversion of the 2006 outstanding convertible debentures at a conversion rate of approximately $1.05; (iv) 17.5 million warrants with an exercise price of $2.04; (v) 5.2 million warrants with an exercise price of approximately $2.46; (vi) 33.3 million employee and director options with a weighted average exercise price of $1.6; (vii) 5.5 million warrants with an exercise price of approximately $1.9; and (viii) 7.4 million ordinary shares issuable upon the conversion of the 2007 convertible debentures, at a conversion rate of approximately $4.48; (ix) 0.9 million warrants issued to Tower's banks with an exercise price of $6.17; (x) 59.5 million Jazz warrants with an exercise price of $2.78 and 31.5 million shares issuable upon the conversion of Jazz outstanding convertible notes at a conversion rate of $4.07 and (xi) approximately 192.8 million and 206.1 million shares issuable to Tower's banks and Israel Corp., respectively, upon the conversion for no additional consideration of equity equivalent capital notes. Additionally we are obligated to issue additional shares or convertible securities to Tower's banks in January 2011 as compensation for reduced interest payments agreed to by such banks.

In January 2008, Tower filed a shelf registration statement on Form F-3 with the U.S. Securities and Exchange Commission, which was declared effective in February 2008, registering the possible offer and sale from time to time of up to $40 million of securities.

We may undertake additional financings in the future and in connection therewith issue shares or securities convertible into shares, which may materially dilute the holdings of our current shareholders.

Market sales of large amounts of Tower's shares eligible for future sale, or even the perception that such sales may occur, may lower the price of Tower's ordinary shares.

Of Tower's approximately 160.0 million outstanding ordinary shares as of May 31, 2009, approximately 102.3 million are held by non-affiliates and are freely tradable under US securities laws. In addition, certain of Tower's affiliates (Israel Corp., SanDisk Corporation and Macronix International) hold approximately 38.9 million of Tower's outstanding shares, of which (i) approximately 3.3 million are registered for resale and are therefore freely tradable under US securities laws, and (ii) approximately 35.6 million are currently eligible for sale subject to the volume and manner of sale limitations of Rule 144 promulgated under the US Securities Act of 1933, as amended ("Rule 144"). As of May 31, 2009, up to approximately 9.7 million additional shares issuable upon the conversion of the 2005 convertible debentures are beneficially owned by non-affiliates or are registered for sale and are freely tradable under US securities laws and approximately 5.4 million shares issuable upon exercise of warrants issued to Israel Corp. and Tower's banks will become eligible for sale commencing six months after exercise of the warrants, subject, in the case of Israel Corp. and, if deemed "affiliates" of Tower, the banks, to the volume and manner of sale limitations of Rule 144. Approximately 206.1 million and 198.6 million shares underlying equity equivalent convertible capital notes held by Israel Corp. and Tower's banks, respectively, are not registered and may become eligible for sale subject to the volume and manner of sale requirements of Rule 144 or pursuant to registration if demanded by them in accordance with registration rights agreements. In addition, (i) approximately 9.2 million shares issuable upon the exercise of warrants granted to Tower's banks and (ii) approximately 9.4 million shares issuable upon exercise of warrants issued in the March 2007 private placement, are registered for resale and are therefore freely tradable under US securities laws. Additionally, up to: (i) approximately 52.3 million shares issuable upon the conversion and/or exercise of the securities sold in the June 2006 public offering in Israel, (ii) approximately 5.2 million shares issuable upon exercise of warrants sold in private placements completed in November 2006, and (iii) up to approximately 10.1 million ordinary shares which are issuable upon the conversion and/or exercise of warrants sold in the June 2007 private placement and September 2007 public offering in Israel, would be freely tradable in normal trading transactions in the United States. The 90.9 million shares issuable upon the conversion or exercise of Jazz convertible notes and Jazz warrants are or will covered by registration statements or are otherwise freely tradeable. The sales of large amounts of Tower's ordinary shares (or the potential for those sales even if they do not actually occur) may depress the market price of its ordinary shares. This could also impair Tower's ability to raise capital through the sale of our equity securities.

Tower's principal shareholders collectively own a controlling interest in Tower and will be able to exercise their voting rights in ways which may be adverse to the interests of Tower's other shareholders.

As of May 31, 2009, Tower's major wafer partners and Israel Corp. collectively owned approximately 24% of Tower's outstanding shares. In the event Israel Corp. were to convert its equity convertible capital notes, Tower's major wafer partners and Israel Corp. would collectively own approximately 67% of Tower's outstanding shares. Under Tower's articles of association, two shareholders holding together 33% of its outstanding shares constitute a quorum for conducting a shareholders' meeting. If Israel Corp. were to convert its equity convertible capital notes, Tower's wafer partners and Israel Corp. would constitute a quorum for purposes of conducting a shareholders' meeting. If only two large shareholders, owning collectively at least 33% of our shares, were to participate in one of Tower's shareholders' meetings, these shareholders would determine the outcome of such shareholders' meeting without the benefit of the participation of the other shareholders. The interests of these shareholders may not be consistent with the interests of Tower's other shareholders. As a result, these shareholders may exercise voting rights or otherwise influence corporate action in ways that are adverse to the interests of Tower's other shareholders.

Tower may experience declines in its share price.

Following the current downturn in the financial markets which commenced in 2008, Tower has experienced a decrease in the trading price of its ordinary shares. There is no assurance as to when Tower's share price will recover.

If Tower cannot meet NASDAQ's continued listing requirements, NASDAQ may delist its ordinary shares, which would have an adverse impact on the liquidity and market price of Tower's ordinary shares and limit the ability of Tower to find available financing sources to fund Tower's on-going operations.

Tower's ordinary shares are currently listed on the Tel Aviv Stock Exchange (TASE) and on NASDAQ Global Market. Under NASDAQ rules, shares can be delisted and not allowed to trade on NASDAQ if the closing bid price of the stock over a 30 consecutive trading-day period is less than $1.00. Following the financial markets downturn, which commenced during 2008, we have experienced a decrease in the trading price of our ordinary shares. NASDAQ has implemented a temporary suspension of the rules requiring a minimum $1.00 closing bid price. The temporary suspension currently expires on July 19, 2009. There is no assurance that the suspension will be extended further. If it is not extended further, the date by which we need to comply with the $1.00 minimum bid price will be October 2009. If we do not comply by such date, we may choose between: (i) delisting from the NASDAQ Global Market; (ii) transferring from the NASDAQ Global Market stock exchange to the NASDAQ Capital Market stock exchange, which will grant us with an additional 180 day period to re-gain compliance with the $1.00 minimum bid price by no later than April 2010; or (iii) taking other actions to avoid the de-listing of our shares, such as performing a reverse stock split of our shares. A delisting of Tower's ordinary shares could negatively impact us by reducing our ordinary shares' liquidity and market price and the number of investors willing to hold or acquire Tower's ordinary shares and our available sources to finance our on-going operations.

If Tower's share price falls below the share's nominal value we may encounter difficulties raising funds by way of issuance of our ordinary shares

If Tower's shares trade at a market price that is lower than the share's nominal value of NIS 1.00 (approximately $0.25 at current exchange rates) it may be difficult to raise funds through the issuance of ordinary shares. The Israeli Companies Law does not allow a company to issue shares at a price lower than the share's par value unless the company can offset the difference between the nominal value of the share and the market price by moving a portion of its current or accumulated profits (as defined by the Israeli Company Law) to paid-in capital to make up for such difference. Due to us not having current or accumulated profits, we would most probably not be able to do this and would therefore not be able to issue new ordinary shares at a price below NIS 1.00.

Risks Related to Our Operations in Israel

Instability in Israel may harm our business.

All of Tower's manufacturing facilities and most of its corporate and sales offices are located in Israel. Accordingly, political, economic and military conditions in Israel may directly affect our business.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. In addition, Israel and companies doing business with Israel have, in the past, been the subject of an economic boycott. Although Israel has entered into various agreements with Egypt, Jordan and the Palestinian Authority, Israel has been and is subject to terrorist activity, with varying levels of severity. Parties with whom we do business have sometimes declined to travel to Israel during periods of heightened unrest or tension, forcing us to make alternative arrangements where necessary. In addition, the political and security situation in Israel may result in parties with whom we have agreements claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions. We can give no assurance that security and political conditions will not adversely impact our business in the future. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could adversely affect our operations and could make it more difficult for us to raise capital. Furthermore, Tower's manufacturing facilities are located exclusively in Israel, which has been experiencing terrorist activity and military action. We could experience serious disruption of our manufacturing in Israel if acts associated with this conflict result in any serious damage to Tower's manufacturing facilities. In addition, our business interruption insurance may not adequately compensate us for losses that may occur, and any losses or damages incurred by us could have a material adverse effect on our business.

Our operations may be negatively affected by the obligations of our Israeli personnel to perform military service.

In the event of severe unrest or other conflict, Israeli individuals could be required to serve in the military for extended periods of time. In response to increases in terrorist activity, there have been periods of significant call-ups of Israeli military reservists, and it is possible that there will be additional call-ups in the future. Many male Israeli citizens, including most of Tower's employees, are subject to compulsory military reserve service through middle age. Our operations in Israel could be disrupted by the absence for a significant period of time of one or more of our key employees or a significant number of our other employees due to military service. Such disruption could harm our operations.

Our operations may be affected by negative economic conditions in Israel.

Israel has experienced periods of recession in economic activity, resulting in low growth rates and growing unemployment. Our operations in Israel could be adversely affected if the economic conditions in Israel deteriorate. In addition, Israel has experienced several general strikes and other work stoppages, affecting banks, government offices, airports and ports. These strikes have had an adverse effect on the Israeli economy and on businesses, including our ability to deliver products to our customers or to receive raw materials from our suppliers in a timely manner. From time to time, the Israeli trade unions threaten strikes or work-stoppages, which may, if carried out, have a material adverse effect on the Israeli economy and our business.

If the exemption allowing us to operate our Israeli manufacturing facilities seven days a week is not renewed, our business will be adversely affected.

We operate our Israeli manufacturing facilities seven days a week pursuant to an exemption from the law that requires businesses in Israel to be closed from sundown on Friday through sundown on Saturday. This exemption expires by its terms on December 31, 2009. If the exemption is not renewed and we are forced to close any or all of the Israeli facilities for this period each week, our financial results and business will be harmed.

If we are considered to be a passive foreign investment company, either presently or in the future, US Holders will be subject to adverse US tax consequences.

We will be a passive foreign investment company, or PFIC, if 75% or more of our gross income in a taxable year, including our pro rata share of the gross income of any company, US or foreign, in which we are considered to own, directly or indirectly, 25% or more of the shares by value, is passive income. Alternatively, we will be considered to be a PFIC if at least 50% of our assets in a taxable year, averaged over the year and ordinarily determined based on fair market value, including our pro rata share of the assets of any company in which we are considered to own, directly or indirectly, 25% or more of the shares by value, are held for the production of, or produce, passive income. If we were to be a PFIC, and a US Holder does not make an election to treat us as a "qualified electing fund," or QEF, or a "mark to market" election, "excess distributions" to a US Holder, any gain recognized by a US Holder on a disposition of our ordinary shares would be taxed in an unfavorable way. Among other consequences, our dividends would be taxed at the regular rates applicable to ordinary income, rather than the 15% maximum rate applicable to certain dividends received by an individual from a qualified foreign corporation. The tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of future income and assets, which are relevant to the determination of PFIC status. In addition, under the applicable statutory and regulatory provisions, it is unclear whether we would be permitted to use a gross loss from sales (sales less cost of goods sold) to offset our passive income in the calculation of gross income. In light of the uncertainties described above, we have not obtained an opinion of counsel with respect to our PFIC status and no assurance can be given that we will not be a PFIC in any year. If we determine that we have become a PFIC, we will then notify our US Holders and provide them with the information necessary to comply with the QEF rules. If the IRS determines that we are a PFIC for a year with respect to which we have determined that we were not a PFIC, however, it might be too late for a US Holder to make a timely QEF election, unless the US Holder qualifies under the applicable Treasury regulations to make a retroactive (late) election. US Holders who hold ordinary shares during a period when we are a PFIC will be subject to the foregoing rules, even if we cease to be a PFIC in subsequent years, subject to exceptions for US Holders who made a timely QEF or mark-to-market election.

It may be difficult to enforce a US judgment against us, our officers, directors and advisors or to assert US securities law claims in Israel.

Tower is incorporated in Israel. Most of Tower's executive officers and directors and our Israeli accountants and attorneys are nonresidents of the United States, and a majority of Tower's assets (excluding its U.S. subsidiaries and their assets) and the assets of these persons are located outside the United States. Therefore, it may be difficult to enforce a judgment obtained in the United States, against Tower or any of these persons, in US or Israeli courts based on the civil liability provisions of the US Federal securities laws, except to the extent that such judgment could be enforced in the U.S. against Tower's U.S. subsidiaries. Additionally, it may be difficult for you to enforce civil liabilities under US Federal securities laws in original actions instituted in Israel.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

We are a pure-play independent specialty foundry dedicated to the manufacture of semiconductors. Typically, pure-play foundries do not offer products of their own, but focus on producing integrated circuits, or ICs, based on the design specifications of their customers. We manufacture semiconductors using production processes for our customers primarily based on third party designs and our own proprietary designs. We currently offer the manufacture of ICs with geometries ranging from 1.0 to 0.13-micron. We also provide design services and complementary technical services. ICs manufactured by us are incorporated into a wide range of products in diverse markets, including consumer electronics, personal computers, communications, automotive, industrial and medical device products.

We are focused on establishing leading market share in high-growth specialized markets by providing our customers with high-value wafer foundry services. Our historical focus has been standard digital complementary metal oxide semiconductor ("CMOS") process technology, which is the most widely used method of producing ICs. We are currently focused on the emerging opportunities in the fields of CMOS image sensors, mixed-signal, radio frequency CMOS (RFCMOS), radio frequency identification (RFID) technologies and power management. To better serve our customers, we have developed and are continuously expanding our technology offerings for use in these fields. Through our expertise and experience gained over fifteen years of operation, we differentiate ourselves by creating a high level of value for our clients through innovative technological processes, design and engineering support and services, competitive manufacturing indices, and dedicated customer service.

Tower was founded in 1993, with the acquisition of National Semiconductor's 150-mm wafer fabrication facility, or Fab 1, and commenced operations as an independent foundry with a production capacity of approximately 5,000 wafers per month. Since then, we have significantly modernized our Fab 1 facility and equipment, which has improved our process geometries to range from 1.0-micron to 0.35-micron and enhanced our process technologies to include CMOS image sensors, embedded flash and mixed-signal technologies.

In January 2001, we commenced construction of a new, state-of-the-art wafer fabrication facility, which we refer to as Fab 2, located in Migdal Haemek, Israel and adjacent to our first facility, Fab 1. In 2003, we completed the infrastructure of Fab 2 and commenced production wafer shipments from this Fab. Fab 2 is designed to operate in geometries of 0.18-micron and below, using advanced materials and advanced CMOS technology licensed from Freescale and Toshiba and other technologies that we developed and will develop independently or with development partners. Depending on the process technology and product mix,

when fully ramped-up we estimate that Fab 2 will be able to achieve capacity levels of up to approximately 40,000 wafers per month. We have not completed the full ramp-up of Fab 2. The timing of that decision and its implementation will depend upon several factors, including, funding, and cost availability of equipment and market conditions.

Our capital expenditures, net of Investment Center grants, for 2008, 2007 and 2006 of approximately $74 million, $91 million and $163 million, respectively, were made principally in connection with the construction of, and purchase of equipment and technology for, Fab 2.

Tower's legal and commercial name is Tower Semiconductor Ltd. Tower was incorporated under the laws of Israel. Tower's manufacturing facilities and executive offices are located in the Ramat Gavriel Industrial Park, Shaul Amor Street, Post Office Box 619, Migdal Haemek, 23105 Israel, and our telephone number is 972-4-650-6611. Tower's worldwide web site is http://www.towersemi.com. Information on Tower's web site is not incorporated by reference in this annual report.

Jazz

In September 2008, Tower completed the merger with Jazz Technologies in a stock for stock transaction. Jazz Technologies is the parent company of its wholly-owned subsidiary, Jazz Semiconductor, Inc. Jazz Technologies and Jazz Semiconductor are collectively be referred to in this report as "Jazz".

Jazz Technologies, formerly known as Acquicor Technology Inc. was incorporated in Delaware on August 12, 2005 as a blank check company for the purpose of acquiring one or more domestic and/or foreign operating businesses in the technology, multimedia or networking sectors, which Jazz Technologies accomplished through the acquisition of Jazz Semiconductor in February 2007.

Jazz is now an independent semiconductor foundry focused on specialty process technologies for the manufacture of analog and mixed-signal semiconductor devices. Jazz's specialty process technologies include advanced analog, radio frequency, high voltage, bipolar and silicon germanium bipolar complementary metal oxide ("SiGe") semiconductor processes, for the manufacture of analog and mixed-signal semiconductors. Jazz's customers use the analog and mixed-signal semiconductor devices in products they design that are used in cellular phones, wireless local area networking devices, digital TVs, set-top boxes, gaming devices, switches, routers and broadband modems. Jazz operates one semiconductor fabrication facility in Newport Beach, California, in which it currently produces the majority of its products and in which all of Jazz's process research and development is performed.

B. BUSINESS OVERVIEW

INDUSTRY OVERVIEW – ***PROLIFERATION OF ANALOG AND MIXED-SIGNAL SEMICONDUCTORS AND THE GROWING NEED FOR SPECIALTY PROCESS TECHNOLOGIES***

Semiconductor devices are responsible for the rapid growth of the electronics industry over the past fifty years. They are critical components in a variety of applications, from computers, consumer electronics and communications, to industrial, military, medical and automotive applications. The semiconductor industry is characterized by rapid changes in technology, frequently resulting in the obsolescence of recently introduced products. As performance has increased and size and cost have decreased, the use of semiconductors and the number of their applications have grown significantly.

Historically, the semiconductor industry was composed primarily of companies that designed and manufactured ICs in their own fabrication facilities. These companies, such as Intel and IBM, are known as integrated device manufacturers, or IDMs. In the mid-1980s, fabless IC companies, which focused on IC design and used external manufacturing capacity, began to emerge. Fabless companies initially outsourced production to IDMs, which filled this need through their excess capacity. As the semiconductor industry continued to grow, increasing competition forced fabless companies and IDMs to seek reliable and dedicated sources of IC manufacturing services. Use of external manufacturing capacity allowed IDMs to reduce their investment in their existing and next-generation manufacturing facilities and process technologies and gain access to manufacturing process technologies and production capacity they do not possess. This need has been met by the development of independent companies, known as foundries, which focus primarily on providing IC manufacturing services to semiconductor suppliers. Foundry services are now used by nearly every major semiconductor company in the world, including IDMs as part of a dual-source, risk-diversification and cost effectiveness strategy.

Semiconductor suppliers face increasing demands for new products that provide higher performance, greater functionality and smaller form factors at lower prices, which require increasingly complex ICs. In addition to the increased complexity of designs, there has also been a dramatic increase in the number of applications for semiconductors. To compete successfully, semiconductor suppliers must also minimize the time it takes to bring a product to market. As a result, fabless companies and IDMs are focusing more on their core competencies–design and intellectual property–and outsourcing manufacturing to foundries.

The two basic functional technologies for semiconductor products are digital and analog. Digital semiconductors provide critical processing power and have helped enable many of the computing and communication advances of recent years. Analog semiconductors monitor and manipulate real world signals such as sound, light, pressure, motion, temperature, electrical current and radio waves, for use in a wide variety of electronic products such as digital still cameras, X-Ray medical applications, flat panel displays, personal computers, cellular handsets, telecommunications equipment, consumer electronics, automotive electronics and industrial electronics. Analog-digital, or mixed-signal, semiconductors combine analog and digital devices on a single chip to process both analog and digital signals.

Integrating analog and digital components on a single, mixed-signal semiconductor enables smaller and more highly integrated, power-efficient, feature-rich and cost-effective semiconductor devices but presents significant design and manufacturing challenges. For example, combining high-speed digital circuits with sensitive analog circuits on a single, mixed-signal semiconductor can increase electromagnetic interference and power consumption, both of which cause a higher amount of heat to be dissipated and decrease the overall performance of the semiconductor. Challenges associated with the design and manufacture of mixed-signal semiconductors increase as the industry moves toward more advanced process geometries. As a result, analog and mixed-signal semiconductors can be complex to manufacture and typically require sophisticated design expertise and strong application specific experience and intellectual property.

As mentioned, mixed-signal ICs are an essential part of any electronic system that interacts with the real world. Our advanced analog CMOS process technologies have more features than standard analog CMOS process technologies and are well suited for higher performance or more highly integrated analog and mixed-signal semiconductors, such as high-speed analog-to-digital or digital-to-analog converters and mixed-signal semiconductors with integrated data

converters. These process technologies generally incorporate higher density passive components, such as capacitors and resistors, as well as improved active components, such as native or low voltage devices, and improved isolation techniques, into standard analog CMOS process technologies. We currently have advanced analog CMOS process technologies in 0.5 micron, 0.35 micron, 0.25 micron, 0.18 micron 0.16 micron and 0.13 micron.

The enormous costs associated with modern fabs, combined with the increasing demand for complex ICs, has created an expanding market for outsourced manufacturing offered by foundries. Foundries can cost-effectively supply advanced ICs to even the smallest fabless companies by creating economies of scale through pooling the demand of numerous customers. In addition, customers whose IC designs require process technologies other than standard digital CMOS have created a market for independent foundries that focus on providing specialized process technologies. Thus, wafer manufacturers may also need to make a significant investment in specialty process technologies to manufacture these semiconductors. Specialty process technologies enable greater analog content and can reduce the die size of an analog or mixed-signal semiconductor, thereby increasing the number of dies that can be manufactured on a wafer and reducing final die cost. In addition, specialty process technologies can enable increased performance, superior noise reduction and improved power efficiency of analog and mixed-signal semiconductors compared to traditional standard CMOS processes. These specialty process technologies include advanced analog CMOS, radio frequency CMOS (RF CMOS), CMOS Image Sensors (CIS), high voltage CMOS, bipolar CMOS (BiCMOS), silicon germanium BiCMOS (SiGe BiCMOS), and bipolar double-diffused metal oxide semiconductor (BCD).

Foundries also offer competitive customer service through design, testing, and other technical services, often at a level previously found only at an IDM's internal facilities.

The economic crisis that started at mid Q3 2008 caused a decrease of 40% in the demand for semiconductor products. Recovery of this market will depend on the recovery of the overall economy

MANUFACTURING PROCESSES AND SPECIALIZED TECHNOLOGIES

We manufacture ICs on silicon wafers, generally using the customer's proprietary circuit designs. In some cases, we use third-party or our own proprietary design elements. The end product of our manufacturing process is a silicon wafer containing multiple identical ICs. In most cases, our customer assumes responsibility for dicing, assembly, packaging and testing.

We provide wafer fabrication services to fabless IC companies and IDMs and enable smooth integration of the semiconductor design and manufacturing processes. By doing so, we enable our customers to bring high-performance, highly integrated ICs to market rapidly and cost effectively. We believe that our technological strengths and emphasis on customer service have allowed us to develop unique positions in large, high-growth specialized markets for CMOS image sensors, RF, Power Management and High Performance mixed signal ICs. We serve as a sole source or alternative provider of foundry services.

We manufacture specialty process technologies, mostly based on CMOS process platforms with added features to enable improved size, performance and cost characteristics for analog and mixed-signal semiconductors. Products made with our specialty process technologies are typically more complex to manufacture than products made using standard process technologies employing similar line widths. Generally, customers who use our specialty process technologies cannot easily move designs to another foundry because the analog characteristics of the design are dependent upon its implementation of the applicable process technology. The relatively small engineering community with specialty process know-how has also limited the number of foundries capable of offering specialty process technologies.

In addition, the specialty process design infrastructure is complex and includes design kits and device models that are specific to the foundry in which the process is implemented and to the process technology itself. We believe that our specialized process technologies combined with Design Enablement capabilities distinguish our IC manufacturing services and attract industry-leading customers.

We believe that we are a trusted, customer-oriented service provider that has built a solid reputation in the foundry industry over the last fifteen years. We have built strong relationships with customers, who continue to use our services, even as their demands evolve to smaller form factors and new applications. Our consistent focus on providing high-quality, value added services, including engineering and design support, has allowed us to attract customers for our facilities who seek to work with a proven provider of foundry services. Our emphasis on working closely with customers and accelerating the time-to-market of our customers' next-generation products is also reflected in our corporate structure. As a result, we have a high customer retention rate and an increase in new customers and new products for production.

We derived approximately 67% of our revenues for the year ended December 31, 2008 from our target specialized markets: CMOS image sensors, Wireless communication, RF-SiGe, High performance analog and Power ICs. We are highly experienced in these markets, being an early entrant and having developed unique proprietary technologies, primarily through licensing and joint development efforts with our customers and other technology companies.

The specific process technologies that we currently focus on include: CMOS Image Sensors (CIS), Advanced Analog CMOS, Radio Frequency CMOS (RF CMOS), Radio Frequency Identification (RFID), Bipolar CMOS (BiCMOS), Silicon Germanium (SiGe BiCMOS), High Voltage CMOS, and Bipolar CMOS double-diffused metal oxide semiconductor (BCD).

CMOS Image Sensors

CMOS image sensors are ICs used to capture an image in a wide variety of consumer, communications, medical, automotive and industrial market applications, including camera-equipped cell phones, digital still and video cameras, security and surveillance cameras and video game consoles. Our dedicated manufacturing and testing processes assure consistently high electro-optical performance of the integrated sensor through wafer-level characterization. Our CMOS image sensor processes have demonstrated superior optical characteristics, excellent spectral response and high resolution and sensitivity. The ultra-low dark current, high efficiency and accurate spectral response of our photodiode enable faithful color reproduction and acute detail definition.

In addition, our innovative "stitching" technology enables semiconductor exposure tools to manufacture single ultra high-resolution CMOS image sensors containing millions of pixels at sizes far larger than their existing field.

We are currently actively involved in the high-end sensor and applications specific markets, which include applications such as high end video, industrial machine vision, dental X-Ray, medical X-Ray and automotive sensors.

As early as 1997, we recognized the market potential of using CMOS process technology for a digital camera-on-a-chip, which would integrate a CMOS image sensor, filters and digital circuitry. In entering the CMOS image sensor foundry business, we utilized research and development work that had been ongoing since 1993. Our services include a broad range of turnkey solutions and services, including pixel IP services, optical characterization of a CMOS process, innovative stitching manufacturing technique and optical testing and packaging. CMOS image sensors manufactured by us deliver outstanding image quality for a broad spectrum of digital imaging applications.

During 2007, we ramped to production products with 2.8 micron, 3.2 micron and 3.6 micron pixels, all developed by us and supplied to our customers as pixel IP. Our Advanced Photo Diode (APD) technology used in these CMOS image sensors enables improved optical and electrical performance of ultra-small pixels utilizing deep sub-micron process technologies, thus enabling the manufacturing of small, cost-effective camera module solutions.

For the X-Ray market, we developed stitched technology in Fab2 on 0.18micron process and a variety of 15 to 150-micron pixels that are optimized for X-Ray applications. These pixels are used by our customers in dental and other medical X-Ray products. During 2007 and 2008 five of our dental sensor customers ramped numerous products into mass production, mainly using our Fab2 8” 0.18 micron process.

The stitched technology that was developed for Fab 2 during 2006 provided us with the ability to manufacture large sensors (up to one die per wafer) on 8” wafers using state of the art, 0.18-micron CMOS image sensor technology. In 2007 and 2008, we had several new orders from customers whose products are based on this technology.

In December 2007, we established a partnership with CMT Medical Technologies Ltd., a leading provider of advanced digital X-ray imaging systems for medical diagnosis, to develop, market and sell X-ray detectors for medical applications. The detectors’ intended use is for radiography/fluoroscopy, cardiology, angiography, mammography and similar large-size X-ray modalities. Our first 5” x 6” sensor prototype has been exhibiting outstanding results compared to any other technology currently used in the medical market.

RF CMOS

In recent years, more and more designers opt to develop high frequency products based on RF CMOS technologies. The superior cost structure of CMOS technologies enables high volume, low cost production of such high frequency products. We used our mixed signal expertise to leverage and develop processes and provide services for customers utilizing CMOS technologies and need high frequency performance.

Our RF CMOS process technologies have more features than advanced analog CMOS process technologies and are well suited for wireless semiconductors, such as highly integrated wireless transceivers, power amplifiers, and television tuners. These process technologies generally incorporate integrated inductors, high performance variable capacitors, or varactors, and RF laterally diffused metal oxide semiconductors into an advanced analog CMOS process technology. In addition to the process features, RF offering includes design kits with RF models, device simulation and physical layouts tailored specifically for RF performance. We currently have RF CMOS process technologies in 0.25 micron and 0.18 micron and have announced availability of a 0.13 micron process.

BiCMOS for RF and High Performance Analog

Our BiCMOS process technologies have more features than RF CMOS process technologies and are well suited for RF semiconductors such as wireless transceivers and television tuners. These process technologies generally incorporate high-speed bipolar transistors into an RF CMOS process. The equipment requirements for BiCMOS manufacturing are specialized and require enhanced tool capabilities to achieve high yield manufacturing. We currently have a 0.35 micron BiCMOS process technology.

Our SiGe BiCMOS process technologies have more features than BiCMOS processes and are well suited for more advanced RF and high performance analog semiconductors such as high-speed, low noise, highly integrated multi-band wireless transceivers, television tuners and power amplifiers. These process technologies generally incorporate a silicon germanium bipolar transistor, which is formed by the deposition of a thin layer of silicon germanium within a bipolar transistor, to achieve higher speed, lower noise, and more efficient power performance than a BiCMOS process technology. It is also possible to achieve speeds using SiGe BiCMOS process technologies equivalent to those demonstrated in standard CMOS processes that are two process generations smaller in line-width. For example, a 0.18 micron SiGe BiCMOS process is able to achieve speeds comparable to a 90 nanometer RF CMOS process. As a result, SiGe BiCMOS makes it possible to create analog products using a larger geometry process technology at a lower cost while achieving similar or superior performance to that achieved using a smaller geometry standard CMOS process technology. The equipment requirements for SiGe BiCMOS manufacturing are similar to the specialized equipment requirements for BiCMOS. We developed enhanced tool capabilities in conjunction with large semiconductor tool suppliers to achieve high yield SiGe manufacturing. We believe this equipment and related process expertise makes us one of the few silicon manufacturers with demonstrated ability to deliver SiGe BiCMOS products. We currently have SiGe BiCMOS process technologies at 0.35 micron and 0.18 micron and develop a 0.13 micron SiGe BiCMOS process.

Power and Power Management ICs

Our high voltage CMOS and BCD process technologies have more features than advanced analog CMOS processes and are well suited for power and driver semiconductors such as voltage regulators, battery chargers, power management products and audio amplifiers. These process technologies generally incorporate higher voltage CMOS devices such as 5V, 8V, 12V, 40V and 60V LDMOS devices, and, in the case of BCD, bipolar devices, into an advanced analog CMOS process. We currently have high voltage & low Rdson CMOS offerings in 0.5 micron, 0.35 micron, 0.25 micron and 0.18 micron, and BCD offerings in 0.5 micron. We are working to extend the high voltage options and integrate the BCD process technology into our more advanced Power Management technology nodes (0.35 and 0.18 micron) to enable higher levels of analog integration at voltage ranges that are suitable for automotive electronics and line power conditioning for consumer devices.

In addition, we have developed a unique, zero mask adder NVM solution specifically for Power and Power Management devices on our 0.18um platform. This, combined with our scalable model for LDMOS devices makes our Power Management platform very attractive in the Power IC market.

We continue to invest in technology that helps improve the performance and integration level and reduce the cost of analog and mixed-signal products. This includes improving the density of passive elements such as capacitors and inductors, improving the analog performance and voltage handling capability of active devices, and integrating more advanced features in our specialty CMOS processes that are currently not readily available. Examples of such features currently

under development include technologies aimed at integrating Micro-Electro-Mechanical-System (MEMS) devices with CMOS, adding Silicon-on-Insulator (SOI) substrates to enable increased integration of RF and analog functions on a single die and scaling the features we offer today to the 0.13 micron process technology.

CUSTOMERS, MARKETING AND SALES

Our marketing and sales strategy seeks to aggressively expand our global customer base. We have marketing, sales and engineering support personnel in the United States, Taiwan and Israel. Our marketing and sales staff is supported by independent sales representatives, located throughout the world, who have been selected based on their understanding of the semiconductor marketplace. In November 2007, we opened a representative office in Taiwan to support our increasing presence throughout the Asia Pacific region. Our representative office provides applications and logistical support to our existing customers. This representative office also performs marketing activities aimed at the local market to increase our customer base.

Our sales cycle is generally 8-26 months or longer for new customers and can be as short as 8-12 months for existing customers. The typical stages in the sales cycle process from initial contact until production are:

— technical evaluation;

— product design to our specifications including integration of third party intellectual property;

— photomask - - design and third party photomask manufacturing;

— silicon prototyping;

— assembly and test;

— validation and qualification; and

— production.

The primary customers of our foundry services are fabless semiconductor companies and independent device manufacturers (IDMs). A substantial portion of our product sales are made pursuant to long-term contracts with our customers, under which we have agreed to reserve manufacturing capacity at our production facilities for such customers. Our customers include many industry leaders, some of Tower's shareholders and a number of Taiwanese companies that preferred our solution to the solutions that were offered locally. During the year ended December 31, 2008, we had five significant customers who contributed 17%, 13%, 9%, 8% and 5% of our revenues, respectively. In 2007, Tower had seven significant customers who contributed 29%, 13%, 11%, 7%, 5%, 5% and 5% of Tower's revenues, respectively.

The percentage of our revenues from customers located outside the United States was 31%, 25% and 23% in the years ended December 31, 2006, 2007 and 2008, respectively. Although most of our revenues are from US-based customers, we expect a substantial portion of our revenues to continue to come from customers located outside the United States. The following table sets forth the geographical distribution, by percentage, of our net revenues for the periods indicated:

	Year ended December 31,		
	2008	2007	2006
United States	77%	75%	69%
Israel	5%	7%	7%
Asia-Pacific	11%	10%	16%
Europe	7%	8%	8%
Total	100%	100%	100%

We publish press releases, opinion editorials, whitepapers, perform presentations, participate in panel sessions at industry conferences, hold a variety of regional and international technology seminars, and attend and exhibit at a number of industry trade shows to promote our products and services. We discuss advances in our process technology portfolio and progress on specific relevant programs with our prospective and major customers as well as industry analysts and research analysts on a regular basis.

A few of our major customers purchase services and products on a contract basis. Most other customers purchase using purchase orders. We price our products for these customers on a per wafer or per die basis, taking into account the complexity of the technology, the prevailing market conditions, volume forecasts, the strength and history of our relationships with the customer and our current capacity utilization. Most of our customers usually place their orders only two to four months before shipment; however a few of our major customers are obligated to provide us with longer forecasts of their wafer needs.

Our customers use our processes to design and market a broad range of analog and mixed-signal semiconductors for diverse end markets including wireless and high-speed wireline communications, consumer electronics, automotive and industrial. We manufacture products that are used for high-performance applications such as transceivers and power management for cellular phones; transceivers and power amplifiers for wireless local area networking products;

power management, audio amplifiers and driver integrated circuits for consumer electronics; tuners for digital televisions and set-top boxes; modem chipsets for broadband access devices and gaming devices; serializer/deserializers, or SerDes, for fiber optic transceivers; focal plan arrays for imaging applications; controllers for power amplifier chips in cellular phones and wireline interfaces for switches and routers.

Competition

The global semiconductor foundry industry is highly competitive. The major independent pure-play foundries are Taiwan Semiconductor Manufacturing Corporation, United Microelectronics Corporation, Chartered Semiconductor Manufacturing Ltd. and Semiconductor Manufacturing International Corp. These four foundries focus on 12" deep-submicron complementary metal oxide semiconductor (CMOS) processing. The rest of the foundry industry generally targets more specialty process technologies and includes emerging and existing Chinese, Korean and Malaysian foundries. The primary specialty foundries we compete with are Vanguard, DongBu, X-Fab, He Jien Technology, ASMC, CSMC, Grace, HHNEC, and Silterra. In addition, there are IDMs and end-product manufacturers that produce ICs for their own use and/or allocate a portion of their manufacturing capacity to foundry operations. Most of the foundries with which we compete are located in Asia-Pacific and benefit from their close proximity to other companies involved in the design and manufacture of ICs. The principal elements of competition in the wafer foundry market are:

— technical competence;

— production quality;

— time-to-market & manufacturing cycle time;

— available capacity;

— device yields;

— design and customer support services;

— access to intellectual property;

— price;

— management expertise;

— strategic relationships;

— research and development capabilities; and

— stability and reliability of supply in order to be a trusted supplier.

Many of our competitors have greater manufacturing capacity, multiple manufacturing facilities, a more diverse and established customer base, greater financial, marketing, distribution and other resources and a better cost structure.

We seek to compete primarily on the basis of advanced specialty technology, breadth of product offering, production quality, technical support and services involving design, engineering support and manufacturing. We have a differentiated service offering and track record in specialized markets, which enables us to effectively compete with larger foundry service providers.

We broadly compete with the pure-play technology node-driven foundry service providers such as Taiwan Semiconductor Manufacturing Company, United Microelectronics Corporation, Semiconductor Manufacturing International Corporation and Chartered Semiconductor Manufacturing Ltd., which, in addition to providing leading edge complementary metal oxide semiconductor (CMOS) process technologies, also have capacity for some specialty process technologies. We also compete with integrated device manufacturers that have internal semiconductor manufacturing capacity or foundry operations, such as IBM. In addition, several new dedicated foundries have commenced operations and may compete directly with us. Many of our competitors have higher capacity, longer operating history, longer or more established relationships with their customers, superior research and development capability and greater financial and marketing resources than us. As a result, these companies may be able to compete more aggressively over a longer period of time than us.

IBM competes in both the standard CMOS segment and in specialty process technologies. In addition, there are a number of smaller participants in the specialty process arena. We believe that most of the large dedicated foundry service providers compete primarily in the standard CMOS segment, but they also have capacity for specialty process technologies.

In addition, prior to Jazz's separation from Conexant Systems, Inc. ("Conexant") in 2002, Conexant entered into a long-term licensing agreement with Taiwan Semiconductor Manufacturing Company under which Taiwan Semiconductor Manufacturing Company licensed from Conexant the right to manufacture semiconductors using Conexant's then existing 0.18 micron or greater SiGe BiCMOS process technologies. Taiwan Semiconductor Manufacturing Company publicly announced in 2001 that it planned to use the licensed technology to accelerate its own foundry processes for the networking and wireless communications markets. Since Jazz's formation, Jazz has made improvements in its SiGe BiCMOS process technology. Jazz has not licensed any of these improvements to Taiwan Semiconductor Manufacturing Company. In the event Taiwan Semiconductor Manufacturing Company determines to focus its business on the SiGe BiCMOS market, it may use and develop the technology licensed to it in 2001 to compete directly with Jazz in the specialty market, and such competition may harm our business.

As our competitors continue to increase their manufacturing capacity, there could be an increase in specialty semiconductor capacity during the next several years. As specialty capacity increases there may be more competition and pricing pressure on our services, and underutilization of our capacity may result. Any significant increase in competition or pricing pressure may erode our profit margins, weaken our earnings or increase our losses.

Additionally, some semiconductor companies have advanced their complementary metal oxide semiconductor designs to 90 nanometer or smaller geometries. These smaller geometries may provide the customer with performance and integration features that may be comparable to, or exceed, features offered by our specialty process technologies, and may be more cost-effective at higher production volumes for certain applications, such as when a large amount of digital content is required in a mixed-signal semiconductor and less analog content is required. Our specialty process technologies will therefore compete with these advanced CMOS processes for customers and some of our potential and existing customers could elect to design these advanced CMOS processes into their next generation products. We are not currently capable, and do not currently plan to become capable, of providing CMOS processes at these smaller geometries. If our existing customers or new customers choose to design their products using these CMOS processes our business may suffer.

There can be no assurance that we will be able to compete effectively on the basis of all or any of these elements. Our ability to compete successfully may depend to some extent on factors outside of our control, including industry and general economic trends, import and export controls, exchange controls, exchange rate fluctuations, interest rate fluctuations and political developments. If we cannot compete successfully in its industry, its business and results of operations will be harmed.

WAFER FABRICATION SERVICES

Wafer fabrication is an intricate process that consists of constructing layers of conducting and insulating materials on raw wafers in intricate patterns that give the IC its function. IC manufacturing requires hundreds of interrelated steps performed on different types of equipment, and each step must be completed with extreme accuracy for finished ICs to work properly. The process can be summarized as follows:

Circuit Design. IC production begins when a fabless IC company or IDM designs the layout of a device's components and designates the interconnections between each component. The result is a pattern of components and connections that defines the function of the IC. In highly complex circuits, there may be more than 35 layers of electronic patterns. After the IC design is complete, we provide these companies with IC manufacturing services.

Mask Making. The design for each layer of a semiconductor wafer is imprinted on a photographic negative, called a reticle or mask. The mask is the blueprint for each specific layer of the semiconductor wafer.

IC Manufacturing. Transistors and other circuit elements comprising an IC are formed by repeating a series of processes in which photosensitive material is deposited on the wafer and exposed to light through a mask. Advanced IC manufacturing processes consist of hundreds of steps, including photolithography, oxidation, etching and stripping of different layers and materials, ion implantation, deposition of thin film layers, chemical mechanical polishing and thermal processing. The final step in the IC manufacturing process is wafer probe, which involves electronically inspecting each individual IC in order to identify those that are operable for assembly.

Assembly and Test. After IC manufacture, the wafers are transferred to assembly and test facilities. In the assembly process, each wafer is cut into dies, or individual semiconductors, and tested. Defective dies are discarded, while good dies are packaged and assembled. Assembly protects the IC, facilitates its integration into electronic systems and enables the dissipation of heat or cold. Following assembly, the functionality, voltage, current and timing of each IC is tested. After testing, the completed IC is shipped to the IC supplier or directly to its final destination.

Procurement and Sourcing

Our manufacturing processes use many highly specialized materials, including silicon wafers, chemicals, gases, photomasks and various metals. These raw materials generally are available from several suppliers. In many instances, we purchase raw materials from a single source to obtain preferred pricing. In those cases, we generally also seek to identify, and in some cases qualify, alternative sources of supply.

In addition, Jazz has agreements with several key material suppliers under which they hold similar levels of inventory at Jazz's warehouse and fab for its use. Jazz is not under any obligation under these agreements to purchase raw material inventory that is held by its vendors at its site until Jazz actually uses it, unless Jazz holds the inventory beyond specified time limits.

RESEARCH AND DEVELOPMENT

Our future success depends, to a large degree, on our ability to continue to successfully develop and introduce to production advanced process technologies that meet our customers' needs. Our process development strategy relies on CMOS process platforms that we license and transfer from third parties or develop ourselves.

From time to time, at a customer's request, we develop a specialty process module, which we use for such customer on an exclusive basis, and, if permitted under our agreements with such customer, we then add it to our process offering. Such developments are very common in all of our special process technologies noted above. In 2004, in response to market demand, we introduced a 0.16-micron optical shrink solution which represents a 10% linear shrink from our existing 0.18-micron offering while utilizing virtually the same 0.18-micron libraries and IP. The shrink allows a 15 to 20 percent die size reduction and a potentially higher wafer ASP and lower die cost. Applications include industry standard CMOS logic and some mixed-signal technologies. This 0.16-micron technology is currently in production.

Our research and development activities have related primarily to our process, device and design development efforts in all specialty areas that were mentioned above, and have been sponsored and funded by us with some participation by the Israeli Office of the Chief Scientist, or OCS. Accordingly, we are subject to restrictions set forth in Israeli law which limit the ability of a company to manufacture products or to transfer technologies outside of Israel, if such products or technologies were developed with OCS funding. Research and development expenses for the years ended December 31, 2006, 2007 and 2008 were $15.0 million, $13.8 million and $15.0 million, net of government participation of $1.9 million, $2.6 million and $1.7 million, respectively. As of May 31, 2009, we employed 173 professionals in our research and development departments, 36 of whom have PhDs. In addition to our research and development department located at our facilities in Migdal Haemek, we maintain a design center in Netanya, Israel and in New-port Beach California.

Jazz's research and development activities seek to upgrade and integrate manufacturing technologies and processes. Although Jazz emphasizes firm-wide participation in the research and development process, it maintains a central research and development team primarily responsible for developing cost-effective technologies that can serve the manufacturing needs of its customers. A substantial portion of Jazz's research and development activities are undertaken in cooperation with its customers and equipment vendors. Due to the rapid changes in technology that characterize the semiconductor industry, effective research and development is essential to Jazz's success. Jazz plans to continue to invest significantly in research and development activities to develop advanced process technologies for new applications.

PROPRIETARY RIGHTS

Intellectual Property and Licensing Agreements

Our success depends in part on our ability to obtain patents, licenses and other intellectual property rights covering our production processes. To that end, we have acquired certain patents and patent licenses and intend to continue to seek patents on our production processes.

As of May 31, 2009, Tower held 81 patents. Tower has entered into various patent licenses and cross-licenses with technology companies including Toshiba, Freescale, Synopsys, ARM, Chipidea Microelectronics, Virage Logic, Impinj and others. Tower may choose to renew its present licenses or obtain additional technology licenses in the future. There can be no assurance that any such licenses could be obtained on commercially reasonable terms.

Tower constantly seeks to strengthen its technological expertise through relationships with technology companies and silicon suppliers. Tower seeks to expand its core strengths in CMOS image sensors, embedded flash and mixed-signal technologies by combining its proprietary technology with those of other technology companies. A main component of Tower's process development strategy is to acquire licenses for standard CMOS technologies and cell libraries from leading designers, such as Freescale and Toshiba, and further develop specialized processes through Tower's internal design teams. The licensing of these technologies has enormously reduced Tower's internal development costs.

As of May 31, 2009, Jazz had 143 patents in force in the United States and 27 patents in force in foreign countries. Jazz also had 24 pending patent applications in the United States, 23 pending patent applications in foreign countries and no patent pending applications under the Patent Cooperation Treaty.

Jazz's expired patents generally related to legacy technologies that were developed by its predecessors, namely Rockwell. Due to the rapid pace of technological changes and advancement in the field of semiconductor fabrication and processing, Jazz does not believe that the expiration of these patents materially affects its competitive position.

Jazz Semiconductor entered into a technology license agreement that grants to it worldwide perpetual license rights from PolarFab regarding certain process technologies that it intends to incorporate into its BCD process technologies for the manufacture of wafers by Jazz for its customers and customers of PolarFab. Jazz also entered into an associated technology transfer agreement for such processes. Jazz is able to adapt, prepare derivatives based on, or otherwise exploit the licensed technology, however, Jazz is restricted from using certain licensed BCD process technologies with respect to motor controllers for hard disk drives. Jazz is also able to sublicense the process technologies to ASMC, HHNEC and any of its future manufacturing suppliers to manufacture for Jazz and its customers.

In connection with Jazz Semiconductor's separation from Conexant in 2002, Conexant contributed to Jazz Semiconductor a substantial portion of its intellectual property, including software licenses, patents and intellectual property rights in know-how related to its business. Jazz Semiconductor agreed to license intellectual property rights relating to the owned intellectual property contributed to Jazz Semiconductor by Conexant back to Conexant and its affiliates. Conexant may use this license to have Conexant products produced by third-party manufacturers and to sell such products, but must obtain Jazz Semiconductor's prior consent to sublicense these rights for the purpose of enabling that third party to provide semiconductor fabrication services to Conexant.

Our ability to compete depends on our ability to operate without infringing the proprietary rights of others. The semiconductor industry is generally characterized by frequent litigation regarding patent and other intellectual property rights. As is the case with many companies in the semiconductor industry, we have from time to time received communications from third parties asserting that their patents cover certain of its technologies or alleging infringement of their other intellectual property rights. We expect that it will receive similar communications in the future. Irrespective of the validity or the successful assertion of such claims, we could incur significant costs and devote significant management resources to the defense of these claims, which could seriously harm us.

Foundation IP Blocks

To better serve our customers design needs using advanced CMOS processes and mixed-signal, we have entered into a series of agreements with leading providers of physical design libraries, mixed-signal and non volatile memory design components. These components are basic design building blocks, such as standard cells, interface input-output (I/O) cells, software compilers for the generation of on-chip embedded memories arrays, mixed-signal and non-volatile memory design blocks. To achieve optimal performance, all of these components must be customized to work with our manufacturing process. These components are used in most of our customers' chip designs.

We interact closely with customers throughout the design development and prototyping process to assist them in the development of high performance and low power consumption semiconductor designs and to lower their final die, or individual semiconductor, costs through die size reductions and integration. We provide engineering support and services as well as manufacturing support in an effort to accelerate our customers' design and qualification process so that our customers can achieve faster time to market. We have entered into alliances with Cadence Design Systems, Inc., Synopsys, Inc. and Mentor Graphics Corp., leading suppliers of electronic design automation tools, and also licensed technology from ARM Holdings plc and Synopsys, Inc., leading providers of physical intellectual property components for the design and manufacture of semiconductors. Through these relationships, we provide our customers with the ability to simulate the behavior of our processes in standard electronic design automation, or EDA, tools. To provide additional functionality in the design phase, we offer our customers, standard and proprietary models within design kits that we have developed. These design kits, which collectively comprise our design library, or design platform, allow our customers to quickly simulate the performance of a semiconductor design of our processes, enabling them to refine their product design before actually manufacturing the semiconductor.

The applications for which our specialty process technologies are targeted present challenges that require an in-depth set of simulation models. We provide these models as an integral part of our design platform. At the initial design stage, our customers' internal design teams use our proprietary design kits to design semiconductors that can be successfully and cost-effectively manufactured using our specialty process technologies. Our engineers, who typically have significant experience with analog and mixed-signal semiconductor design and production, work closely with our customers' design teams to provide design advice and help them optimize their designs for our processes and their performance requirements. After the initial design phase, we provide our customers with a multi-project wafer service to facilitate the early and rapid use of our specialty process technologies, which allows them to gain early access to actual samples of their designs. Under this multi-project wafer service, we schedule a bimonthly multi-project wafer run in which we manufacture several customers' designs in a single mask set, providing our customers with an opportunity to reduce the cost and time required to test their designs. We believe our circuit design expertise and our ability to accelerate our customers' design cycle while reducing their design costs represents one of our competitive strengths.

Synopsys. In June 2001, we entered into an agreement with Synopsys (formerly, Avant!) under which Synopsys developed libraries for Tower's 0.18-micron process technology. Multiple customers use the Synopsys libraries in producing their ICs at our company. In 2004, we entered into a set of comprehensive technology transfer and license agreements with Synopsys that provide us with broad rights to use Synopsys' library technology in multiple process technology generations including 0.18 micron and 0.13 micron. Under these agreements, we were given the right to develop, customize, validate and characterize libraries based on Synopsys' library technology and to distribute such libraries. These agreements place us in a superior position of having in-house capability to serve our customers' needs. Certain parts of the 2004 license agreements relating to support services provided by Synopsys were terminated according to an agreement signed between the parties in July 2007.

ARM Limited. In 2002 and subsequently in 2004 and 2006, we entered into license agreements with ARM Limited (formerly, Artisan Components and ARM Inc.) under which we received a license to a suite of library products for our 0.18-micron and 0.13-micron process technologies and ARM licenses its libraries to our customers free of charge. Multiple customers use the ARM libraries in their chip design for manufacturing at our company. The ARM libraries include, among others, standard cells, general purpose and specialty input-output cells and memory generators.

Virage Logic. In 2002 and subsequently in 2004 and in 2006, we entered into license agreements with Virage Logic under which we received a license to a suite of library products for our 0.18-micron and 0.13-micron process technologies, respectively. These library products are available for licensing by our customers, and with respect to most of the 0.13-micron library products, free of a license charge. Virage offers a variety of SRAM and ROM memory compilers on both process technologies, and also offers standard cells, general purpose and specialty input-output cells libraries in the 0.13-micron technology. Presently, multiple customers' products that use Virage Logic's memory products are in production at Fab 2. In addition, our license agreements with Virage Logic from 2002 and 2006 have also introduced Virage Logic's patented Nonvolatile Electrically Alterable embedded memories for production on our 0.18-micron CMOS logic process. Currently, customers' products that use Virage Logic's non-volatile memory products are in production at Fab 2. We have selected and qualified these memories for our process to help our customers meet their application requirements for cost-effective embedded non-volatile memory for security, encryption, unique device identification, analog trimming, silicon repair and flexible program store.

Chipidea Microelectronics. (Today MIPS Technologies, Inc). In 2003 and subsequently in 2005 and 2006, we entered into a non-exclusive, perpetual, royalty-free license and design agreement with Chipidea Microelectronics. Further to this agreement, Chipidea has customized several of its mixed-signal design blocks for manufacturing on our 0.18-micron and 0.13-micron process technologies, such as USB 2.0 (Universal Serial Bus 2.0) and USB2.0 OTG (On The Go), which are currently being utilized by several of our customers.

Impinj Inc. In 2005, we entered into a development and license agreement with Impinj Inc. under which Impinj is developing its AEON® non-volatile memory (NVM), in parallel architecture, based on its patented Self-Adaptive Silicon® technology, for production on our 0.13-micron CMOS logic process. We chose Impinj's cost-effective NVM to help our customers' products meet their application requirements for embedded non-volatile memories. Primary applications for Impinj's AEON parallel architecture include analog trimming, digital rights management and wireless controllers. In 2007, Impinj's AEON®/MTP Parallel Architecture NVM cores became available in our 0.13-micron logic process.

Image Sensor Technologies

We developed, both independently and together with our customers, basic pixel intellectual property to be used by those customers in the manufacturing of our CMOS image sensor products.

C. ORGANIZATIONAL STRUCTURE

The legal and commercial name of our company is Tower Semiconductor Ltd. Tower was incorporated under the laws of the State of Israel in 1993. Tower Semiconductor USA, Inc. is a wholly-owned subsidiary incorporated in the United States.

In September 2008, we completed the merger with Jazz Technologies in a stock for stock transaction. Jazz Technologies is the parent company of its wholly-owned subsidiary, Jazz Semiconductor, Inc., an independent semiconductor foundry focused on specialty process technologies for the manufacture of analog intensive mixed-signal semiconductor devices. As a result of this transaction, both Jazz Technologies and Jazz Semiconductor became wholly owned subsidiaries of the Company.

D. PROPERTY, PLANTS AND EQUIPMENT

Manufacturing Facilities

Fab 1

We acquired our Fab 1 facility from National Semiconductor in 1993, which had operated the facility since 1986. We occupy the facility pursuant to a long-term lease from the Israel Lands Authority that expires in 2032.

Due to the sensitivity and complexity of the semiconductor manufacturing process, a semiconductor manufacturing facility requires a special “clean room” in which most of the manufacturing functions are performed. Our Fab 1 facility includes an approximately 51,900 square foot clean room.

Since we commenced manufacturing at Fab 1, we increased its manufacturing capacity, using our 1.0 micron to 0.35-micron processes, including specialized processes. Fab 1 is also manufacturing products for Siliconix Incorporated and Siliconix Technology C.V under a long term foundry agreement that we entered into in May 2004 using process technology that Siliconix transferred to us. The parties amended this foundry agreement during the first quarter of 2008 and further amended it during 2009, mainly to revise the terms of the purchase of trench products as well as transfer additional differentiated product platforms to Tower for manufacturing.

Our exact capacity is variable and depends on the combination of the processes being used and the product mix being manufactured hence, it may be significantly lower at certain times as a result of certain of our combinations that may require more processing steps than others. We have the ability to rapidly change the mix of production processes in use in order to respond to changing customer needs and maximize utilization of the fab. In general, our ability to increase our manufacturing capacity has been achieved through the addition of equipment, improvement in equipment utilization, the reconfiguration and expansion of the existing clean room area and the construction of an additional clean room area within the building shell of Fab 1.

Fab 2

In January 2001, we commenced construction of Fab 2, our advanced wafer fab adjacent to Fab 1 in Migdal Haemek. The land on which Fab 2 is located is subject to a long-term lease from the Israel Lands Authority that expires in 2049.

Fab 2 offers integrated circuits manufacturing services utilizing advanced materials and a 0.18-micron process technology we licensed from Toshiba, as well as 0.13-micron process technology we licensed from Freescale. Fab 2 is also manufacturing products in 0.35-micron process technology that International Rectifier Corporation (“IR”) transferred to us under a long term foundry agreement that we entered into in September 2006, which was further amended during 2009, mainly to revise the terms of the purchased quantities. During the fourth quarter of 2007, we began volume production of products for IR.

The overall clean room area in Fab 2 is approximately 100,000 square feet. We began volume production at Fab 2 during the third quarter of 2003. Depending on the process technology and product mix, when fully ramped-up, we estimate that Fab 2 will be able to achieve capacity levels of approximately 40,000 wafers per month.

Since 2000, we have invested significantly in the purchase of fixed assets, primarily in connection with the construction of Fab 2, technology advancement and capacity expansion. Capital expenditures in 2008, 2007 and 2006 were approximately $74 million, $91 million and $163 million, respectively. Capital expenditure for the years 2008, 2007 and 2006 years were not deducted by related Investment Center grants.

We have registered liens in favor of the State of Israel and our banks on substantially all of our present and future assets, including Fab 1 and Fab 2 (see “Item 5 – Operating and Financial Review and Prospects – B. Liquidity and Capital Resources – Fab 2 Agreements – Credit Facility”).

Newport Beach

Jazz’s headquarters and manufacturing facilities are located in Newport Beach, California. Jazz leases the use of these facilities from Conexant under non-cancellable operating leases that expire March 12, 2017 and it has the option to extend each lease for two consecutive five-year periods after March 12, 2017. Jazz and Conexant executed amendments to the leases which provide that Jazz’s headquarters office may be relocated once to another building within one mile of its current location at Conexant’s option and expense, subject to certain conditions.

The following table provides certain information as to Jazz’s principal general offices, manufacturing and warehouse facilities:

Property Location	Use	Floor Space
Newport Beach, California	Headquarters office	68,227 square feet
Newport Beach, California	Manufacturing facility	320,510 square feet

We expect these office and warehouse facilities to be adequate for our business purposes through 2009 and expect additional space to be available to use on commercially reasonable terms as needed.

ENVIRONMENTAL QUALITY MATTERS AND CERTIFICATIONS

We have placed significant emphasis on achieving and maintaining a high standard of manufacturing quality. Our operations are subject to a variety of laws and governmental regulations relating to the use, discharge and disposal of toxic or otherwise hazardous materials used in our production processes. Failure to comply with these laws and regulations could subject us to material costs and liabilities, including costs to clean up contamination caused by our operations.

In addition, Jazz’s operations are subject to strict regulation and periodic monitoring by the United States Environmental Protection Agency along with several state and local environmental agencies in the U.S.

We believe that we are currently in compliance in all material respects with applicable environmental laws and regulations.

In November 2004, Tower received ISO 14001 certification from The Standards Institution of Israel. A series of international standards on environmental management, ISO 14000 provides a framework for the development of an environmental management system and the supporting audit program. ISO 14001 is the cornerstone standard of the ISO 14000 series. It specifies a framework of control for an environmental management system pursuant to which an organization can

be certified by a third party. The ISO 14001 certification applies to all of Tower's manufacturing facilities. Tower's authorized design center in Netanya, Israel also received certification.

In December 2004, Tower received the OHSAS 18001 certification from the Standard Institution of Israel, which provides the framework of control for Safety and Health. This certification covers all of Tower's activities and departments.

In November 2005, Tower achieved ISO/TS 16949 certification from the UK-based National Quality Association pertaining to the manufacturing processes, work procedures and product performance meeting the requirements of the automotive industry. This quality management system standard certification covers all of Tower's departments and activities.

In March 2006, Tower achieved ISO 17799 certification from The Standards Institution of Israel for the high quality of Tower's security technology and implementations, covering all of Tower's departments and activities.

In 2004, Tower achieved ISO 9000:2001 certification from The Standards Institution of Israel for all quality systems and processes, covering all of Tower's departments and activities. This certification is renewed annually pursuant to extensive audits performed by the SII.

Jazz seeks to attract and retain leading international and domestic semiconductor companies as customers by establishing and maintaining a reputation for high quality and reliable services and products. Jazz's Newport Beach, California fab has achieved ISO9001:2000 certification and has also obtained certification for implementing the standard requirements of ISO 14001:2004, ISO/IEC 27001:2005, the specification OHSAS 18001:2007 and ISO/TS 16949:2002. ISO9001:2000 sets the criteria for developing a fundamental quality management system. This system focuses on continuous improvement, defect prevention and the reduction of variation and waste. ISO 14001 consists of a set of standards that provide guidance to the management of organizations to achieve an effective environmental management system. ISO/IEC 27001:2005 replaces the previous BS7799 standard, and is the new global certification that focuses on security information management activities associated with the reduction of security breaches. OHSAS 18001:2007 is an internationally accepted specification that defines the requirements for establishing, implementing and operating an Occupational Health and Safety Management System, which is a framework that allows an organization to consistently identify and manage operational risks, reduce the potential for accidents, help achieve compliance with health and safety legislation, and continually improve its performance.

Jazz has implemented an environmental management system that assists Jazz in identifying applicable environmental regulations, evaluating compliance status and establishing timely waste preventive measures. Jazz has also obtained certification for implementing the standard requirements of ISO 14001:2004. ISO 14001 consists of a set of standards that provide guidance to the management of organizations to achieve an effective environmental management system.

Jazz achieved ISO/TS 16949:2002 certification in 2008. ISO/TS 16949:2002 is a Technical Specification written by the International Automotive Task Force (IATF) which aligns existing US, German, French and Italian automotive quality system standards within the global automotive industry. It specifies the quality system requirements for the design, development, production, installation and servicing of automotive-related products.

Jazz implements quality assurance initiatives that are designed to ensure high yields at its facilities. Jazz tests and monitors raw materials and production at various stages in the manufacturing process before shipment to customers. Quality assurance also includes on-going production reliability audits and failure tracking for early identification of production problems.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

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

The information contained in this section should be read in conjunction with our consolidated financial statements for the year ended December 31, 2008 and related notes and the information contained elsewhere in this annual report. Our financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"). We recast the comparative prior year amounts included in our financial statements and in this report to US GAAP. Prior to the fourth quarter of 2007, we prepared our financial reports in accordance with generally accepted accounting principles in Israel and provided reconciliation to US GAAP in the notes to the financial statements.

Overview

We are a pure-play independent specialty foundry dedicated to the manufacture of semiconductors. Pure-play foundries do not offer any products of their own, but focus on producing integrated circuits based on the design specifications of their customers. We manufacture semiconductors using advanced production processes for our customers primarily based on third party designs and our own proprietary designs. We currently offer the manufacture of ICs with geometries ranging from 1.0 to 0.13-micron.

In September 2008, Tower completed its merger with Jazz Technologies in a stock for stock transaction. Upon the closing of the merger with Jazz, each outstanding share of Jazz common stock was converted into 1.8 ordinary shares of Tower, each outstanding warrant, option and convertible debentures to acquire one Jazz common stock became exercisable for 1.8 ordinary shares of Tower. Effective September 19, 2008, Jazz's common stock, warrants and units were no longer traded on the American Stock Exchange (AMEX).

In consideration for the shares, options and warrants of Jazz, Tower issued approximately 34,256,292 ordinary shares 5,381,213 options and 59,459,423 warrants with a total value of $46.7 million (or $50.1 million including transaction costs). The per share value, as well as the value of the options and warrants, was calculated based on Tower's stock price prevailing around May 19, 2008, the date of signing the definitive agreement of the merger and its announcement, in accordance with provisions of EITF 99-12 "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination". The merger was accounted for under the purchase method of accounting in accordance with U.S. generally accepted accounting principles for accounting and financial reporting purposes. Under this method, Jazz was treated as the "acquired" company. The results of Jazz's operations have been included in the consolidated financial statements for the period between September 19, 2008 and December 31, 2008 and its balance sheet was included as of December 31, 2008.

As mentioned above, pursuant to the merger, Jazz's outstanding warrants immediately prior to the effective time of the merger, became exercisable for Tower ordinary shares, at an exercise price of $2.78 per Tower ordinary share. The expiration date of the warrants is March 17, 2011.

Tower may redeem the warrants in whole and not in part, at a price of $0.01 per warrant, upon a minimum of 30 days prior written notice of redemption and if and only if, the last sales price of Tower's ordinary shares equals or exceeds $4.72 per share for any 20 trading days within a 30 trading day period ending three business days before Tower sends the notice of redemption. The redeemable warrants are redeemable only at the discretion of Tower and as such in accordance with provisions of EITF 00-19, were classified in shareholders equity. For details regarding the convertible notes see below under "liquidity and capital resources".

During the year ended December 31, 2008, we had five significant customers who contributed between 5% to 17% of our revenues. In 2007, we had seven significant customers who contributed between 5% to 29% of our revenues. In 2006, we had seven significant customers who contributed between 5% to 23% of our revenues.

The percentage of our sales from customers located outside the United States was 23%, 25% and 31% in the years ended December 31, 2008, 2007 and 2006, respectively. We believe that a substantial portion of our sales will continue to come from customers located outside the United States.

Critical Accounting Policies

Revenue Recognition.

The Company's net revenues are generated primarily from manufacturing and sales of semiconductor wafers. The Company derives the remaining balance of net revenues from the sale of photomasks, engineering services and design-related services. The majority of the Company's revenue is achieved through the efforts of its direct sales force.

In accordance with generally accepted accounting principles, the Company recognizes revenues when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price to the customer is fixed or determinable and (iv) collection of the resulting receivable is reasonably assured. These criteria are usually met at the time of product shipment. Revenues are recognized when the acceptance criteria are satisfied, based on performing electronic, functional and quality tests on the products prior to shipment and customer on-site testing. Such Company testing reliably demonstrates that the products meet all of the specified criteria prior to formal customer acceptance, and that product performance can reasonably be expected to conform to the specified acceptance provisions.

Revenues from contracts with multiple elements are recognized as each element is earned based on the relative fair value of each element and when there are no undelivered elements that are essential to the functionality of the delivered elements and when the amount is not contingent upon delivery of the undelivered elements. Advances received from customers towards future engineering services, product purchases and in some cases capacity reservation are deferred until products are shipped to the customer, services are rendered or the capacity reservation period ends.

Our revenue recognition policy is significant because our revenues are a key component of our results of operations. We follow very specific and detailed guidelines in measuring revenue; however an accrual for estimated returns, which is computed primarily on the basis of historical experience, is recorded. Any changes in assumptions for determining the accrual for returns and other factors affecting revenue recognition may affect mainly the timing of our revenue recognition and cause our operating results to vary from quarter to quarter. Accordingly, our financial position and results of operations may be affected.

Depreciation and Amortization.

We are heavily capital oriented and the amount of depreciation is a significant amount of our yearly expenses. Changes to the useful lives assumption and hence the depreciation can have material impact on our results of operations. Depreciation and amortization expenses in 2008 amounted to $138.8 million. During the third quarter of 2003, we commenced depreciating the Fab 2 property and equipment and amortizing the 0.18-micron technology, based on the straight-line method. During the second quarter of 2007, we reassessed the estimated useful lives of our machinery and equipment and as a result, effective as of April 1, 2007, machinery and equipment is to be depreciated over estimated useful lives of 7 years rather than 5 years as estimated prior to such date. The change reflects our best estimate of the useful lives of our equipment and is also based on experience accumulated from Fab 1 and on recent trends in industry practices. We believe that the change better reflects the economics associated with the ownership of the equipment. Currently, we estimate that the expected economic life of our assets will be as follows: (i) buildings (including facility infrastructure) –10 to 25 years; (ii) machinery and equipment – three to seven years; and (iii) the 0.18-micron and 0.13 micron technology – four years, with each amortization phases commencing on the date on which such Fab 2 manufacturing line became ready for its intended use. We expect that depreciation and amortization expenses will be approximately $137 million in 2009. Changes in our estimates regarding the expected economic life of Fab 2 assets, or a change in the dates on which each of the Fab 2 manufacturing lines is ready for its intended use, might affect our depreciation and amortization expenses.

Impairment of Fixed Assets and Intangible Assets.

Management reviews long-lived assets and intangible assets on a periodic basis, as well as when such a review is required based upon relevant circumstances to determine whether events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. According to SFAS 144 and SFAS 142 for those assets that have definite useful lives, recoverability tests are performed based on undiscounted expected cash flows, SFAS 144 requires that when the asset is not recoverable an impairment loss should be computed based on the difference between the carrying amount of the assets (or asset group) and the fair value. The fair value in most instances will be determined using present value techniques applied to expected cash flows.

Application of SFAS No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS No. 144”) resulted in an impairment charge which was recorded during 2008.

The fair values of the Machinery and Equipment were determined using expected cash flows discounted at discount rate commensurate with the risk involved in generating such cash flows.

Impairment of Goodwill

Goodwill is subject to an impairment test on at least an annual basis or upon the occurrence of certain events or circumstances. Goodwill impairment is assessed based on a comparison of the fair value of the unit, to which the goodwill is ascribed to as against the underlying carrying value of its net assets, including goodwill. If the carrying amount of the unit exceeds its fair value, the implied fair value of the goodwill is compared with its carrying amount to measure the amount of impairment loss, if any. Changes in the assumptions used in calculation of the fair value of the unit may have significant effect on determining whether an impairment charge is required and hence may affect our results of operations.

Tower Convertible Debentures.

According to Accounting Principles Board Opinion No. 14 (“APB 14”), we are to allocate the proceeds from the sale of the securities to each security issued based on their relative fair value. We are required, according to SFAS 133, to determine whether the conversion option embedded in the convertible debt should be bifurcated and accounted for separately. Such determination is based on the determination whether on a stand alone such conversion option would be classified in equity. If the option can be classified as equity no bifurcation is required. The analysis required under SFAS 133 involves the consideration of many factors and assumptions. Any changes in those factors or assumptions may have significant effect on determining whether embedded derivatives are required to be bifurcated and hence may affect our results of operations.

Initial Adoption of New Standards and Recently Issued Accounting Standards

FAS 157-3

In October 2008, the FASB staff issued Staff Position (FSP) No. FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active.” The FSP amends Statement 157 by incorporating “an example to illustrate key considerations in determining the fair value of a financial asset” in an inactive market. The FSP is effective upon issuance and should be applied to prior periods for which financial statements have not been issued.

The FSP’s illustrative example and associated guidance clarifies various application issues raised by preparers of financial statements. With regard to the measurement principles of Statement 157, the FSP emphasizes the following:

— Objective of Fair Value – The objective of a fair value measurement is to determine the price that would be received to sell an asset in an orderly transaction that is not a forced liquidation or distressed sale between market participants as of the measurement date. This objective does not change even when there is little, if any, market activity for an asset as of the measurement date.

— Distressed Transactions – “Even in times of market dislocation, it is not appropriate to conclude that all market activity represents forced liquidations or distressed sales. However, it is also not appropriate to automatically conclude that any transaction price is determinative of fair value.” The evaluation of whether individual transactions are forced (that is, whether one of the parties is forced or otherwise compelled to transact) depends on the facts and circumstances and may require the use of significant judgment.

— Relevance of Observable Data – Observable market data may require significant adjustment to meet the objective of fair value. “For example, in cases where the volume and level of trading activity in the asset have declined significantly, the available prices vary significantly over time or among market participants, or the prices are not current, the observable inputs might not be relevant and could require significant adjustment.” If the adjustment is significant, the measurement would be considered Level 3.

— The Company’s Assumptions and Nonperformance and Liquidity Risks – The use of the Company’s internal “assumptions about future cash flows and appropriately risk-adjusted discount rates” is acceptable when relevant observable market data does not exist. In addition, such assumptions or techniques must incorporate adjustments for nonperformance and liquidity risks that market participants would consider in valuing the asset.

— Third Party Pricing Quotes – Quotes and information obtained from brokers or pricing services “are not necessarily determinative if an active market does not exist for the financial asset” being measured. In addition, “an entity should place less reliance on quotes that do not reflect actual market transactions.”

We considered the guidance in this FSP in evaluating Tower’s and Jazz’s bank loans and certain of Tower’s and Jazz’s debt securities that are traded in inactive markets.

EITF 07-5

In June 2008, the FASB Emerging Issues Task Force reached a consensus on EITF Issue No. 07-5, “Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity’s Own Stock. The Consensus was reached on the following three issues:

1. How an entity should evaluate whether an instrument (or embedded feature) is indexed to its own stock.

2. How the currency in which the strike price of an equity-linked financial instrument (or embedded equity-linked feature) is denominated affects the determination of whether the instrument is indexed to an entity's own stock.

3. How an issuer should account for market-based employee stock option valuation instruments.

This consensus will affect entities with (1) options or warrants on their own shares (not within the scope of Statement 150), including market-based employee stock option valuation instruments; (2) forward contracts on their own shares, including forward contracts entered into as part of an accelerated share repurchase program; and (3) convertible debt instruments and convertible preferred stock. Also affected are entities that issue equity-linked financial instruments (or financial instruments that contain embedded equity-linked features) with a strike price that is denominated in a foreign currency.

We adopted this consensus effective January 1, 2009. We identified several instruments that are affected by the consensus all of which were, before the adoption of the consensus, classified in equity and upon the adoption were reclassified from equity to liability. These instruments include warrants and previously bifurcated conversion option, with either anti-dilution feature or with exercise price denominated in NIS. At the date of adoption and in accordance with transition provisions of the consensus, we measured those instruments at fair value. The difference between the fair values and the amount previously recorded in equity was recognized as an adjustment to the opening balance of retained earnings.

The effect of the adoption on equity retained earning is as follows:

		January 1, 2009 Dollars in Thousands
Additional paid in capital	$	(14,065)
Retained earnings		12,800
Fair value reclassified to liability	$	(1,265)

The effect of the adoption of EITF 07-5 on our consolidated results of operations and net loss for the three months ended March 31, 2009 was immaterial.

FSP APB 14-1

Effective January 1, 2009, we adopted FSP No. APB 14-1, Accounting for Convertible Debt Instruments that may be Settled in Cash upon Conversion (Including Partial Cash Settlement). FSP APB No. 14-1 applies to any convertible debt instrument that may be wholly or partially settled in cash and requires the separation of the debt and equity components of cash-settleable convertibles at the date of issuance. The FSP is effective for the convertible debt issued by Jazz (the 8% convertible notes due 2011). The merger on September 19, 2008, as part of the purchase method, required us to fair value their convertible debt instrument. As a result, a new basis was determined to the convertibles of $108.6 million, the debt discount was $19.6 million. Upon adoption of the FSP, we evaluated the equity component as of the merger date and determined that it is immaterial. As such, we expect no impact on our consolidated results of operations or financial position resulting from the adoption of this FSP for periods following the merger.

SFAS No. 161

Effective January 1, 2009, we adopted SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"). SFAS No. 161 expands disclosures but does not change accounting for derivative instruments and hedging activities. The adoption of SFAS No. 161 did not have any impact on our consolidated results of operations or financial position.

SFAS No. 160

In December 2007, the FASB issued SFAS No. 160," Non-controlling Interests in Consolidated Financial Statements" ("SFAS No. 160"). SFAS No. 160 improves the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report non-controlling (minority) interests in subsidiaries in the same way as equity in the consolidated financial statements. Moreover, SFAS No. 160 eliminates the diversity that currently exists in accounting for transactions between an entity and non-controlling interests by requiring they be treated as equity transactions. SFAS No. 160 is effective as of the start of fiscal years beginning after December 15, 2008. Early adoption is not allowed. Since we currently have no minority interest, the adoption of this standard did not have any impact on our consolidated results of operations or financial position.

FSP 142-3

In April 2008, the FASB issued FASB Staff Position 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). The objective of FSP 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R), "Business Combinations", and other U.S. generally accepted accounting principles. FSP 142-3 will be effective beginning in fiscal year 2010. We are currently evaluating the impact that FSP 142-3 will have, if at all, on our consolidated financial statements and disclosures.

FSP FAS 107-1 and APB 28-1

In April 2009 the FASB issued FASB staff position 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments". This FSP applies to all financial instruments within the scope of Statement 107 held by publicly traded companies, as defined by Opinion 28 and are effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009.

FSP FAS 107-1 and APB 28-1 relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. Prior to issuing this FSP, fair values for these assets and liabilities were only disclosed once a year. The FSP now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. We are currently evaluating the additional disclosure requirements of this FSP.

FSP FAS 115-2 and FAS 124-2

In April 2009 the FASB issued FASB staff position 115-2 and 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" ("OTTI") for investment in debt securities. This FSP applies to all entities and are effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Earlier adoption for periods ending before March 15, 2009, is not permitted.

Under the FSP, the primary change to the OTTI model for debt securities is the change in focus from an entity's intent and ability to hold a security until recovery. Instead, an OTTI is triggered if (1) an entity has the intent to sell the security, (2) it is more likely than not that it will be required to sell the security before recovery, or (3) it does not expect to recover the entire amortized cost basis of the security. In addition, the FSP changes the presentation of an OTTI in the income statement if the only reason for recognition is a credit loss (i.e., the entity does not expect to recover its entire amortized cost basis). That is, if the entity has the intent to sell the security or it is more likely than not that it will be required to sell the security, the entire impairment (amortized cost basis over fair value) will be recognized in earnings.

However, if the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security, but the security has suffered a credit loss, the impairment charge will be separated into the credit loss component, which is recorded in earnings, and the remainder of the impairment charge, which is recorded in other comprehensive income (OCI). We expect no impact on our consolidated results of operations or financial position resulting from the adoption of this FSP.

FSP FAS 157-4

In April 2009 the FASB issued FASB staff position 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly". This FSP applies to all assets and liabilities within the scope of accounting pronouncements that require or permit fair value measurements, except as discussed in paragraphs 2 and 3 of statement 157. The FSP is Effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively.

FSP FAS 157-4 relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms what Statement 157 states is the objective of fair value measurement–to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive.

FSP FAS 157-4 provides guidance on (1) estimating the fair value of an asset or liability (financial and nonfinancial) when the volume and level of activity for the asset or liability have significantly decreased and (2) identifying transactions that are not orderly.

We are currently evaluating the impact that this FSP will have, if at all, on our consolidated financial statements and disclosures.

Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the financial statements and the related notes thereto included in this annual report. The following table sets forth certain statement of operations data as a percentage of total revenues for the years indicated. The results for 2008 include Jazz's results from September 19, 2008.

	Year Ended December 31,		
	2008	2007	2006
Statement of Operations Data:			
Total revenues	100.0%	100.0%	100.0%
Cost of total revenues	118.7	123.4	142.7
Gross loss	(18.7)	(23.4)	(42.7)
Research and development	5.9	6.0	8.0
Marketing, general and administrative	13.2	13.7	13.8
Write-off of in-process research and development	0.7	-	-
Merger related costs	0.2	-	-
Fixed assets impairment	47.9	-	-
Operating loss	(86.7)	(43.0)	(64.5)
Financing expense, net	(7.0)	(15.2)	(25.4)
Gain on debt restructuring	51.9	-	
Other income (expense), net	(0.4)	0.0	0.3
Income tax provision	(0.2)	-	-
Loss	(42.3)%	(58.1)%	(89.6)%

Year Ended December 31, 2008 compared to Year Ended December 31, 2007

Revenues. Revenue for the year ended December 31, 2008 increased by 9.0% to $251.7 million from $230.9 million for the year ended December 31, 2007.

Following the successful merger with Jazz, the results above include Jazz's results from September 19, 2008 which amount to $56.3 million.

Cost of Total Revenues. Cost of total revenue for the year ended December 31, 2008 amounted to $298.7 million, compared with $284.8 million for the year ended December 31, 2007. This modest 4.9% increase in cost of revenue, which includes also the results of Jazz commencing September 19, 2008, was mainly attributable to a reduction in depreciation and amortization expenses and due to the previously announced cost reduction plan executed by the company. The decrease in depreciation and amortization expenses resulted from the change made by the Company in the estimated useful lives of its machinery and equipment in the second quarter of 2007 (and as a result, our machinery and equipment are depreciated over estimated useful lives of 7 years rather than 5 years) and from the fixed assets impairment in 2008, as detailed below.

Gross Loss. Gross loss for the year ended December 31, 2008 was $47.0 million compared to a gross loss of $53.9 million for the year ended December 31, 2007. The decrease in gross loss was mainly attributable to the 9.0% increase in revenues and the lower depreciation and cost reduction plan as described above. A primary reason for the fact we have incurred gross loss is attributed to our manufacturing facilities which did not operate at their maximal utilization rates, which utilization rates were further reduced by a rate reduction trend commenced in the third quarter of 2008 following the worldwide economic downturn. As a result, and because fixed costs (including depreciation) represent a substantial portion of the operating costs of semiconductor manufacturing facilities, our revenue could not cover the entire cost of goods (including depreciation) and we operated at a gross loss.

Research and Development. Research and development expenses for the year ended December 31, 2008 amounted to $15.0 million as compared to $13.8 million for the year ended December 31, 2007.

Marketing, General and Administrative. Marketing, general and administrative expenses for the year ended December 31, 2008 amounted to $33.2 million as compared to $31.6 million for the year ended December 31, 2007.

The relatively modest increase in research and development and marketing, general and administrative expenses, despite including the results of Jazz commencing September 19, 2008, was achieved due to the previously announced cost reduction plans.

Write-off of in-process research and development and merger related costs, these one-time expenses, resulting from the merger with Jazz, amounted to $2.3 million in the year ended December 31, 2008.

Fixed Assets Impairment. Fixed assets impairment amounted to $120.5 million in the year ended December 31, 2008. Due to the current worldwide economic downturn, the prevailing market conditions in the semiconductor industry, global decreased demand, downward price pressure and excess inventory, we determined that circumstances indicate that the carrying amount of our machinery and equipment may not be recoverable. We estimated the fair value of our machinery and equipment and determined that the carrying amounts exceed the fair values by $120.5 million and recorded a charge in that amount in 2008. The fair values of the machinery and equipment were determined using expected cash flows discounted at a discount rate commensurate with the risk involved in generating such cash flows.

Operating Loss. Operating loss for the year ended December 31, 2008 was $218.1 million, compared to $99.3 million for the year ended December 31, 2007. The increase in the operating loss is mainly due to the above mentioned one time fixed assets impairment in the amount of $120.5 million. Operating loss excluding one-time items, which are comprised of $120.5 fixed assets impairment and $2.3 million write off of in process research and development and merger related costs, decreased by $4.1 million as compared to the year ended December 31, 2007.

Financing Expense, Net. Financing expenses, net for the year ended December 31, 2008 were $17.6 million compared to financing expenses, net of $35.0 million for the year ended December 31, 2007. This decrease is mainly due to Tower's debt restructuring detailed below, measuring at fair value of Tower's loans and convertible debentures and due to lower interest on our long-term debt following the LIBOR rate decrease.

Gain On Debt Restructuring. Gain on debt restructuring resulting from Tower's definitive agreements with its Banks and Israel Corp. (sometimes referred to herein as "TIC") as detailed below, was $130.7 million for the year ended December 31, 2008.

Other Income (Expense), Net. Other expense, net, for the year ended December 31, 2008 was $0.9 million compared to other income, net of $0.1 million for the year ended December 31, 2007.

Loss. Loss for the year ended December 31, 2008 was $106.4 million, compared to $134.2 million for the year ended December 31, 2007. This decrease is attributable mainly to $130.7 million gain on debt restructuring, $4.1million decrease in the above operating loss excluding one-time items and $17.4 million decrease in finance expenses which was partially offset by $120.5 million fixed assets impairment and $2.3 million one-time write-off of in-process research and development and merger related costs.

Year Ended December 31, 2007 compared to Year Ended December 31, 2006

Revenues. Revenues for the year ended December 31, 2007 increased by 23.2% to $230.9 million from $187.4 million for the year ended December 31, 2006. This $43.4 million increase was mainly attributable to a higher volume of wafer shipments.

Cost of Total Revenues. Cost of total revenues for the year ended December 31, 2007 amounted to $284.8 million, compared with $267.5 million for the year ended December 31, 2006. This increase of 6.4% in cost of revenues, which is relatively low in relation to the 23.2% increase in sales, which is mainly attributable to the Company's cost structure of high level of fixed costs as a result of which with an increased volume of sales the Company can benefit and achieve reasonable margins for each incremental dollar of revenue. In addition we had a reduction in depreciation and amortization expenses as result of our reassessment of the estimated useful lives of our machinery and equipment, as described above. This change has been accounted for as a change in estimate and is

applied prospectively. Total depreciation and amortization expenses included in cost of revenues was approximately $137 million for the year ended December 31, 2007, as compared to approximately $155 million for the year ended December 31, 2006, mainly attributable to the change in useful lives.

Gross Loss. Gross loss for the year ended December 31, 2007 was $53.9 million compared to a gross loss of $80.1 million for the year ended December 31, 2006. The decrease in gross loss was mainly attributable to the 23.2% increase in revenues as compared to a 6.4% increase in cost of revenues as described above. A primary reason for the fact we have incurred gross loss is attributed to our manufacturing facilities which did not operate at their maximal utilization rates. As a result, and because fixed costs (including depreciation) represent a substantial portion of the operating costs of semiconductor manufacturing facilities, our revenue could not cover the entire cost of goods (including depreciation) and we operated at a gross loss.

Research and Development. Research and development expenses for the year ended December 31, 2007 decreased to $13.8 million from $15.0 million for the year ended December 31, 2006 mainly attributed to decreased depreciation.

Marketing, General and Administrative Expenses. Marketing, general and administrative expenses for the year ended December 31, 2007 increased to $31.6 million from $25.8 million for the year ended December 31, 2006. The increase is primarily due to stock based compensation expenses and increased sales expenses deriving directly from the higher revenues mentioned above.

Operating Loss. Operating loss for the year ended December 31, 2007 was $99.3 million, compared to $121.0 million for the year ended December 31, 2006. The decrease in the operating loss is attributable mainly to the decrease in the gross loss described above.

Financing Expense, Net. Financing expense, net for the year ended December 31, 2007 was $35.0 million compared to financing expenses, net of $47.6 million for the year ended December 31, 2006. This decrease is mainly due to the consummation of the debt restructuring with Tower's banks which was closed in the third quarter of 2006, pursuant to which, approximately 30% of our then outstanding loans were converted into capital notes and the interest rate applicable to the interest payments was reduced from the three month LIBOR rate plus 2.5% to the three month LIBOR rate plus 1.1%.

Other Income, Net. Other income, net, for the year ended December 31, 2007 was $0.09 million compared to $0.6 million for the year ended December 31, 2006.

Loss. Loss for the year ended December 31, 2007 was $134.2 million, compared to $167.9 million for the year ended December 31, 2006. This decrease is primarily attributable to the decrease of $21.6 million in the operating loss and to the $12.6 million decrease in financing expenses 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 year ended December 31, 2008, the exchange rate of the dollar in relation to the NIS decreased by 1.1%, and the Israeli Consumer Price Index, or CPI, increased by 3.8% (during the year ended December 31, 2007 there was a decrease of 9.0% in the exchange rate of the dollar in relation to the NIS and an increase of 3.4% 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.

Tower's and Jazz's bank loans mainly provide for interest based on a floating LIBOR rate, and we are therefore exposed to interest rate fluctuations. From time to time, we engage in various hedging strategies to reduce our exposure to some, but not all, of these risks and intend to continue to do so in the future. However, despite any such hedging activity, we are likely to remain exposed to interest rate fluctuations, which may increase the cost of our business activities, particularly our financing expenses.

Part of Tower's debentures are denominated in NIS linked to the Israeli CPI and therefore we are exposed to fluctuation in the NIS/dollar exchange rate. The dollar amount of our financing costs (interest and currency adjustments) related to these debentures will increase if the rate of inflation in Israel is not offset (or is offset on a lagging basis) by the devaluation of the NIS in relation to the dollar. In addition, the dollar amount of any repayment on account of the principal of these debentures will also increase.

The quantitative and qualitative disclosures about market risk are in Item 11 of this annual report.

B. LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2008, we had an aggregate of $34.9 million in cash and cash equivalents (including $27.6 million of Jazz's cash and cash equivalents) as compared to $44.5 million we had as of December 31, 2007.

During the year ended December 31, 2008, we raised $52.0 million through long-term loans, $20.0 million through capital notes in connection with the definitive agreements with Tower's banks and TIC detailed below and generated a net amount of $12.6 million from our operating activities. The above mentioned liquidity resources financed the capital expenditure investments we made during the year ended December 31, 2008, which aggregated $87.2 million, mainly in connection with the purchase and installation of equipment for the ramp up of Fab 2 and the principal repayment of convertible debentures in the amount of $8.2 million.

As of December 31, 2008, we presented in our balance sheet an aggregate of $216.8 million of debentures (the carrying amounts), of which $8.3 million are presented in current maturities and were fully paid in January 2009.

As of December 31, 2008, we presented in our balance sheet loans from banks in the amount of $230 million, as compared to $380 million as of December 31, 2007. $7 million out of the $230 million loans were presented as short-term. This reduction in bank loans is mainly attributed to the definitive agreements signed with Tower's banks and TIC in September 2008, according to which a material portion of Tower's debt was converted into equity equivalent capital notes.

Pursuant to these agreements: (i) $250 million of Tower's debt was converted into equity capital notes, exercisable into Tower's ordinary shares at $1.42 per share; (ii) TIC invested $20 million in the Company in exchange for equity equivalent capital notes of the Company exercisable into Tower's ordinary shares at $0.71 per share. Furthermore, TIC committed to invest up to an additional $20 million under certain conditions. In January 2009, such conditions were satisfied and TIC invested said amount. In consideration for such investment, TIC received an amount of equity equivalent capital notes, exercisable into Tower's ordinary shares, at a price of $0.26 per share. In addition, (i) the commencement date for the repayment of the remaining principal of the banks' loans was postponed from September 2009 to September 2010, such that the outstanding loans shall be repaid in 8 quarterly installments between September 2010 and June 2012; (ii) interest payments owed to the banks and originally due September 2008 through June 2009 were added to the remaining principal of the banks' loans and will be paid in the same schedule; (iii) the interest rate on the remaining principal of the banks' loans will be LIBOR plus 2.5% per annum; and (iv) the banks waived in full Tower's compliance with financial covenants through the end of 2008, which waiver was later further extended by the banks until June 30, 2009.

Until conversion, the above mentioned equity equivalent capital notes have no voting rights, no maturity date, no dividend rights, are not tradable, are not registered, do not carry interest, are not linked to any index and are not redeemable. For further details regarding the September 2008 definitive agreements with Tower's banks and TIC see – "Fab 2 Agreements" below. See also Notes 1, 12B and 16 to the consolidated financial statements as of December 31, 2008.

During the past years, we have experienced significant recurring losses, negative net cash flows and an increasing accumulated deficit We are working in various ways to mitigate our financial difficulties. Since the second half of 2005, we have increased our customer base, mainly in Fab 2, modified our organizational structure to better address our customers and to improve our market positioning, increased our sales activities, improved our quarterly and yearly EBITDA and cash flow from operations, increased our installed capacity level, raised funds and restructured our debt. See details in Notes 12B, 16A(3) and 17F-J to the 2008 audited consolidated financial statements. We have also diversified our customer base and strengthened our position in the industry through the merger with Jazz.

The current worldwide economic downturn and the prevailing adverse market conditions in the semiconductor industry which commenced in 2008 (including global decreased demand, downward price pressure, excess inventory, unutilized capacity and the lack of availability of funding sources), may adversely affect our future financial results and position, including our ability to support our on-going operations and growth plans. We are working to mitigate the potential effect of this downturn through several measures, including completing the execution of the previously announced cost reduction plan, which is targeted at saving approximately $80 million on an annual run-rate, and exploring alternative sources of funding (such as a possible sale and lease-back of a portion of our real estate assets, sale of other fixed assets and/or intellectual property, licensing and the receipt of all or part of pending grants from the Israeli Investment Center). There is no assurance that we will be able to obtain sufficient funding from these or other sources to allow us to maintain our ongoing activities and operations. See also Notes 12B, 16A(3), 16A(6) and 17 F-J to the 2008 audited consolidated financial statements.

For implications on our operations if we do not obtain Investment Center approval or generate increased levels of cash from operations or do not raise additional funding and if we will not be in compliance with the repayment schedule under the amended facility agreement and are unsuccessful in negotiating a revised repayment schedule, see Item 3. Key Information – Risk Factors – Risks Affecting Our Business – "If the Investment Center will not release to us the pending and over-due grants …"; "Our business requires a significant amount of financing, and our business may be adversely affected if its sources of liquidity are unavailable or insufficient to fund its operations, or if such sources will not be available"; and "If Tower fails to comply with the repayment schedule…".

Fab 2 Agreements

Wafer Partner Agreement.

During the years 2000 and 2001, we entered into various shares purchase agreements ("Wafer Partner Agreements") with Wafer Partners to partially finance the construction and equipping of Fab 2. Pursuant to the Wafer Partner Agreements, the Wafer Partners agreed to invest an aggregate of $250 million to purchase Ordinary Shares of the Company. According to the Wafer Partner Agreements, we agreed, subject to certain conditions, to reserve for each Wafer Partner a certain portion, and collectively approximately 50%, of Fab 2 wafer manufacturing capacity for a period of 10 years ending January 2011.

In August 2006, we signed agreements with SanDisk, according to which: (i) SanDisk was committed to purchase volume quantities of 0.13 micron wafers during 2007 and 2008 and will have a right of first refusal for a portion of our 0.13 micron capacity in 2009; (ii) SanDisk provided with a loan of approximately $10 million for the purpose of financing the purchase of a portion of the equipment needed for 0.13 micron production. The loan bears interest at three-month USD LIBOR plus 1.1%. In 2008 we amended the agreement mainly to revise the terms of the loan repayments schedule. We granted SanDisk a first ranking charge on the equipment purchased with the amounts borrowed.

Wafer Credits. In connection with their investments in Fab 2, we issued to our wafer partners non-transferable credits that may be used to reduce the cash amounts to be paid by them when paying for wafers manufactured in Fab 2. These credits could generally be used at a rate of 7.5% for purchases made through June 2005 and 15% for purchases made thereafter. Our wafer partners, SanDisk, Alliance and Macronix, agreed that they would not utilize any of their credits, for purchase orders of our wafer products until December 31, 2006. For orders placed from January 1, 2004 to December 31, 2006, each major wafer partner was entitled, every quarter, to convert into our ordinary shares its wafer credits that could have been utilized by such wafer partner against the actual payment of wafers manufactured at Fab 2 during such quarter; otherwise, these credits will bear interest payable every quarter at three-month LIBOR plus 2.5%. As of May 31, 2009, approximately $16 million of accumulated wafer credits had been converted into an aggregate of 10.4 million ordinary shares. No material changes were done in 2008.

In 2006, we and one of the Primary Wafer Partners, entered into an agreement to extend the date until which the credits could be utilized and would be subject to repayment if not so utilized to December 2009. Further, according to the agreement, with respect to certain orders placed until July 2006, and all orders placed thereafter through December 2009, such unutilized advances bear interest at an annual rate equal to three-month USD LIBOR plus 1.1%, payable at the end of each quarter, through December 2009.

All of the ordinary shares issued to our wafer partners and Israel Corp. in connection with their committed investments are subject to registration rights and to a shareholders' agreement applicable to shares held by SanDisk, Israel Corp. and Macronix.

Tower's Credit Facility

In January 2001, Tower entered into a credit facility with two leading Israeli banks, Bank Hapoalim B.M. and Bank Leumi Le-Israel, B.M., which was revised several times, under which Tower borrowed an aggregate of $557 million to fund the establishment and equipping of Fab 2 ("Facility Agreement"). The Facility Agreement has been most recently amended in September 2008, see below. As of December 31, 2008, Tower's outstanding debt under this Facility Agreement was approximately $206 million, which carries interest at a rate of three-month USD LIBOR plus 2.5% per annum. For details, see below.

September 2008 Definitive Agreement with each of Tower's Banks and TIC

In September 2008, Tower signed and closed definitive agreements with its banks and TIC. Pursuant to the agreements: (i) $200 million of Tower's debt to the banks was converted at a conversion rate of $1.42 into equity equivalent capital notes of the Company, exercisable into Tower's ordinary shares, representing two times the average closing price per share on NASDAQ for the ten trading days prior to August 7, 2008 (the date of our public announcement regarding our debt conversion negotiations with Tower's banks and TIC); (ii) the commencement date for the repayment of the remaining principal of the banks' loans was postponed from September 2009 to September 2010, such that the outstanding loans shall be repaid in eight equal quarterly installments between September 2010 and June 2012; (iii) interest payments owed to the banks and originally due September 2008 through June 2009 were added to the remaining principal of the loans and will be paid according to the same schedule; (iv) the interest rate on the remaining principal of the loans was set to be LIBOR plus 2.5% per annum; (v) in an amendment to the facility agreement made in September 2006 Tower agreed to compensate the banks for a reduction of the applicable interest rate on the loans of 1.4% effective as of May 2006, by issuing them an additional number of shares (or equity equivalent capital notes or convertible debentures) on or about December 31, 2010, calculated based on the amount of decreased interest payments (the amounts payable in securities of the Company may be payable in cash under certain circumstances and may be reduced in the event the Company prepays any part of the outstanding loans). The amount of said compensation was revised pro-rata to the decreased loans; (vi) the banks waived in full Tower's compliance with financial covenants through the end of 2008; (vii) $50 million of debt owed by Tower to TIC (consisting of $30 million owed under a credit line loan facility and $20 million of Tower's convertible debentures series B held by TIC) were converted at a conversion rate of $1.42 into equity equivalent capital notes exercisable into Tower's ordinary shares, representing two times the average closing price per share on NASDAQ for the ten trading days prior to August 7, 2008; and (viii) TIC invested $20 million in exchange for equity equivalent capital notes of the Company exercisable into Tower's ordinary shares at $0.71 per share, representing the average closing price per share on NASDAQ for the ten trading days prior to August 7, 2008.

Furthermore, TIC committed to invest up to an additional $20 million under certain conditions. In January 2009, such conditions were satisfied and TIC invested said amount. In consideration for such investment, TIC received an amount of equity equivalent capital notes of the Company, similar to the other capital notes issued by the Company in connection with the September 2008 amendment of the facility agreement. The above mentioned equity equivalent capital notes have no voting rights, no maturity date, no dividend rights, are not tradable, are not registered, do not carry interest, are not linked to any index and are not redeemable. The equity equivalent capital notes are akin to options with an exercise price of zero and are economically equivalent to the shares issuable upon exercise, and are therefore classified in permanent equity.

As part of the definitive agreements with Tower's banks and TIC, in 2008 Tower issued them equity equivalent capital notes exercisable into approximately 204 million ordinary shares of the Company with total value of $115 million, calculated based on the price of the stock of the Company around September 25, 2008, the date of signing and closing of the definitive agreements. Such debt conversion resulted in a gain of $130.7 that was recorded in our statement of operations for 2008. In January 2009 Tower issued equity equivalent capital notes to TIC exercisable into approximately 77 million ordinary shares of the Company with total value of $20 million

Compliance with Financial Ratios and Covenants.

Under the terms of its amended facility agreement, Tower must meet certain financial ratios, including mainly financial covenants relating to quarterly sales, quarterly earnings before interest, taxes, depreciation and amortization (quarterly EBITDA), "life of loan coverage ratio" (which is the ratio of the Fab 2 net cash flow to the total debt related to Fab 2 in any quarter), ratio of debt to EBITDA and ratio of equity to assets. Under the terms of the amended facility agreement, satisfying these financial ratios and covenants is a material provision. According to the facility agreement, as amended, the banks waived Tower's compliance with the financial covenants of the amended facility agreement through June 30, 2009.

As of May 31, 2009, Tower was in full compliance with all of the covenants under the amended facility agreement, as amended to date.

The amended facility agreement provides that if, as a result of any default, Tower's banks were to accelerate the Company's obligations, we would be obligated, among other matters, to immediately repay all loans made by the banks (which as of May 31, 2009 amounted to approximately $208 million) plus penalties, and the banks would be entitled to exercise the remedies available to them under the amended facility agreement, including enforcement of their liens against all of Tower's assets.

Under the terms of the amended facility agreement, (i) there are limitations on changes of ownership which generally require that, TIC hold a minimum of approximately 48 million of our ordinary shares (including shares issuable upon conversion of our convertible debentures), and (ii) TIC and our three largest wafer partners nominate a majority of our board of directors, subject to exceptions; and (iii) additional conditions and covenants, including restrictions on incurring debt and a prohibition on the distribution of dividends.

Bank's Warrants

In January 2001, Tower issued its banks warrants to purchase an aggregate of 400,000 ordinary shares at a purchase price of $6.20 per share, which expired in January 2006. In December 2003, pursuant to the November 11, 2003 amendment to the credit facility, we issued the banks additional five year warrants to purchase an aggregate of 896,596 ordinary shares at a purchase price of $6.17 per share, exercisable until December 2008. In connection with the July 2005 amendment to the credit facility, Tower issued the Banks five year warrants to purchase an aggregate of 8,264,464 ordinary shares at a purchase price of $1.21 per share. Under the terms of the September 2006 amendment to Tower's amended facility agreement, the warrants issued to the banks in 2003 and 2005 were

extended to be exercisable until September 2011. In connection with credit line agreements entered into by Tower, its banks and TIC in 2007, Tower issued each of its banks and TIC warrants to purchase an aggregate of 5,411,764. The credit line agreements were terminated as part of the September 2008 definitive agreements with Tower's banks and TIC, but the warrants remain outstanding.

Investment by Israel Corporation.

In 2006, in connection with an amendment to the facility agreement made on September 2006, TIC invested $100 million in the Company for equity equivalent capital notes convertible into 65.8 million of the Company's 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 equity equivalent capital notes have no voting rights, no maturity date, no dividend rights, are not tradable, are not registered, do not carry interest, are not linked to any index and are not redeemable.

In 2007, in connection with Tower's credit line agreements with its banks and TIC, Tower received from TIC a credit line for loans of $30 million, which credit line agreement was terminated as detailed above.

As part of Tower's September 2008 definitive agreements with its banks and TIC (i) an amount of $50 million of debt owed by Tower to TIC was converted into equity equivalent capital notes convertible into 35.2 million of Tower's ordinary shares, representing twice the average closing price per share on NASDAQ for the ten trading days prior to August 7, 2008 and (ii) TIC invested $20 million in the Company in exchange for equity equivalent capital notes of the Company convertible into 28.2 million of Tower's ordinary shares, representing the average closing price per share on NASDAQ for the ten trading days prior to August 7, 2008. In January 2009, following an additional investment by TIC of $20 million, Tower issued TIC equity equivalent capital notes convertible into 76.9 million of Tower's ordinary shares.

The equity equivalent capital notes contain provisions and terms which are similar to all other capital notes issued by the Company, and are akin to options with an exercise price of zero and are economically equivalent to the shares issuable upon exercise, and are therefore classified in permanent equity.

Investment Center Grants

In December 2000, the Israeli government's Investment Center approved an investment program in connection with Fab 2. The approval certificate provides for government grants equal to 20% of qualified investments up to $1.25 billion (i.e., up to $250 million), subject to customary conditions and other conditions, including a requirement that approximately 30% of our Fab 2 funding consist of paid-in-capital and that $550 million of our Fab 2 funding be obtained by way of a credit facility from commercial banks (which amount was subsequently reduced to $500 million with the consent of the Investment Center). A lien is registered on Tower's assets for the benefit of the Investment Center which ranks subordinate to that of Tower's banks. The approval certificate also provides for a tax holiday on all taxable income related to Fab 2 for the first two years of undistributed profitable operations. As of today, Tower received $165 million in grants from the Investment Center, and satisfied in full the 30% requirement described above. As long as we comply with the terms of our approval certificate, we are not required to make royalty payments or any other payments under the terms of our Investment Center grants.

To be eligible to receive grants, we were required to invest minimum amounts on an annual basis. We notified the Investment Center of our reduced rate of annual investments and in July 2004 we received approval of our revised investment schedule from the Investment Center. Israeli law limits the ability of the Investment Center to extend this time limitation, unless approved through an expansion plan. In 2007, we submitted the final report in relation to the investments made through 2005 totaling $825 million out of the entire investment plan of $1.25 billion. The investment plan has been spread over additional years and was not completed through 2005 primarily due to the external economic conditions of the worldwide markets during 2001 through 2004 and the semiconductor industry in particular following the September 11, 2001 terrorist attack, as well as the outbreak of the Second Intifada (Israeli-Palestinian conflict) in September 2000, which lasted until 2003. We have therefore been holding discussions with the Investment Center to achieve satisfactory arrangements to approve an expansion plan to commence as of January 1, 2006. On numerous occasions, we have received assurances and commitments from governmental authorities that such an expansion plan will be approved pending positive recommendation of an economical audit by the Industrial Bank of the Investment Center. In 2005, at the Investment Center's request, we submitted a revised business plan to the Investment Center and its Industrial Bank for the period commencing January 1, 2006, for which we have invested to date from January 1, 2006 through May 31, 2009, approximately $225 million in Fab 2 plant and equipment, hence as of May 31, 2009, $45 million of cash grants are pending and over-due. While the Industrial Bank of the Investment Center gave a positive recommendation, the governmental approval process has been protracted and as a result, in May 2008, we filed a petition with the Israeli High Court of Justice targeting an approval certificate from the Investment Center for the expansion plan. On June 24, 2008 the respondents (the Israeli Ministry of Finance, the Israeli Ministry for Industry, Trade and Labor and the Investment Center) filed their response to the petition and on July 6, 2008, the Company filed its response to the response of the respondents. On July 7, 2008 the Court ordered that the proceeding be transferred to a three-judge panel. A hearing has been scheduled for October 2009. In August 2008, the Investment Center rejected our expansion plan request. In November 2008, we filed an appeal on this decision to the Israeli Ministerial Committee, which is comprised of the Israeli Minister of Finance and the Israeli Minister of Industry, Trade and Labor. A discussion of this committee has not yet been held. In parallel, Tower is holding discussions with the Investment Center and senior Governmental officials to obtain approval of the proposed expansion plan and/or find an alternative process to release the pending and over-due $45 million of cash grants to Tower. Currently Tower cannot estimate when it will receive the pending and over-due grants or when it will receive a formal response to its request for an expansion plan to commence as of January 1, 2006 or if the Investment Center will approve its request or will release the grants. If the Investment Center does not approve our request for an expansion plan, or otherwise release the pending and over-due grants, it will have a material adverse effect on Tower's operations and financial condition, and Tower would likely be required to obtain financing from alternative sources, , in order to fund its on-going operations, which financing may not be available. Such financing sources may include potential opportunities for sale and lease-back of a portion of Tower's real estate assets, sale of other fixed assets and/or intellectual property licensing. See Item 3. Key Information – Risk Factors – Risks Affecting Our Business "Risk Factors – If the Investment Center will not release to us the pending and over-due grants . . ."

Public Offerings and Private Placements

Set forth below is a description of public and private offerings of securities completed by us since inception of our financing activity for Fab 2.

Public Offering in Israel. January 2002. In January 2002, we completed a sale of units in Israel, composed of NIS 110,579,800 principal amount of convertible unsecured subordinated debentures and 2,211,596 options, resulting in net proceeds of approximately $21.5 million. Each debenture was NIS 1 in principal amount, and was adjusted to reflect increases in the Israeli Consumer Price Index and carried interest at a rate of 4.7% per annum, payable yearly

commencing January 20, 2003. Principal was payable in four installments beginning in January of 2006 through January 2009. In January 2009, the last principal installment was paid, thereby redeeming the debentures in full. Prior to December 31, 2008, the debentures were convertible into ordinary shares at a conversion rate of one ordinary share per NIS 41 principal amount of debentures linked to the Israel Consumer Price Index. Each option was exercisable into one ordinary share until January 20, 2006 at an exercise price of NIS 39, linked to the Israel Consumer Price Index. All options expired and none have been exercised.

Rights Offering 2002. In September 2002, we distributed to our shareholders and certain of our employees in Israel and the United States rights to purchase ordinary shares and warrants to purchase our ordinary shares. Substantially all of the rights exercised in connection with the rights offering were exercised by Israel Corp. and our major wafer partners. The rights offering resulted in net proceeds of approximately $19.7 million.

Public Offering- January 2004. In January 2004, we completed an underwritten public offering in the United States of 11.4 million of our ordinary shares at a price to the public of $7.00 per share. The underwritten public offering resulted in net proceeds of approximately $75.1 million.

Rights Offering 2005. In December 2005, we distributed in the United States and Israel transferable rights to purchase up to $50 million US dollar denominated debentures that are convertible into up to approximately 45.5 million of our ordinary shares. In connection with the exercise of these rights, through January 2006, we issued, in the aggregate, 48.2 million convertible debentures, with each debenture of $1.00 in principal amount, or a total of $48.2 million 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 our ordinary shares at a rate of one ordinary share per $1.10 aggregate principal amount of debentures. The debentures contained a price protection anti-dilution provision, which expired in December 2006 without having been triggered. As part of Tower's September 2008 definitive agreements with its banks and TIC, described above, a majority of the debentures held by TIC were converted into equity equivalent capital notes. Subject to the terms of Tower's amended facility agreement, we may at our 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 $500,000. The debentures and interest thereon are unsecured and rank behind Tower's existing and future secured indebtedness. As of May 31, 2009 the outstanding principal amount of the convertible debentures was $10.7 million.

Public Offering in Israel 2006. In June 2006, we completed an underwritten public offering of our securities on the TASE in Israel resulting in gross proceeds of approximately NIS 140 million (approximately $31 million). In the offering the following securities were issued, in the aggregate, (i) convertible debentures in the face amount of NIS 163,800,000 (approximately $36.7 million), (ii) 390,000 options each exercisable for three months ended 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) 10,920,000 warrants each exercisable for three months ended September 27, 2006 for one ordinary share at a price of NIS 6.75 linked to the CPI and (iv) 5,460,000 warrants each exercisable for three years ending June 30, 2009 for one ordinary share at a price of NIS 7.40 (approximately $2.2), linked to the CPI. In addition, the Company sold the same securities through a private placement to its market maker in connection with the offering in consideration for NIS 526,000.

The options and warrants described in (ii) and (iii) above expired in September 2006 and the warrants described in (iv) above expired on June 28, 2009. The convertible debentures were convertible into ordinary shares at a conversion rate of one ordinary share per NIS 8.40 (approximately $2.0) principal amount of convertible debentures. The conversion price was subject to a reduction feature until June 2008, according to which the conversion rate of the debentures was reduced in July 2008 from NIS 8.4 to NIS 4.31 (approximately $1.05). 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 Israeli Consumer Price Index (CPI). As of May 31, 2009 the outstanding principal amount of the convertible debentures was approximately $54.3 million.

Private Placement in Israel 2006. In the fourth quarter of 2006, we received and accepted orders from Israeli investors in private placements for 11,615,000 Ordinary Shares and 5,227,500 warrants ("Series 5 Warrants") in the aggregate. The price of the Ordinary Shares was equal to the closing price of our shares on the Tel-Aviv Stock Exchange prior to the relevant private placements and the warrants were issued for no consideration. Total immediate gross proceeds amounted to approximately $22 million.

Each of the Series 5 Warrants is exercisable at any time during a period of four years ending in December 2010 at a price per share equal to NIS 9.48 (approximately $2.46) linked to the CPI, reflecting a 25% premium to the market price of Tower's shares at the date the prospectus was published.

Private placement in the US – March 2007. In March 2007, we completed a private placement of our securities in which we sold ordinary shares and warrants for the purchase of ordinary shares, raising a total of approximately $29 million in gross proceeds. In the private placement, Tower's issued approximately 18.8 million shares, warrants exercisable for approximately 9.4 million shares at an exercise price of $2.04 (subject to downward adjustments), exercisable until March 15, 2012 ("Series I Warrants"), and short-term warrants exercisable for approximately 18.8 million shares at an exercise price of $1.70, which was identical to the closing price of Tower's ordinary shares on the NASDAQ on the trading day immediately prior to the closing of the private placement ("Series II Warrants"), exercisable until December 31, 2007. All of the Series II Warrants have expired by their terms without exercise.

Long term debentures issued in Israel – 2007. In the second half of 2007, in a private placement with Israeli investors, we accepted orders for 342 units, resulting in gross proceeds of approximately NIS 167 million (approximately $40 million). Each unit was comprised of: (i) long-term non-convertible bonds, repayable in six equal annual installments between the dates of December 2011 and December 2016, with a face amount of NIS 250,000 (approximately $59,700) and carrying an annual interest rate of 8 percent; (ii) long-term convertible bonds repayable in December 2012 with a 17.2 NIS conversion price (approximately $5.2) and with a face amount of NIS 262,500 (approximately $62,700), carrying an annual interest rate of 8 percent, and (iii) 5,800 warrants, each exercisable until 2011, for one ordinary share at a price of $2.04. Principal and interest on the bonds, including the convertible bonds, are linked to the Israeli consumer price index, or CPI, and were issued at 95.5% of par value. The conversion and exercise prices are subject to reduction in certain limited circumstances. The conversion price was subject to a reduction feature until June 2009, according to which the conversion rate of the debentures will be reduced in July 2009 from NIS 17.2 to approximately NIS 4.15 and the exercise price of the warrants will be reduced from $2.4 to $1.06.

In September 2007, we expanded our series of long-term debentures and warrants, by selling 12,118 units, each comprised of long-term non-convertible debentures, with a face amount of NIS 2,500 (approximately $620), long-term convertible debentures, with a face amount of NIS 2,625 (approximately $650), and 58 warrants. The debentures were issued at 90% of par value and with the same terms as the debentures and the warrants issued in the private placement. In this expansion, we raised gross proceeds of approximately $14 million.

On January 2008 we expanded our series of long-term convertible debentures which were issued at 85% of par value in consideration for gross proceeds of approximately $1.4 million. As of May 31, 2009 the outstanding principal amount of the long-term convertible bonds amount was approximately $34.9 million and the amount of long-term non-convertible bonds was approximately $31.6 million.

Shelf Registration Statement In January 2008, we filed a shelf registration statement on Form F-3 with the U.S. Securities and Exchange Commission, registering the possible offer and sale from time to time of up to $40 million of securities which we may elect to offer and sell during the three years following the effective date of the registration statement. The registration form was declared effective in February 2008.

Jazz Loan Facility

On September 19, 2008, Jazz Technologies entered into a second amended and restated loan and security agreement, as parent guarantor, with Wachovia Capital Markets, LLC, as lead arranger, bookrunner and syndication agent, and Wachovia Capital Finance Corporation (Western), as administrative agent ("Wachovia"), and Jazz Semiconductor and Newport Fab, LLC, as borrowers, with respect to a three-year secured asset-based revolving credit facility for the total amount of $55 million, including up to $10 million for letters of credit. On December 31, 2008, Wells Fargo acquired all of Wachovia Corporation and its businesses and obligations.

Jazz's borrowing availability varies according to the levels of the borrowers' eligible accounts receivable, eligible equipment and other terms and conditions described in the loan agreement. The maturity date of the facility is September 19, 2011, unless earlier terminated. Loans under the facility bear interest at a rate equal to, at borrowers' option, either the lender's prime rate plus a margin ranging from 0.25% to 0.75% or the LIBOR rate (as defined in the loan agreement) plus a margin ranging from 2% to 2.5% per annum. The facility is secured by all of Jazz's assets. Borrowing availability under the facility as of December 31, 2008 was $13.0 million in addition to outstanding borrowings of $27.0 million and $2.0 million in letters of credit committed under the facility on that date.

The loan agreement contains customary covenants and other terms, including covenants based on EBITDA (as defined in the loan agreement), as well as customary events of default. If any event of default occurs, Wachovia may declare due immediately, all borrowings under the facility and foreclose on the collateral. Furthermore, an event of default under the loan agreement would result in an increase in the interest rate on any amounts outstanding. As of December 31, 2008, Jazz was in compliance of all the covenants under this facility.

As of December 31, 2008, Jazz had borrowings of $27.0 million under its line of credit with Wachovia and had $13.0 million of additional availability under this credit line. As of December 28, 2007, Jazz had borrowings of $8.0 million under our line of credit with Wachovia and had $37.1 million of additional availability under this credit line.

Jazz's debt and obligations, including its obligations pursuant to the loan agreement, are not being guaranteed by Tower.

Jazz Convertible Notes

Jazz has outstanding an aggregate of $128.2 million principal amount of convertible notes which bear interest at a rate of 8% per annum payable semi-annually and are due on December 2011. Jazz may redeem the Convertible Notes for cash on or after December 31, 2009 at a redemption price equal to par plus accrued and unpaid interest plus a redemption premium equal to 2% in the year beginning December 31, 2009 until December 31, 2010 and 0% thereafter.

Pursuant to the merger with Tower, each holder of the convertible notes immediately prior to the merger, has the right to convert such holder's note into Tower ordinary shares based on an implied conversion price of approximately $4.07 per Tower ordinary share. As stated above, Jazz's obligations under the convertible notes are not being guaranteed by Tower.

Upon conversion, Jazz has the right to deliver, in lieu of shares of Tower's ordinary shares, cash or a combination of cash and shares of Tower's ordinary shares to satisfy the conversion obligation. If Jazz elects to deliver cash or a combination of cash and Tower ordinary shares to satisfy the conversion obligation, the amount of such cash and Tower ordinary shares, if any, will be based on the trading price of Tower's ordinary shares during the 20 consecutive trading days beginning on the third trading day after proper delivery of a conversion notice.

Upon the occurrence of certain specified fundamental changes, the holders of the convertible notes will have the right, subject to various conditions and restrictions, to require Jazz to repurchase the convertible notes, in whole or in part, at par plus accrued and unpaid interest to, but not including, the repurchase date. In addition, if Jazz undergoes certain fundamental changes prior to December 31, 2009 Jazz may be obligated to pay a make whole premium on convertible notes converted in connection with such fundamental change by issuing additional shares of common stock upon conversion of the convertible notes.

In connection with the merger of Jazz with Tower, the convertible notes were recorded at the preliminary fair value of $108.6 million on the date of the acquisition by Tower. Jazz has subsequently accreted $1.5 million in interest for the period from September 19, 2008 through December 31, 2008. As of December 31, 2008, $128.2 million in principal amount of convertible notes remains outstanding.

Jazz's obligations under the convertible notes are guaranteed by Jazz's wholly owned domestic subsidiaries.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

Our research and development activities have related primarily to our process development and have been sponsored and funded by us with some participation by the Israeli government. Our research and development expenses for the years ended December 31, 2008, 2007 and 2006 were $15 million, $13.8 million and $15.0 million net of government participation of $1.7 million $2.6 million and $1.9 million respectively. Tower also incurred costs in connection with the transfer of Toshiba and Freescale technology for use in Fab 2, some of which have been amortized over the estimated economic life of the technology following the commencement of production in Fab 2 during the third quarter of 2003 (see also in this Item "Critical Accounting Policies – Depreciation and Amortization").

For a description of our research & development policies and our patents and licenses, see "Item 4. Information on the Company-4.B. Business Overview".

D. TREND INFORMATION

The economic crisis that began in the middle of the third quarter of 2008 has caused a significant decrease in the demand for semiconductor products. Recovery of this market will depend on the recovery of the overall economy.

E. OFF-BALANCE SHEET ARRANGEMENTS

We are not a party to any material off-balance sheet arrangements except for purchase commitments, standby letters of credit and guarantees detailed in section F below.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations and commercial commitments as of December 31, 2008:

	Payment Due						
	Total	Less than 1 year	2 Years	3 Years	4 Years	5 Years	After 5 years
	(in thousands)						
Contractual Obligations							
Short term liabilities primarily vendors and accounts payable (1)	82,368	82,368	-	-	-	-	-
Loans from banks (2)	264,584	12,711	67,950	130,833	53,090	-	-
Debentures (3)	353,856	24,469	15,755	226,320	61,208	7,179	18,925
Operating leases	19,628	3,075	2,300	2,300	2,300	2,300	7,353
Construction & equipment purchase agreements (4)	4,618	4,423	100	95	-	-	-
Other long-term liabilities	29,393	-	4,807	3,753	3,819	2,827	14,187
Purchase obligations	22,316	2,716	2,668	2,668	2,635	2,588	9,041
Total contractual obligations	**776,763**	**129,762**	**93,580**	**365,969**	**123,052**	**14,894**	**49,506**

(1) Short-term liabilities include primarily our trade accounts payable for equipment and services as well as payroll related commitments.

(2) Loans from banks include principal and interest payments in accordance with the terms of the credit facility agreements with the banks, as well as the estimated impact of our hedging transactions.

(3) Debentures include total amount of principal and interest payments for the presented periods.

(4) Construction & equipment purchase agreements include amounts related to ordered equipment that has not yet been received.

In addition to these contractual obligations, we have committed approximately $4.2 million in standby letters of credit and guarantees to secure our Fab 2 and Jazz equipment obligations.

The above table does not include other contractual obligations or commitments we have, such as undertakings pursuant to royalty agreements, commissions and service agreements. We are unable to reasonably estimate the total amounts or the time table for such payments to be paid under the terms of these agreements, as the royalties, commissions and required services are a function of future revenues, the volume of business and hourly-based fees. In addition, the above table does not include our liability with respect to our customers, which as of December 31, 2008, amounted to approximately $16.7 million that may be utilized by them against future purchases of products. We are unable to reasonably estimate the total amounts that may be utilized by our customers since we can not reasonably estimate their future orders in the periods set forth in the above chart.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

Set forth below is information regarding the members of our administrative, supervisory or management bodies and our directors as of June 29, 2009.

Senior Management	Age	Title
		Tower
Russell C. Ellwanger	54	Chief Executive Officer of Tower and Chairman of the Board of Directors of its wholly-owned subsidiaries, Tower Semiconductor USA, Inc and Jazz Technologies
Oren Shirazi	39	Chief Financial Officer, Vice President of Finance
Dr. Itzhak Edrei	50	Executive Vice President of Business Groups
Charles A. Fox	53	Senior Vice President of Sales and Corporate Marketing
Ephie Koltin	48	Senior Vice President of Worldwide Operations
Dalit Dahan	41	Vice President of Human Resources and IT

Nati Somekh Gilboa	34	Vice President , Chief Legal Officer and Corporate Secretary Jazz
		Jazz
Rafi Mor	46	Senior Vice President of Jazz and General Manager of Jazz Semiconductor site, Newport Beach (California)

Directors	**Age**	**Title**
		Tower
Amir Elstein	54	Chairman of the Board
Russell C. Ellwanger	54	Director
Nir Gilad	52	Director
Ron Moskovitz	46	Director
Kalman Kaufman	64	Independent Director
Alex Kornhauser	63	Independent and External Director
Dana Gross	42	Independent Director
Ilan Flato	53	Independent and External Director
Rami Guzman	69	Independent Director

Russell C. Ellwanger has served as our Chief Executive Officer since May 2005. Mr. Ellwanger also serves as Chairman of the Board of Directors of our wholly-owned subsidiaries, Tower Semiconductor USA, Inc. and Jazz Technologies, Inc. From 1998 to 2005, Mr. Ellwanger served in various executive positions for Applied Materials Corporation, including Group Vice President, General Manager of the Applied Global Services (AGS), from 2004 to 2005, Group Vice President, General Manager of the CMP and Electroplating Business Group, from 2002 to 2004. Mr. Ellwanger also served as Corporate Vice President, General Manager of the Metrology and Inspection Business Group, from 2000 to 2002, during which he was based in Israel. From 1998 to 2000, Mr. Ellwanger served as Vice President of Applied Materials' 300-mm Program Office, USA. Mr. Ellwanger served as General Manager of Applied Materials' Metal CVD Division from 1997 to 1998 and from 1996 to 1997, Mr. Ellwanger served as Managing Director of CVD Business Development, during which he was based in Singapore. In addition, Mr. Ellwanger held various managerial positions in Novellus System from 1992 to 1996 and in Philips Semiconductors from 1980 to 1992.

Oren Shirazi has served as our Chief Financial Officer since November 2004. Mr. Shirazi joined us in October 1998 and served as our controller since July 2000, after serving as vice controller since October 1998. Prior to joining us, Mr. Shirazi was employed as an Audit Manager in the accounting firm of Ratzkovski-Fried & Co., which merged into Ernst & Young (Israel). Mr. Shirazi is a Certified Public Accountant in Israel (CPA). He has an MBA from the Graduate School of Business of Haifa University with honors and a BA in economics and accounting from the Haifa University.

Dr. Itzhak Edrei has served as our Executive Vice President of Business Groups since September 2008 after serving as Senior Vice President of Product Lines and Sales since August 2005. From August 2001 to August 2005 Dr. Edrei served as Vice President of Research and Development, having served as Director of Research and Development since 1996. From 1994 to 1996, Dr. Edrei served as our Device and Yield Department Manager. Prior to joining Tower, Dr. Edrei was employed by National Semiconductor as Device Section Head. Dr. Edrei earned his Ph.D. in physics from Bar Ilan University and his post-doctorate from Rutgers University.

Charles A. Fox was appointed Senior Vice President, Worldwide Sales & Marketing in September 2008 and previously served as Vice President of Sales and Marketing for Jazz Semiconductor since July 2007. Mr. Fox served as Vice President of Worldwide Marketing and Division General Manager at Xilinx. He also spent 10 years in various management positions at Intel. Previously, Mr. Fox was CEO of KeyEye Communications. He also served as President and CEO of Chameleon Systems and Vice President of Marketing for Cradle Technologies. Mr. Fox earned both BSEE and MBA degrees with honors from the University of Wisconsin, Madison and completed the AEA Executive program at Stanford University.

Ephie Koltin was appointed Senior Vice President of Worldwide Operations in June 2009, after serving as Vice President of Business Development since January 2009. Previously Mr. Koltin served as Vice President Fab 1 since April 2007, and has served as Test and Facility Manager since January 2008, after serving as Vice President of Business Development since August 2005, as Vice President, General Foundry and Mixed Signal Technology since 2003 and as Senior Director, FAB 2 Process Engineering since 2000. From 1995 to 1999, Mr. Koltin served in several senior positions as Director, NVM Technology, CIS technology and ERS manager, Fab 1. Prior to joining Tower, Mr. Koltin was employed at National Semiconductor and the Technion – Israel Institute of Technology. Mr. Koltin holds a B.Sc. in Mechanical Engineering and M.Sc. in Materials Engineering from the Technion – Israel Institute of Technology.

Dalit Dahan serves as Vice President of Human Resources and was appointed IT Manager in January 2008, after serving as Vice President of Human Resources since April 2004. Ms. Dahan joined us in November 1993 and served as Personnel Manager since April 2000, after having served as Compensation & Benefits Manager and in various other positions in the Human Resources Department. Prior to joining us, Ms. Dahan served as Manager of the North Branch of O.R.S – Manpower Company for 3 years. Ms. Dahan holds a bachelor's degree in social science from Haifa University and an MBA from the University of Derby.

Nati Somekh Gilboa was appointed as Vice President, Chief Legal Officer and Corporate Secretary in September 2008, after serving as Corporate Secretary and General Counsel since March 2005, and as Associate General Counsel since May 2004. From 2001 to 2004, Ms. Somekh Gilboa was employed by Goldsobel & Kirshen, Adv. Ms. Somekh Gilboa holds an LL.M. and J.D. from Boston University and a B.A. from Johns Hopkins University. She is a member of the Israeli Bar Association and the New York bar.

Rafi Mor was appointed as Senior Vice President and General Manager of Jazz Semiconductor (Tower's wholly-owned subsidiary) Newport Beach (California) Site in September 2008. Previously, Mr. Mor served in Tower Semiconductor Ltd. as Vice President of Business Development since April 2007, after serving as Vice President and Fab 2 Manager since August 2005, and as Fab 1 Manager since March 2003. From November 2000 to March 2003, Mr. Mor served

as Senior Director of Process Device & Yield of Fab 1. From 1998 to 2000, Mr. Mor served as Director of Equipment Reliability & Support of Fab 1. Previously, Mr. Mor was employed by National Semiconductor in various engineering and management capacities. Mr. Mor holds master's and bachelor's degrees in chemical engineering from Ben Gurion University.

Amir Elstein was appointed as Chairman of the Board in January 2009. Mr. Elstein serves as a member of the Board of Directors of Teva Pharmaceutical Industries Ltd., and a member of the Board of Directors of Israel Corporation Ltd. Mr. Elstein serves as Chairman of the Board of Governors of the Jerusalem College of Engineering. He also serves a chairman/member of the board of several academic, scientific and educational, social and cultural institutions. Mr. Elstein was a member of Teva Pharmaceutical Industries senior management team from 2005 to 2008, where most recently he held the position of the Executive Vice President at the Office of the CEO, overseeing Global Pharmaceutical Resources. Prior thereto, he was an executive at Intel Corporation, where he worked for 23 years, eventually serving as General Manager of Intel Electronics Ltd., an Israeli subsidiary of Intel. Mr. Elstein received his B.Sc. in Physics and Mathematics from the Hebrew University in 1980 and his M.Sc. in the Solid State Physics Department of Applied Physics from the Hebrew University in 1982. In 1992, Mr. Elstein received his diploma of Senior Business Management from the Hebrew University.

Nir Gilad has served as a director since May 2007. Mr. Gilad has served as Chief Executive Officer of Israel Corp. since June 2007; he previously served as Vice-Chief Executive Officer of the Israel Corporation from May 2006 to May 2007. From 2004-2006, Mr. Gilad served as Vice-Chief Executive Officer of Migdal Holdings Insurance and Financings Ltd., Chief Executive Officer of Migdal Investment Management 2001 Ltd. and chairman of Migdal Capital Markets Ltd. In addition, from 1999-2003, Mr. Gilad served as General Comptroller of the Treasury Office of the State of Israel. Throughout the years, Mr. Gilad was a member and chairman of several boards of directors. Mr. Gilad holds a B.A. in Economics and Agricultural Management in Natural Sciences from the Hebrew University of Jerusalem and an M.A. in business administration from Bar Ilan University.

Ron Moskovitz has served as a director since October 2007. Mr. Moskovitz is the CEO of Quantum Pacific Advisory Limited, a UK based company. From July 2002 until November 2007, Mr. Moskovitz served as Senior Vice President and Chief Financial Officer of Amdocs Limited. From 1998 until July 2002, Mr. Moskovitz served as Vice President of Finance of Amdocs Limited. Between 1994 and 1998, Mr. Moskovitz served in various senior financial positions in Tower Semiconductor Ltd. Mr. Moskovitz serves as a member of the Board of Director of Israel Corporation Ltd. Mr. Moskovitz is a certified public accountant in Israel. He holds a B.A. in accounting and economics from Haifa University and an MBA from Tel-Aviv University.

Kalman Kaufman has served as a director and as a member of our Audit Committee since August 2005 and as a member of our Stock Option and Compensation Committee since May 2008. Mr. Kaufman also served as Corporate Vice President at Applied Materials from 1994 to 2005. Between 1985 and 1994, Mr. Kaufman served as President of KLA Instruments Israel, a company he founded, and General Manager of Kulicke and Soffa Israel. Mr. Kaufman is currently the Chairman of Solgel Nanotechnology and is a member of several boards of directors. He holds engineering degrees from the Technion – Israel Institute of Technology.

Alex Kornhauser has served as an independent and external director since August 2008. Mr. Kornhauser serves as Senior VP, GM of Manufacturing at Numonyx Corporation since March 2008. From January 1978 to March 2008, Mr. Kornhauser held many positions at Intel Corporation from design engineer, project manager, department manager, engineering manager and general manager of certain groups, segments and plants. More specifically, from August 2000 to May 2007 he served as Intel Israel Site GM, from January 2006 until March 2008 he served as VP of the Flash Memory Group, from December 2004 to December 2005 Mr. Kornhauser served as VP of TMG NVM Strategic Segment, from January 2001 to November 2004 he served as VP of TMG F18 Plant Manager and from January 1996 to December 2000 he served as F18 General Manager. Mr. Kornhauser holds a B.S. in Electronics from Bucharest Polytechnic Institute in Romania.

Dana Gross has served as an independent director since November 2008. Dana is a Venture Partner at Camel Ventures, a leading Israeli Venture Capital firm. From 2006 to 2008, Ms. Gross was a Senior VP, Israel Country Manager at SanDisk Corporation. From 1992 to 2006, Ms. Gross held various senior positions at M-Systems, including Chief Marketing Officer, VP World Wide Sales, President of M-Systems Inc. (US Subsidiary) and CFO, VP Finance and Administration. In addition, Ms. Gross served as a director of M-Systems Ltd., Audiocodes Ltd. and PoweDsine Ltd. Ms. Gross holds a B.Sc. in Industrial Engineering from Tel-Aviv University and an M.A. in business administration from San Jose State University.

Ilan Flato has served as an independent and external director since April 2009. Mr. Flato serves as a Senior Non-Executive Director of Emblaze Ltd. since April 2006. Until 2004, Mr. Flato served as the VP for planning, economics and online banking in United Mizrahi Bank and as the Chief Economist of the bank. From 1992 and 1996, Mr. Flato served as the Economic Advisor to the Prime Minister of Israel. Prior to this position, Mr. Flato served in the Treasury Office as the deputy director of the budget department. In addition, Mr. Flato served as a member of the board of directors of many government owned companies. Mr. Flato holds a B.A. in Economics and Work Relationships from Tel-Aviv University and a Masters in Law from Bar-Ilan University.

Rami Guzman has served as a director since February 2009. Mr. Guzman is a director of Bank Leumi Le-Israel, he is a director in several IT companies and serves as consultant to IT and telecom companies. Mr. Guzman held various senior positions at Motorola Inc. and Motorola Israel Ltd. since 1985, including VP of Motorola Inc. and Director of Motorola Israel Ltd. In addition, until July 2004, Mr. Guzman was the CFO of Motorola Israel Ltd. Prior to joining Motorola, Mr. Guzman worked for the Ministry of Finance first as senior assistant and deputy to the Director of the Budget and then as Government-wide MIS and IT Commissioner. Mr. Guzman holds a B.A. in Economics (1963) and an M.A. in Business and Public Administration (1969) from the Hebrew University of Jerusalem. He was a Research Fellow at Stanford University and Stanford Research Institute, California, USA, and completed Ph.D. studies at the Hebrew University of Jerusalem**.**

B. COMPENSATION

For the year ended December 31, 2008, we paid to all our directors and senior management, as a group, an aggregate of $3.1 million, in salaries, fees and bonuses. The total amount set aside or accrued in the year ended December 31, 2008 to provide for severance, retirement and similar benefits for such persons was $0.5 million.

On December 21, 2008 the Board of Directors approved to reduce the payment of annual fees and participation fees (per meeting) to the Independent Directors in both cases to the minimum permitted under applicable Israeli law and regulations plus 30% of the gap between the minimum and the maximum permitted under applicable Israeli law and regulations.

During 2001, Tower's Audit Committee, Board of Directors and shareholders approved a stock option plan which provides for the grant to our Board members of options to purchase up to 400,000 ordinary shares. During 2007, we granted 80,000 options to our directors under this plan at a weighted average exercise price of $1.74. As of May 31, 2009, 120,000 options to purchase ordinary shares were outstanding under this plan, with a weighted average exercise price of $1.58. These options vest over a four-year period, according to various vesting schedules and are generally not exercisable following the fifth anniversary of their vesting date.

On January 31, 2007, our shareholders approved, following our Board of Directors' and Audit Committee approvals, the grant to each independent director of the Company who is not affiliated with our major shareholders, and is not an employee of the Company, initial options to purchase Ordinary Shares that equal 150,000 less the number of unvested options to purchase Ordinary Shares held by such independent director as of the date of the shareholders' meeting. These initial options vest over three years, one third on the first month anniversary of the date the shareholders approved the grant, and thereafter, the remaining two-thirds pro-rata on a monthly basis over the remaining two years until fully vested.

Each new independent director appointed will be granted 150,000 options to purchase Ordinary Shares, exercisable at the closing price of our shares on the NASDAQ on the trading day immediately prior to the relevant date of appointment, with the same vesting terms as the initial grants.

Upon each third anniversary of a previous grant of options to an independent director, each such Independent Director shall be granted an additional 150,000 options to purchase Ordinary Shares, which will vest over 3 years on a monthly basis until fully vested. The exercise price per each such option shall be the closing price of our shares on the NASDAQ on the trading day immediately prior to the relevant grant date. Subject to certain conditions, the options that have vested shall be exercisable by an independent director for a period of ten years following the date on which the relevant options, as the case may be, first vested. So long as this option plan remains in effect, no future grants will be made to independent directors under the 2001 plan mentioned above. During 2008, we granted 450,000 options to our independent directors under this plan at a weighted average exercise price of $0.54. As of May 31, 2009 1,013,328 options were outstanding under the plan with a weighted average exercise price of $0.80.

In April 2005, Tower's Board of Directors approved the grant of options to purchase up to 1,325,724 of our ordinary shares (which represented 1.6% of our issued and outstanding shares as of June 30, 2006) to Russell Ellwanger, our then newly-appointed Chief Executive Officer, who was also appointed as a director, which was further approved by our shareholders in October 2005. These options are exercisable at an exercise price of $1.56, which was the closing market price of our shares on the last trading day prior to the board approval of the grant. These options vest over a four-year period, with 25% vesting over each year of employment. The options granted are exercisable for a period of ten years from the date of grant.

In addition, in May 2006, Tower's Audit Committee and Board of Directors approved the grant of options to Mr. Ellwanger in addition to the options granted to him in April 2005, such that in total, he will hold options to purchase shares that represent 4% of our issued and outstanding shares on a fully diluted basis during the two-year period beginning May 16, 2006 (the date of the approval of the Audit Committee). This was further approved by our shareholders on September 28, 2006. The exercise price of the initial grant of approximately 4.3 million additional options was $1.45, the 90 day average closing price of our shares prior to May 17, 2006 (the date of the Board of Directors' approval). In future dilutive events following May 2006, additional options were granted to the CEO with an exercise price equal to the price per share of the newly issued securities. The vesting period of the new options will be identical to the vesting period of the existing options. As of May 31, 2009, a total of 14,861,812 options were outstanding to our CEO at a weighted average exercise price of $1.65.

On January 31, 2007, our shareholders approved: (i) an eight percent (8%) increase in Mr. Ellwanger's annual base salary from $350,000 to $378,000, effective January 1, 2007; and (ii) a performance-based bonus of up to $525,000 for the year ending December 31, 2006.

In December 2007 our shareholders approved: (i) the procurement of a life insurance policy for Mr. Ellwanger; (ii) the payment to Mr. Ellwanger of an annual salary (together with social benefits) of approximately $505,950, effective as of April 1, 2007; (iii) the reimbursement of Mr. Ellwanger for the difference, if any, between: (a) payments made by him, or on his behalf, to the Israeli tax authorities in respect of his aggregate base salary and performance-based bonuses from the Company, and (b) the amount that he would have been required to pay to the United States tax authorities had he been subject to United States taxation in respect of such amounts; (iv) the re-imbursement of Mr. Ellwanger for expenses associated with his relocation to Israel of up to approximately $280,000 on an annual basis; and (v) a performance-based bonus of up to $408,240 for the year ended December 31, 2007.

In August 2008 our shareholders approved (i) an increase in Mr. Ellwanger's annual base salary from $505,950 (including social benefits) to $546,765 (including social benefits), effective as of January 1, 2008;(ii) a performance-based bonus for Mr. Ellwanger up to $673,596 for the year ending December 31, 2008.

In May 2006, Tower's board of directors further approved the allocation of additional options to be made available for grant to Tower's employees if the total number of employee options, including the options to our CEO and senior management, during the 24 months period ended May 2008, will represent less than 8% of our shares on a fully diluted basis

During 2008, we granted a total of 1,394,000 options to purchase ordinary shares to our senior managers as a group (excluding the options granted to our CEO described above). These options have a weighted average exercise price of $0.92 per share with vesting periods over four years and expire in 2018.

As of May 31, 2009, options to purchase approximately 15,872,749 ordinary shares held by our employees (excluding the options granted to our CEO and directors described above but including our senior managers), with exercise prices ranging from $0.32 to $25, with weighted average exercise price of $1.57 were outstanding under employees share options plans. Also as of such date, 1,601,832 options were available for future grants under our share options plans.

In connection with the merger of Tower with Jazz in a stock for stock transaction, upon the closing of the merger, each outstanding employee option to acquire one Jazz common stock became exercisable for 1.8 ordinary shares of Tower. In connection thereto Tower issued 5,381,213 options.

In November 2008, the Company's Audit Committee and Board of Directors approved the Company's 2009 Employee Share Incentive Plan, subject to Shareholders' approval, which provides for the grant of options or restricted share units ("RSU's") to the Company's employees (including its CEO) and to the employees of the Company's subsidiaries. This plan was approved by the Company's shareholders on April 2009. The total options available for grant under the Plan will be up to 28,292,881 options to our CEO and up to 28,292,881 options will be designated to our employees and our subsidiaries' employees. The amount of 28,292,881 options amounts to 4% of the Company's diluted shares as of November 12, 2008, the date of the Board of Directors' approval. Notwithstanding

the above, the amount of available options for grant at any time will be reduced by the aggregate number of outstanding options under previous employee options plans and under the previous CEO Share Option Plans. As of May 31, 2009 no incentive awards had been made under the plan.

Information regarding amounts set aside or accrued by Tower and Jazz for severance pay and other employee benefit plans in Note 15 to our consolidated financial statements is incorporated herein by reference.

C. BOARD PRACTICES

Our Articles of Association provide that the Board of Directors shall consist of at least five and no more than 11 members. All directors, except for external directors, hold office until their successors are elected at the next annual general meeting of shareholders. Our officers are appointed by the Board of Directors and (subject, in certain cases, to employment agreement provisions that require 270 days notice of termination) continue to serve at the discretion of the Board of Directors. The Board of Directors may grant the CEO the power to appoint officers.

Our Articles of Association provide that any director may, by written notice to us, appoint another person to serve as an alternate director, and may cancel such appointment. Any person who is not already a director may act as an alternate, and the same person may not act as the alternate for more than one director at a time. The term of appointment of an alternate director may be for one meeting of the Board of Directors or for a specified period or until notice is given of the cancellation of the appointment.

None of the members of the Board are entitled to receive any severance or similar benefits upon termination of service with the Board of Directors.

The Israeli Companies Law – 1999 (the "Companies Law") requires Israeli companies with shares that have been offered to the public in or outside of Israel to appoint no less than two external directors. No person may be appointed as an external director if the person or the person's relative, partner, employer or any entity under the person's control, has or had, on or within the two years preceding the date of the person's appointment to serve as external director, any affiliation with the company or any entity controlling, controlled by or under common control with the company. The term "affiliation" includes:

— an employment relationship;

— a business or professional relationship maintained on a regular basis;

— control; and

— service as an office holder.

A person shall be qualified to serve as an external director only if he or she possesses accounting and financial expertise or professional qualifications. At least one external director must possess accounting and financial expertise. The conditions and criteria for possessing accounting and financial expertise or professional qualifications were determined in regulations promulgated by the Israeli Minister of Justice in consultation with the Israeli Securities Authority. The regulations mandate that a person is deemed to have "expertise in finance and accounting" if his or her education, experience and qualifications provide him or her with expertise and understanding in business matters – accounting and financial statements, in a way that allows him or her to understand, in depth, the company's financial statements and to encourage discussion about the manner in which the financial data is presented.

The company's board of directors must evaluate the proposed external director's expertise in finance and accounting, by considering, among other things, his or her education, experience and knowledge in the following: (i) accounting and auditing issues typical to the field in which the company operates and to companies of a size and complexity similar to such company; (ii) a company's external public accountant's duties and obligations; (iii) preparing company financial statements and their approval in accordance with the Companies Law and the Israeli Securities Law.

A director is deemed to be "professionally qualified" if he or she meets any of the following criteria: (i) has an academic degree in any of the following professions: economics, business administration, accounting, law or public administration; (ii) has a different academic degree or has completed higher education in a field that is the company's main field of operations, or a field relevant to his or her position; or (iii) has at least five years experience in any of the following, or has a total of five years experience in at least two of the following: (A) a senior position in the business management of a corporation with significant operations, (B) a senior public position or a senior position in public service, or (C) a senior position in the company's main field of operations. The board of directors here too must evaluate the proposed external director's "professional qualification" in accordance with the criteria set forth above.

The declaration required by law to be signed by a candidate to serve as an external director must include a statement by such candidate concerning his or her education and experience, if relevant, in order that the board of directors may properly evaluate whether such candidate meets the requirements set forth in the regulations. Additionally, the candidate should submit documents and certificates that support the statements set forth in the declaration.

No person may serve as an external director if the person's position or other business activities create, or may create, a conflict of interest with the person's responsibilities as an external director or may otherwise interfere with the person's ability to serve as an external director. If, at the time external directors are to be appointed, all current members of the board of directors are of the same gender, then at least one external director must be of the other gender.

External directors are to be elected by a majority vote at a shareholders' meeting, provided that either:

— the majority of shares voted at the meeting, including at least one-third of the shares held by non-controlling shareholders that voted at the meeting, vote in favor of election of the director; or

— the total number of shares held by non-controlling shareholders voted against the election of the director does not exceed one percent of the aggregate voting rights in the company.

The initial term of an external director is three years and may be extended for additional three year terms, subject to certain conditions. External directors may be removed only by the same percentage of shareholders as is required for their election, or by a court, and then only if the external directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to the company. Each committee of a company's board of directors must include at least one external director.

Mr. Ilan Flato and Mr. Alex Kornhauser currently serve as our external directors. Mr. Kornhauser was appointed for an initial three-year term expiring in August 2011 and Mr. Flato was appointed for an initial three-year term expiring in April 2012. Ms. Miri Katz resigned as an external director on August 2008 due to potential conflicts of interest in connection with her appointment to the board of directors of Bank Leumi.

An external director is entitled to compensation, as provided in regulations adopted under the Israeli Companies Law, and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with service provided as an external director.

The Companies Law requires public companies to appoint an audit committee. Mr. Ilan Flato, Mr. Alex Kornhauser and Mr. Kalman Kaufman serve on Tower's audit committee. The responsibilities of the audit committee include reviewing the company's financial statements, monitoring the company's independent auditors, identifying irregularities in the management of the company's business and approving related party transactions as required by law. An audit committee must consist of at least three directors, including the external directors of the company. The chairman of the board of directors, any director employed by or otherwise providing services to the company, and a controlling shareholder or any relative of a controlling shareholder, may not be a member of the audit committee. An employee, executive officer or director of a controlling shareholder of an Israeli company may serve as a member of an audit committee under Israeli law, unless such individual controls more than 50% of the controlling shareholder. Each of our external directors are members of our audit committee.

Under the Companies Law, the board of directors must appoint an internal auditor, who is recommended by the audit committee. The role of the internal auditor is to examine, among other matters, whether the company's actions comply with the law and orderly business procedure. Under the Companies Law, the internal auditor may be an employee of the company but not an office holder, an affiliate, or a relative of an office holder or affiliate, and he may not be the company's independent auditor or its representative.

The board of directors has established a stock option and compensation committee. Mr. Alex Kornhauser, Mr. Kalman Kaufman and Mr. Amir Elstein serve as the committee members. The committee meets at least once a year. The primary function of this committee is to approve our employee compensation policy and determine remuneration and other terms of employment for our officers. In setting our remuneration policy, the committee considers a number of factors including:

- the overall employment market environment;
- the basic salaries and benefits available to comparable officers at comparable companies;
- the need to attract and retain officers of an appropriate caliber;
- the need to ensure such executives' commitment to the future success of our company by means of incentive schemes;
- the performance of the officer; and
- financial and operating results of our company.

D. EMPLOYEES

The following table sets forth for the last three fiscal years, the number of our employees engaged in the specified activities.

	As of December 31,		
	2008*	2007*	2006*
Process and product engineering, R&D, design	341	308	343
Manufacturing, operations	1,048	904	879
Manufacturing support	100	82	113
Administration, marketing, finance	136	135	111
Total	1,625	1,429	1,446

* As of December 31, 2008 includes employees of Tower and Jazz; as of December 31, 2007 and 2006 (prior to the merger date) includes only employees of Tower.

Except for an arrangement regarding pension contributions, Tower have no collective bargaining agreements with any of its employees. However, by administrative order, certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations, relating primarily to the length of the work day, minimum wages, pension contributions, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment are applicable to our employees. In accordance with these provisions, the salaries of our employees are partially indexed to the Consumer Price Index in Israel.

Under the special collective bargaining agreement to which we are party, we are required to contribute funds to an employee's "Manager's Insurance" fund and/or pension fund. Such funds generally provide a combination of savings plans, insurance and severance pay benefits to the employee, securing his or her right to receive pension or giving the employee a lump sum payment upon retirement, under certain circumstances, if legally entitled, upon termination of employment. To the Manager's Insurance fund, the employee usually contributes an amount equal to 5% of his or her wages and the employer usually contributes an additional 13.3% to 15.8%. To the pension fund the employee usually contributes an amount equal to between 5% and 6% of his or her wages and the employer usually contributes an additional 13.7% to 17.3%. Israeli law generally requires severance pay upon the retirement or death of an employee or termination of employment without due cause. Under our special collective bargaining agreement, we are exempt from such payment as long as, and for period during which, we contribute the above mentioned benefits to such employee's pension fund and/or Manager's Insurance.

A significant portion of Jazz's employees at its Newport Beach, California fab are represented by a union and covered by a collective bargaining agreement that expires in December 2009. Jazz maintains a defined benefit pension plan for certain of its employees covered by a collective bargaining agreement that provides for monthly pension payments to eligible employees upon retirement. The pension benefits are based on years of service and specified benefit amounts. In addition the bargaining agreement includes Postretirement Medical Plan to certain employees For certain eligible bargaining unit employees who terminate employment, the Company provides a lump-sum benefit payment.

E. SHARE OWNERSHIP

All of the persons listed above under the caption "Directors and Senior Management" own ordinary shares and/or options to purchase ordinary shares. Except as described below, none of such persons own shares and/or options amounting to 1% or more of the outstanding ordinary shares. Information regarding our share option plans and warrants presented in Note 17B to our consolidated financial statements is incorporated herein by reference.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table and notes thereto set forth information, as of May 31, 2009, concerning the beneficial ownership (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended), and on a diluted basis, of ordinary shares by any person who is known to own at least 5% of our issued and outstanding ordinary shares. As of such date, 160,026,919 ordinary shares were issued and outstanding. The voting rights of our major shareholders do not differ from the voting rights of other holders of our ordinary shares. However, certain of our shareholders have entered into a shareholders agreement pursuant to which they may be able to exercise control over matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions.

Identity of Person or Group	Amount Owned (1)	Percent of Class(1)	Percent of Class (Diluted)(2)
Israel Corporation Ltd. (3)	225,855,980(4)	60.78%	28.79%
SanDisk Corporation (3)	19,060,790(5)	11.68%	2.43%
Macronix International Co. Ltd.(3)	9,682,485(6)	6.02%	1.23%
Bank Leumi Le-Israel, B.M	101,989,907(7)	38.92%	13.00%
Bank Hapoalim, B.M	102,460,495(8)	39.03%	13.06%

(1) Assumes the holder's beneficial ownership of all ordinary shares and all securities that the holder has a right to purchase within 60 days. Also assumes that no other exercisable or convertible securities held by other shareholders has been exercised or converted into shares of the Company.

(2) Assumes that all currently outstanding securities to purchase ordinary shares, other than those which cannot be calculated as of the date of this registration statement, have been exercised by all holders.

(3) Pursuant to a shareholders agreement among Israel Corp., SanDisk Corporation and Macronix Co. Ltd., each of Israel Corp., SanDisk Corporation and Macronix Co. Ltd. may be said to have shared voting and dispositive control over approximately 24% of the outstanding shares of Tower.

(4) Based on information provided by Israel Corp., represents 14,260,504 shares currently owned by Israel Corp., 2,561,467 shares issuable upon conversion of debentures, 206,092,833 shares issuable upon conversion of capital notes and 2,941,176 shares issuable upon the exercise of warrants at an exercise price per share of $2.04.

(5) Based on information provided by SanDisk, represents 15,878,972 shares currently owned by SanDisk and 3,181,818 shares issuable upon conversion of debentures.

(6) Based on information provided by Macronix, represents 8,773,395 shares currently owned by Macronix and 909,090 shares issuable upon conversion of debentures.

(7) Based on information provided by Bank Leumi, represents 96,409,377 shares issuable upon conversion of capital notes, 4,132,232 shares issuable upon the exercise of warrants at an exercise price per share of $1.21, 1,000,000 shares issuable upon exercise of warrants at an exercise price per share of $2.04 and 448,298 ordinary shares issuable upon exercise of warrants at an exercise price per share of $6.17.

(8) Based on information provided by Bank Hapoalim represents 96,409,377 shares issuable upon conversion of capital notes, 4,132,232 shares

issuable upon the exercise of warrants at an exercise price per share of $1.21, 1,470,588 shares issuable upon exercise of warrants at an exercise price per share of $2.04 and 448,298 ordinary shares issuable upon exercise of warrants issued to Tarshish Hahzakot Vehashkaot Hapoalim Ltd at an exercise price per share of $6.17.

Pursuant to a shareholders agreement dated January 18, 2001, among Israel Corp., Alliance Semiconductor, SanDisk and Macronix, such parties have agreed, among other things, to vote or cause to be voted all their respective shares for the election to the Board of Directors of nominees designated by each party, nominees recommended by the Board, the election of a designee of the Israel Corp. to serve as Chairman of the Board, unless agreed to otherwise (as was agreed in January 5, 2009 with the appointment of Amir Elstein as Chairman of the Board of Directors), and against the election of any other persons to the Board of Directors. In addition, subject to certain exceptions, each shareholder agreed to restrictions on the transfer of its shares, including certain rights of first refusal.

As of May 31, 2009, there were a total of 35 holders of record of our ordinary shares, of which 22 were registered with addresses in the United States. Such United States record holders were, as of such date, the holders of record of approximately 71% of our outstanding ordinary shares. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are resident since many of these ordinary shares were held of record by brokers or other nominees (including one U.S. nominee company, CEDE & Co., which held approximately 60% of our outstanding ordinary shares as of said date).

B. RELATED PARTY TRANSACTIONS

Agreements with Certain of our Wafer Partners and Israel Corp. We are party to several agreements with our wafer partners, related to the financing of Fab 2 and manufacture of products as described under the caption “Fab 2 Agreements” in “Item 5. Operating and Financial Review and Prospects Reference” of this annual report and Note 11A to the consolidated financial statements included in this annual report, which discussions are incorporated by reference herein.

Agreements with Israel Corp. Discussed under “Item 5. Operating and Financial Review and Prospects — B. Liquidity and capital resources” and under “Item 7. Major Shareholders And Related Party Transactions — A. Major Shareholders”, which discussion is incorporated by reference herein.

Grant of Options to our CEO and Director. Discussed under “Item 6 – Directors, Senior Management and Employees – E. Share Ownership”, which discussion is incorporated by reference herein.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Our consolidated financial statements are incorporated herein by reference to pages following the signature page of this Annual Report.

Legal Proceedings

In May 2008, Tower filed a petition with the Israeli High Court of Justice in which it asked the Court to order that its expansion plan be brought before the relevant Israeli governmental bodies for their respective approvals without delay. This petition was filed after making repeated requests over an extended period of time and after Tower sent letters in March, April and May of 2008 to the Israeli Ministry of Finance, the Israeli Ministry for Industry, Trade and Labor and the Investment Center, in which we noted among other things, that absent the expansion program being brought before the relevant governmental bodies within a specified period of time, a petition would be filed with the Court to compel the same. On May 29, 2008 the Court ordered that the respondents (the Israeli Ministry of Finance, the Israeli Ministry for Industry, Trade and Labor and the Investment Center) respond to Tower’s petition within 21 days of service of the petition. On June 24, 2008 the respondents (the Israeli Ministry of Finance, the Israeli Ministry for Industry, Trade and Labor and the Investment Center) filed their response to the petition and on July 6, 2008, the Company filed its response to the response of the respondents. In July, the Court ordered that the proceeding be transferred to a three-judge panel. A hearing has been scheduled for October 2009. On August 2008, the Investment Center rejected Tower’s expansion plan request. On November 2008, Tower filed an appeal on this decision to the Israeli Ministerial Committee, which is comprised of the Israeli Minister of Finance and the Israeli Minister of Industry, Trade and Labor. A discussion of this committee has not yet been held. See also Item 3. Key Information — Risk Factors — Risks Affecting Our Business “If the Investment Center will not release to us the pending and over-due grants…".

During 2008, an International Trade Commission (“ITC”) action was filed by Agere/LSI Corporation (“LSI”), which alleged infringement by 17 corporations of LSI’s patent no. 5227335. Following the initial filing, LSI amended the ITC complaint requesting to add the Company, Jazz and three other corporations as additional respondents. Jazz, the Company and the other three corporations were added as additional respondents in the ITC action in October 2008. The Company and Jazz are assessing the merits of this action and cannot provide an estimate of any possible losses or predict the outcome thereof, which could have a material and adverse effect on the Company and Jazz’s business and financial position. The Company and Jazz intend to vigorously defend the litigation.

In connection with Jazz’s aerospace and defense business, its facility security clearance and trusted foundry status, the Company and Jazz are working with the Defense Security Service of the United States Department of Defense (“DSS”) to develop an appropriate structure to mitigate any concern of foreign ownership, control or influence over the operations of Jazz specifically relating to protection of classified information and prevention of potential unauthorized access thereto. In order to safeguard classified information, it is expected that the DSS will require adoption of a Special Security Agreement (“SSA”). The SSA may include certain security related restrictions, including restrictions on the composition of the board of directors, the separation of certain employees and

operations, as well as restrictions on disclosure of classified information to the Company. The provisions contained in the SSA may also limit the projected synergies and other benefits to be realized from the merger of Jazz into the Company. There is no assurance when, if at all, an SSA will be reached.

From time to time we are a party to various litigation matters incidental to the conduct of our business. There is no pending or threatened legal proceeding to which we are a party, that, in the opinion of management, is likely to have a material adverse effect on our future financial results or financial condition.

B. SIGNIFICANT CHANGES

Not applicable.

ITEM 9. THE OFFER AND LISTING

Our ordinary shares are listed and traded on the NASDAQ Global Market under the symbol “TSEM”. In addition, in January 2001, our ordinary shares commenced trading on the Tel Aviv Stock Exchange (TASE) under the symbol “TSEM”.

The following table sets forth, for the periods indicated, the high and low reported sales prices of the ordinary shares on the NASDAQ Global Market and Tel Aviv Stock Exchange:

	NASDAQ Global Market		Tel Aviv Stock Exchange	
Period	High ($)	Low ($)	High (NIS)	Low (NIS)
May 2009	0.35	0.26	1.36	1.06
April 2009	0.39	0.19	1.49	0.84
March 2009	0.24	0.13	0.93	0.66
February 2009	0.21	0.16	0.97	0.68
January 2009	0.24	0.14	1.02	0.50
December 2008	0.22	0.09	0.83	0.36
First quarter 2009	0.24	0.13	1.02	0.50
Fourth quarter 2008	0.54	0.09	1.91	0.36
Third quarter 2008	0.86	0.43	2.80	1.70
Second quarter 2008	1.25	0.81	4.13	2.75
First quarter 2008	1.45	0.74	5.50	2.63
Fourth quarter 2007	1.80	1.35	7.25	5.25
Third quarter 2007	1.87	1.20	7.97	5.38
Second quarter 2007	1.94	1.42	7.63	6.20
First quarter 2007	2.08	1.64	8.88	7.00
2008	1.45	0.09	5.50	0.36
2007	2.08	1.20	8.88	5.25
2006	2.18	1.22	9.14	5.11
2005	2.38	0.92	10.30	5.10
2004	10.80	1.62	46.39	7.70

ITEM 10. ADDITIONAL INFORMATION

Articles of Association; Israeli Companies Law

Registration Number and Purposes

Our registration number with the Israeli Companies Registrar is 520041997. Pursuant to Section 4 of our Articles of Association (“Articles”), Tower’s objective is to engage in any lawful activity.

Articles of Association

Our Articles were adopted in November 2000, and as amended most recently on September 24, 2008, provide for an authorized capital of NIS 1,100 million divided into 1,100 million ordinary shares. The objective stated in the Articles is to engage in any lawful activity.

We have currently outstanding only one class of equity securities, our ordinary shares, par value NIS 1.00 per share. Holders of ordinary shares have one vote per share, and are entitled to participate equally in the payment of dividends and share distributions and, in the event of liquidation of the Company, in the distribution of assets after satisfaction of liabilities to creditors. No preferred shares are currently authorized.

Our Articles require that we hold our annual general meeting of shareholders each year no later than 15 months from the last annual meeting, at a time and place determined by the Board of Directors, upon at least 21 days’ prior notice to our shareholders. No business may be commenced until a quorum of two or more shareholders holding at least 33 1/3% of the voting rights are present in person or by proxy. Shareholders may vote in person or by proxy, and are required to prove title to their shares as required by the Companies Law pursuant to procedures established by the Board of Directors. Resolutions regarding the following matters shall be passed by an ordinary majority of those voting at the general meeting:

— amendments to our Articles;

— appointment and termination of our independent auditors;

— appointment and dismissal of directors;

— approval of acts and transactions requiring general meeting approval under the Companies Law;

— increase or reduction of authorized share capital or the rights of shareholders or a class of shareholders;

— any merger as provided in section 320 of the Companies Law; and

— the exercise of the Board of Directors' powers by the general meeting, if the Board of Directors is unable to exercise its powers and the exercise of any of its powers is essential for Tower's proper management, as provided in section 52(a) of the Companies Law.

A special meeting may be convened by the request of two directors or by written request of one or more shareholders holding at least 5% of our issued share capital and 1% of the voting rights or one or more shareholders holding at least 5% of the voting rights. Shareholders requesting a special meeting must submit their proposed resolution with their request. Within 21 days of receipt of the request, the Board must convene a special meeting and send out notices setting forth the date, time and place of the meeting. Subject to exceptions, such notice must be given at least 21 days but not more than 35 days prior to the special meeting.

Exemption and Indemnification Agreements with Directors

In December 2001, we entered into exemption and indemnification agreements with the members of our Board of Directors, pursuant to which, subject to the limitations set forth in the Israeli Companies Law and our Articles of Association, they will be exempt from liability for breaches of the duty of care owed by them to the Company or indemnified for certain costs, expenses and liabilities with respect to events specified in the exemption and indemnification agreements. In September 2005, we entered into amended exemption and indemnification agreements with the members of our Board of Directors to reflect certain amendments to the Companies Law that came into effect in March 2005. Our shareholders approved these amended exemption and indemnification agreements in October 2005.

The Companies Law

We are subject to the provisions of the Companies Law. The Companies Law codifies the fiduciary duties that "office holders," including directors and executive officers, owe to a company. An office holder, as defined in the Companies Law, is a director, general manager, chief business manager, deputy general manager, vice general manager, executive vice president, vice president, another manager directly subordinate to the managing director or any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title. Each person listed in the table in "Item 6. Directors, Senior Management and Employees" above is an office holder. Under the Companies Law, all arrangements as to compensation of office holders who are not directors require approval of the board of directors. With the exception of compensation of external directors in an amount specified in the regulations adopted under the Companies Law, arrangements regarding the compensation of directors also require audit committee and shareholder approval.

The Companies Law requires an office holder to promptly disclose any personal interest that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction by the company. In addition, if the transaction is an extraordinary transaction, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouse of any of the foregoing, or any corporation in which the office holder is a 5% or greater shareholder, holder of 5% or more of the voting power, director or general manager or in which he or she has the right to appoint at least one director or the general manager. An extraordinary transaction is defined as a transaction not in the ordinary course of business, not on market terms, or that is likely to have a material impact on the company's profitability, assets or liabilities.

The Companies Law requires that specific types of transactions, actions and arrangements be approved as provided for in a company's articles of association and in some circumstances by the company's audit committee, board of directors and shareholders. In the case of a transaction that is not an extraordinary transaction, after the office holder complies with the above disclosure requirements, only board approval is required, unless the Articles provide otherwise. If the transaction is an extraordinary transaction, then, in addition to any approval required by the Articles it must be approved first by the audit committee and then by the board of directors, and, in specific circumstances, by a meeting of the shareholders. Subject to exceptions set forth in the Companies Law, an office holder who has a personal interest in a matter that is considered at a meeting of the board of directors or the audit committee may not be present during the relevant discussion at such meeting or vote on such matter.

The Companies Law applies the same disclosure requirements to a controlling shareholder of a public company, which is defined as a shareholder who has the ability to direct the activities of a company, other than if this power derives solely from the shareholder's position on the board of directors or any other position with the company and includes a shareholder that holds 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and agreements relating to employment and compensation terms of controlling shareholders require the approval of the audit committee, the board of directors and the shareholders of the company. The shareholder approval must either include at least one-third of the shares held by disinterested shareholders who are present, in person or by proxy, at the meeting, or, alternatively, the total shareholdings of the disinterested shareholders who vote against the transaction must not represent more than one percent of the voting rights in the company.

In addition to approval by a company's board of directors, a private placement in a public company requires approval by a company's shareholders in the following cases:

— A private placement that meets all of the following conditions:

  - š 20 percent or more of the voting rights in the company prior to such issuance are being offered;

  - š The private placement will increase the relative holdings of a shareholder that holds five percent or more of the company's outstanding

share capital (assuming the exercise of all of the securities convertible into shares held by that person), or that will cause any person to become, as a result of the issuance, a holder of five percent or more of the company's outstanding share capital; and

š All or part of the consideration for the offering is not cash or registered securities, or the private placement is not being offered at market terms.

— A private placement which results in anyone becoming a controlling shareholder.

The above transactions must not be adverse to the company's interest.

Under the Companies Law, a shareholder has a duty to act in good faith towards the company and other shareholders and refrain from abusing his power in the company, including, among other things, vote in the general meeting of shareholders on the following matters:

— any amendment to the Articles;

— an increase of the company's authorized share capital;

— a merger; or

— approval of interested party transactions that require shareholder approval.

In addition, any controlling shareholder, any shareholder who knows that it possesses power to determine the outcome of a shareholder vote and any shareholder who has the power to appoint or prevent the appointment of an office holder in the company is under a duty to act with fairness towards the company. The Companies Law does not describe the substance of this duty.

Tender Offer. A person wishing to acquire shares or any class of shares of a publicly traded Israeli company and who would as a result hold over 90% of the company's issued and outstanding share capital or of a class of shares, is required by the Companies Law to make a tender offer to all of the company's shareholders for the purchase of all of the issued and outstanding shares of the company. If the shares represented by the shareholders who did not tender their shares in the tender offer constitute less than 5% of the issued and outstanding share capital of the company, all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. If the dissenting shareholders hold more than 5% of the issued and outstanding share capital of the company, the acquirer may not acquire additional shares of the company from shareholders who accepted the tender offer to the extent that following such acquisition the acquirer would then own over 90% of the company's issued and outstanding share capital. The Companies Law provides for an exception regarding this threshold requirement for a shareholder that on February 1, 2000 held over 90% of the public Israeli company's issued and outstanding share capital. Shareholders may petition the court to alter the consideration for the acquisition.

The Companies Law provides that, subject to certain exceptions, an acquisition of shares of an Israeli public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a holder of 25% or more of the voting rights in the company. This rule does not apply if there is already another shareholder of the company that holds 25% or more of the voting rights in the company. Similarly, the Companies Law provides that, subject to certain exceptions, an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a holder of more than 45% of the voting rights in the company, if there is no shareholder that holds more than 45% of the voting rights in the company.

Merger. The Companies Law permits merger transactions if approved by each party's board of directors and the majority of each party's shares voted on the proposed merger at a shareholders' meeting called on at least 35 days' prior notice. Under the Companies Law, merger transactions may be approved by holders of a simple majority of our shares present, in person or by proxy, at a general meeting and voting on the transaction. In determining whether the required majority has approved the merger, if shares of a company are held by the other party to the merger, or by any person holding at least 25% of the outstanding voting shares or 25% of the means of appointing directors of the other party to the merger, then a vote against the merger by holders of the majority of the shares present and voting, excluding shares held by the other party or by such person, or anyone acting on behalf of either of them, is sufficient to reject the merger transaction. If the transaction would have been approved but for the exclusion of the votes of certain shareholders as provided above, a court may still approve the merger upon the request of holders of at least 25% of the voting rights of a company, if the court holds that the merger is fair and reasonable, taking into account the value of the parties to the merger and the consideration offered to the shareholders. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be consummated unless at least 30 days have passed from the receipt of the shareholders' approval and 50 days have passed from the time that a merger proposal has been filed with the Israeli Registrar of Companies.

NASDAQ Marketplace Rules and Home Country Practices

NASDAQ's Marketplace Rule 4350 ("Rule 4350") was amended to permit foreign private issuers to follow certain home country corporate governance practices without the need to seek an individual exemption from NASDAQ. Instead, a foreign private issuer must provide NASDAQ with a letter from outside counsel in its home country certifying that the issuer's corporate governance practices are not prohibited by home country law.

In July 2005, pursuant to this new exception, we provided a notice to NASDAQ required by Rule 4350, with a letter from our outside Israeli counsel informing it that in keeping with Rule 4350(a)(1) we had elected to follow the practices of our home country in lieu of those set forth in Rule 4350, to the extent permitted thereby, and provided a letter from our outside Israeli counsel certifying that our the practices being followed of amending employee share option plans that do not permit the grant of options to directors upon the approval of our board of directors, and without seeking shareholder approval (which approval is required for NASDAQ-listed companies under Marketplace Rule 4350(i)), is in place thereof were not prohibited by Israeli law.

As provided by Rule 4350(a)(1), in lieu of the requirements of Rule 4350 we have chosen to follow the practices of our home country with respect to the following:

— We do not supply an annual report as required by Rule 4350(b)(1)(A), but makes our audited financial statements available to our shareholders prior to our annual general meeting.

— The majority of our Board of Directors is not comprised of directors who meet the definition of independence contained in NASDAQ Marketplace Rule 4200(a)(15), as required by Rule 4350(c)(1). Under the Companies Law a majority of the Board of Directors is not required to be comprised of independent directors. In keeping with the requirements of the Companies Law two of the members of our Board of Directors are external directors, and are independent as defined under Rule 10A-3 of the Securities Act.

— Our Board has not adopted a policy of conducting regularly scheduled meetings at which only our independent directors are present, as required by Rule 4350(c)(2). The Companies Law does not require our external directors to conduct regularly scheduled meetings at which only they are present.

— The compensation of our chief executive officer and all other executive officers is not determined, or recommended to the Board for determination, in the manner required by Rule 4350(c)(3). In accord with the Companies Law the compensation of the chief executive officer and all other officers requires the approval of our Board of Directors, however the compensation of our chief executive officer, who also serves as a director, requires also the approval of our shareholders.

— Director nominees are not selected, or recommended for the Board's selection, as required by Rules 4350(c)(4)(A) and 4350(c)(4)(C).

— Our Board of Directors has not adopted a formal written charter or board resolution addressing the nomination process and such related matters as may be required under United States federal securities laws, as required by Rule 4350(c)(4)(B).

— Although we have adopted a formal written audit committee charter, there is no requirement under the Companies Law to do so and the charter as adopted may not specify all the items enumerated in Rule 4350(d)(1).

— Our audit committee does not meet with all of the requirements of Rules 4350(d)(2)(A)(i), 4350(d)(2)(A)(iii) and 4350(d)(2)(A)(iv). Though all members are independent as such term is defined under Rule 10A-3 of the Exchange Act, the audit committee does not comply with the foregoing Rule 4350 requirements, as permitted by the Companies Law.

— Our articles of association do not provide for a quorum of not less than 33 1/3% of the outstanding shares of our voting ordinary shares for meetings of our ordinary shareholders, as required by Rule 4350(f). Our articles of association presently require a quorum consisting of two shareholders holding a combined 33% of our ordinary shares. Under the Companies Law a quorum consisting of two shareholders holding a combined 25% of the company's voting shares is required.

— We review and approve all related party transactions in accordance with the requirements and procedures for approval of interested party acts and transactions, set forth in the Companies Law, which do not fully reflect the requirements of Rule 4350(h).

— We seek shareholder approval for all corporate action requiring such approval, in accordance with the requirements of the Companies Law, which does not fully reflect the requirements of Rule 4350(i).

We may in the future provide NASDAQ with an additional similar letter or letters notifying NASDAQ that we are following our own practices, consistent with the Companies Law and practices in Israel in lieu of other requirements of Marketplace Rule 4350.

Material Contracts. Discussions of these agreements are incorporated herein by reference to the discussion under the caption "Intellectual Property and Licensing Agreements" in "Item 4".Information on the Company" and under the caption "Fab 2 Agreements" in "Item 5. Operating and Financial Review and Prospects" of this annual report.

Fab 2 Agreements. Since 2000, we have entered into several important Fab 2 agreements and arrangements with a key technology partner, wafer and equity financing partners, the Israeli Investment Center and two leading Israeli banks. Discussions of these agreements are incorporated herein by reference to the discussion under the caption "Fab 2 Agreements" in "Item 5. Operating and Financial Review and Prospects" of this annual report and to Note 11A to the consolidated financial statements included in this annual report.

Intellectual Property and Licensing Agreements. Discussions of these agreements are incorporated herein by reference to the discussion under the caption "Intellectual Property and Licensing Agreements" in "Item 4".Information on the Company" of this annual report.

Exchange Controls

Under Israeli law, non-residents of Israel who purchase ordinary shares with certain non-Israeli currencies (including US dollars) may freely repatriate in such non-Israeli currencies all amounts received in Israeli currency in respect of the ordinary shares, whether as a dividend, as a liquidating distribution, or as proceeds from any sale in Israel of the ordinary shares, provided in each case that any applicable Israeli income tax is paid or withheld on such amounts. The conversion into the non-Israeli currency must be made at the rate of exchange prevailing at the time of conversion.

Under Israeli law and our company's Articles, both residents and non-residents of Israel may freely hold, vote and trade our ordinary shares.

Taxation

The below discussion does not purport to be an official interpretation of the tax law provisions mentioned therein or to be a comprehensive description of all tax law provisions which might apply to our securities or to reflect the views of the relevant tax authorities, and it is not meant to replace professional advice in these matters. The below discussion is based on current, applicable tax law, which may be changed by future legislation or reforms. Non-residents should obtain professional tax advice with respect to the tax consequences under the laws of their countries of residence of holding or selling our securities.

Israeli Capital Gains Tax

Until the end of the year 2002 and provided we maintained our status as an "Industrial Corporation", capital gains from the sale of our securities were generally exempt from Israeli Capital Gains Tax. This exemption did not apply to a shareholder whose taxable income was determined pursuant to the Israeli Income Tax Law (Inflationary Adjustments) 1985, or to a person whose gains from selling or otherwise disposing of our securities were deemed to be business income.

On January 1, 2006 an amendment to the Israeli tax regime became effective (the "2006 Tax Reform"). The 2006 Tax Reform significantly changed the tax rates applicable to income derived from selling shares.

According to the 2006 Tax Reform, an individual is subject to a 20% tax rate on real capital gains derived from the sale of shares, as long as the individual is not a "substantial shareholder" (generally a shareholder with 10% or more of the right to profits, right to nominate a director or voting rights) in the company issuing the shares. The rate on the gains from publicly traded shares applicable to gains that were realized between January 1, 2003 and January 1, 2006 was 15%.

A substantial shareholder will be subject to tax at a rate of 25% in respect of real capital gains derived from the sale of shares issued by the company in which he or she is a substantial shareholder. The determination of whether the individual is a substantial shareholder will be made on the date that the securities are sold. In addition, the individual will be deemed to be a substantial shareholder if at any time during the 12 months preceding this date he or she had been a substantial shareholder.

Corporations will be subject to corporate tax rates in respect of total income, including capital gains, with the corporate tax rate reduced gradually from 27% in the 2008 tax year to 26% in the 2009 tax year and 25% in the 2010 tax year and thereafter. However, between 2006 and 2009, corporations whose taxable income was not determined, immediately before the 2006 Tax Reform was published, pursuant to part B of the Israeli Income Tax Law (Inflationary Adjustments), 1985 or pursuant to the Income Tax Regulations (Rules on Bookkeeping by Foreign Invested Companies and Certain Partnership and Determination of their Chargeable Income), 1984 will generally be taxed at a rate of 25% on their capital gains from the sale of their securities.

Non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the sale of shares in an Israeli corporation publicly traded on the TASE and/or on a foreign stock exchange, provided such gains do not derive from a permanent establishment of such shareholders in Israel and that such shareholders did not acquire their shares prior to the issuer's initial public offering. However, non-Israeli corporations will not be entitled to such exemption if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary of or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In some instances where our shareholders may be liable to Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at the source.

Pursuant to the treaty between the Governments of the United States and Israel with respect to taxes on income, or the US-Israel tax treaty, the sale, exchange or disposition of our ordinary shares by a person who qualifies as a resident of the United States under the treaty and who is entitled to claim the benefits afforded to him by the treaty, will generally not be subject to Israeli capital gains tax. This exemption shall not apply to a person who held, directly or indirectly, shares representing 10% or more of the voting power in our company during any part of the 12-month period preceding the sale, exchange or disposition, subject to certain conditions. A sale, exchange or disposition of our shares by a US resident qualified under the treaty, who held, directly or indirectly, shares representing 10% or more of the voting power in our company at any time during the preceding 12-month period would be subject to Israeli tax, to the extent applicable; however, under the treaty, this US resident would be permitted to claim a credit for these taxes against the US income tax with respect to the sale, exchange or disposition, subject to the limitations in US laws applicable to foreign tax credits.

Israeli Tax on Interest Income and on Original Issuance Discount

Interest and Original Issuance Discount (OID) on our convertible debentures will, in general, be subject to Israeli tax of up to 20% if received by an individual. This reduced rate of tax will not apply if the interest and OID are business income in the hands of the recipient, if the interest is recorded or should be recorded in the individual's accounting books, if the recipient is a substantial shareholder of our company, if financing expenses related to the purchase of the debentures were deducted by the individual in the calculation of the individual's Israeli taxable income, or if the individual is an employee, supplier, or service provider of the company and the tax authorities have not been persuaded that the payment of interest was not affected by the relationship between the parties. In such cases the regular rate of tax on Interest and OID of up to 46% will apply to the individual. Interest and OID paid to corporations will be subject to corporate tax at the regular rates of 27% in 2008, 26% in 2009 and 25% in 2010 and thereafter.

Beginning on January 1, 2009, interest, OID or inflation linkage differentials paid to an individual who is a foreign resident which does not have a permanent establishment in Israel, on debentures issued by an Israeli corporation and which are traded on the TASE, are generally exempt from taxes. However, this exemption from taxes will not apply if the recipient is a substantial shareholder of the corporation, if the recipient is an affiliate of the issuer of the debentures, or if the individual is an employee, supplier, or service provider of the company and the tax authorities have not been persuaded that the Payment was not affected by the relationship between the parties. As a result of the provisions related to tax withholding, as explained below, foreign resident individuals and corporations will be subject to tax of 25% or less, according to the relevant treaty relating to their domicile country.

Under regulations promulgated as part of the 2006 Tax Reform, withholding tax at source from debenture interest and OID paid to resident individuals will, in general, be at a rate of 20%. However, if the individual receiving the interest and OID is a substantial shareholder, an employee, supplier or service provider of the company, tax will be withheld at the marginal rates applicable to individuals. Corporations will be subject to withholding tax at the applicable rate of

corporate tax as set out above. Withholding tax at source from debenture interest and OID paid to non-resident individuals or corporations will be at a rate of 25% or less, according to the relevant treaty relating to their domicile country. In any event, under the US-Israel Tax Treaty, the maximum Israeli tax withheld on interest and OID paid on our convertible debentures due 2006 to a US treaty resident (other than a US bank, savings institution or company) is 17.5%.

Israeli Tax on Dividend Income

On distributions of dividends other than bonus shares, or stock dividends, to Israeli individuals and foreign resident individuals and foreign resident corporations we would be required to withhold income tax at the rate of 20%. If the income out of which the dividend is being paid is attributable to an Approved Enterprise under the Law for the Encouragement of Capital Investments, 1959, the rate is generally not more than 15%. A different rate may be provided for in a treaty between Israel and the shareholder's country of residence.

Under the US-Israel Tax Treaty, Israeli withholding tax on dividends paid to a US treaty resident may not, in general, exceed 25%, or 15% in the case of dividends paid out of the profits of an Approved Enterprise. Where the recipient is a US corporation owning 10% or more of the voting stock of the paying corporation and the dividend is not paid from the profits of an Approved Enterprise, the Israeli tax withheld may not exceed 12.5%, subject to certain conditions.

PFIC Rules

A non-US corporation will be classified as a passive foreign investment company, or a PFIC, for US federal income tax purposes if either (i) 75% or more of its gross income for the taxable year is passive income, or (ii) on a quarterly average for the taxable year by value (or, if it is not a publicly traded corporation and so elects, by adjusted basis), 50% or more of its gross assets produce or are held for the production of passive income.

We do not believe that we satisfied either of the tests for PFIC status in 2008 or in any prior year. However, there can be no assurance that we will not be a PFIC in 2009 or a later year. If, for example, the "passive income" earned by us exceeds 75% or more of our "gross income", we will be a PFIC under the "income test". Passive income for PFIC purposes includes, among other things, gross interest, dividends, royalties, rent and annuities. For manufacturing businesses, gross income for PFIC purposes should be determined by reducing total sales by the cost of goods sold. Although not free from doubt, if our cost of goods sold exceeds our total sales by an amount greater than our passive income, such that we are treated as if we had no gross income for PFIC purposes, we believe that we would not be a PFIC as a result of the income test. However, the tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of future income and assets, which are relevant to the determination of PFIC status.

If we were to be a PFIC at any time during a US holder's holding period, such US holder would be required to either: (i) pay an interest charge together with tax calculated at maximum ordinary income tax rates on "excess distributions," which is defined to include gain on a sale or other disposition of ordinary shares, or (ii) so long as the ordinary shares are "regularly traded" on a qualifying exchange, elect to recognize as ordinary income each year the excess in the fair market value, if any, of its ordinary shares at the end of the taxable year over such holder's adjusted basis in such ordinary shares and, to the extent of prior inclusions of ordinary income, recognize ordinary loss for the decrease in value of such ordinary shares (the "mark to market" election). For this purpose, the NASDAQ National Market is a qualifying exchange. US holders are strongly urged to consult their own tax advisers regarding the possible application and consequences of the PFIC rules.

Documents on Display

We are required to file reports and other information with the SEC under the Securities Exchange Act of 1934 and the regulations thereunder applicable to foreign private issuers. Reports and other information filed by us with the SEC may be inspected and copied at the SEC's public reference facilities described below. Although as a foreign private issuer we are not required to file periodic information as frequently or as promptly as United States companies, we generally do publicly announce our quarterly and year-end results promptly and file periodic information with the SEC under cover of Form 6-K. As a foreign private issuer, we are also exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements and our officers, directors and principal shareholders are exempt from the reporting and other provisions in Section 16 of the Exchange Act.

You may review and copy our filings with the SEC, including any exhibits and schedules, at the SEC's public reference room at 100 F Street N.E., Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 for further information on this public reference room. As a foreign private issuer, all documents which were filed after November 4, 2002 on the SEC's EDGAR system will be available for retrieval on the SEC's website at www.sec.gov. These SEC filings are also available to the public on the Israel Securities Authority's Magna website at www.magna.isa.gov.il and from commercial document retrieval services. We also generally make available on our own web site (www.towersemi.com) our quarterly and year-end financial statements as well as other information.

Any statement in this annual report about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to a registration statement, the contract or document is deemed to modify the description contained in this annual report. We urge you to review the exhibits themselves for a complete description of the contract or document.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss related to changes in market prices, including interest rates and foreign exchange rates, of financial instruments and derivatives that may adversely impact our consolidated financial position, results of operations or cash flows.

Our primary market risk exposures relate to interest rate movements on borrowings and fluctuations of the exchange rate of the US dollar, which is the primary currency in which we conduct our operations, against the NIS, the Japanese Yen and the Euro. To manage those risks and mitigate our exposure to them, we use financial instruments from time to time, primarily, interest rate collar agreements (with a knock-out and knock-in features for certain agreements), and foreign currency forward contracts and options (including zero-cost cylinders).

All financial instruments are managed and controlled under a program of risk management in accordance with established policies. These policies are reviewed and approved by our board of directors. Our treasury operations are subject to an internal audit on a regular basis. We do not hold derivative financial instruments for speculative purposes, and we do not issue any derivative financial instruments for trading or speculative purposes.

Risk of Interest Rate Fluctuation

We have market risk exposure to changes in interest rates on our long-term debt obligations with floating interest rates. We have entered into debt obligations to support our capital expenditures and needs. From time to time we enter into interest rate collar agreements to modify our exposure to interest rate movements and to reduce our borrowing costs. These agreements limit our exposure to the risks of fluctuating interest rates by allowing us to convert a portion of the interest on our borrowings from a variable rate to a limited variable rate.

We are subject to interest rate exposure in connection with $206 million long-term debt outstanding as of December 31, 2008 under the Tower amended facility agreement, as such debt bears interest at a rate of LIBOR plus 2.5% per annum and in connection with $27 million of Jazz's bank loans as such debt bears interest at a rate equal to, at the borrowers' option, either the lender's prime rate plus a margin ranging from 0.25% to 0.75% or the LIBOR rate (as defined in the such loan agreement) plus a margin ranging from 2.0% to 2.5% per annum. The interest rate as of December 31, 2008 on $113 million loans was 4.0%. The $113 million includes $80 million loans under the Tower amended facility agreement covered by collar agreement and $33 million loans not subject to the collar agreements ($6 million under the Tower amended facility agreement and $27 million under the Jazz loan agreement). The interest rate of the additional $120 million loans covered by collar agreement was 5.3%, including the results of our hedging activities effective as of June 2009. Following the September 2008 definitive agreement with Tower's banks and TIC, the loans under the Tower amended facility agreement are repayable in 8 equal consecutive quarterly installments between September 2010 and June 2012 and the maturity date of Jazz's bank loan is September 2011.

As of December 31, 2008, we had collar agreements in the amount of $200 million, out of which $80 million expired in March 2009 and $120 million will expire in June 2012.

Our collar agreements resulted in a realized gain of $1.0 million in the year ended December 31, 2008. As of December 31, 2008, the fair value of these agreements was a $3.2 million unrealized loss.

During 2008 we entered into new collar agreements in the amount of $120 million, effective June 2009. The terms of these collar agreements are as follows: if the LIBOR is below the floor level of 2.8% we will pay total interest at the fixed rate of 5.3% (the 2.8% floor rate plus 2.5% under the Tower amended facility agreement); if the LIBOR is between 2.8% and a range between 5.01% and 5.60%, we will pay total interest at the actual LIBOR plus 2.5%; if the LIBOR is higher than the range of 5.01% and 5.6%, we will pay total interest at a fixed rate of between 7.5% and 8.1% (the cap level plus 2.5%).

Under current terms of Tower's loans and the collar agreements and Jazz's loans, we have determined that an assumed 10% upward shift in the LIBOR rate at December 31, 2008 (from 1.5% to 1.65%), will not have a material effect on our yearly interest payments in 2009. For each 1% upward shift in the LIBOR rate in the range between the floor level and the cap level, (from 4% to 4.5%, for example), our yearly interest payments will increase by approximately $1.0 million

Our cash equivalents and interest-bearing deposits are exposed to market risk due to fluctuation in interest rates, which may affect our interest income and the fair market value of our investments. We manage this exposure by performing ongoing evaluations of our investments in those deposits. Due to the short maturities of our investments, their carrying value approximates their fair value.

Foreign Exchange Risk

We are exposed to the risk of fluctuation in the NIS/dollar exchange rate with respect to Tower's 2002, 2006 and 2007 debentures. As of December 31, 2008 the adjusted outstanding principal amount of these debentures was $133.3 million. The dollar amount of our finance costs (interest and currency adjustments) related to these debentures will be increased if the rate of inflation in Israel is not offset (or is offset on a lagging basis) by the devaluation of the NIS in relation to the dollar. In addition, the dollar amount of any repayment on account of the principal of these debentures will be increased as well. If the devaluation of the NIS against the dollar is greater than the rate of inflation in Israel, the dollar amounts we may raise on the date of exercising our NIS denominated options linked to the CPI will be decreased.

From the date of the issuance of the 2002 convertible debentures in January 2002 until December 31, 2008, the Israel consumer price index increased by 14.8% while the US dollar/NIS exchange rate decreased by 17.0%. From the date of the issuance of the 2006 convertible debentures in June 2006 until December 31, 2008, the Israel consumer price index increased by 5.6% while the US dollar/NIS exchange rate decreased by 14.4%. From the date of the issuance of the 2007 debentures in the second half of 2007 until December 31, 2008, the Israel consumer price index increased by 7.0% while the US dollar/NIS exchange rate decreased by approximately 12.3%.

The 2002 convertible debentures carried annual interest at a fixed rate of 4.7%. The debentures were payable in four annual installments commencing in January 2006. In January 2009, the last principal installment was paid, thereby redeeming the debentures in full. The 2005 convertible debentures are denominated in USD and bear annual interest at the rate of 5%. The principal of the debentures, together with accrued interest, will be payable in one installment on January 12, 2012. The 2006 convertible debentures carry a zero coupon with principal payable at maturity in December 2011, at a premium of 37% over face value. The 2007 debentures bear annual interest at a fixed rate of 8.0% and repayable starting 2011. The convertible notes issued by Jazz bear interest at a rate of 8% per annum payable twice a year and mature on December 31, 2011.Therefore, we are not subject to cash flow exposure to interest rate fluctuations with respect to the debentures or notes. However, in case the actual market interest rates are lower than the interest rate provided for under the debentures or notes, our actual finance costs would be higher than would have been had our debentures or notes provided for interest at a floating interest rate.

Our main foreign currency exposures other than debentures are associated with exchange rate movements of the US dollar, our functional and reporting currency, against the NIS, Japanese Yen and the Euro. To protect against reductions in value and the volatility of future cash flows caused by changes in foreign exchange rates, we utilize foreign currency forward contracts and options (including zero-cost cylinder options) in order to minimize part of the impact of foreign currency fluctuations on our financial position and results of operations. A cylinder option is a combination of a purchased call option and a written put option. The exercise prices of the options may not be identical and this effectively creates a synthetic range forward. The maturity dates of the options coincide with the scheduled payments.

In order to mitigate our exposure to the risk of fluctuations in the NIS/dollar exchange rate with respect to our NIS denominated expenses, mainly payroll, Tower entered into option transactions. As of December 31, 2008 Tower had $25.5 million open exchange rate agreements which will expire throughout 2009. No material loss was recorded from these transactions in 2008. We are exposed to currency risk in the event of default by the other parties of the exchange transaction. We estimate the likelihood of such default to occur is remote, as the other parties are widely recognized and reputable Israeli banks.

Assuming a 10% revaluation of the NIS against the US dollar on December 31, 2008 (from 3.80 to 3.42), the effective fair value of our liabilities net of assets denominated in NIS (mainly vendors, debentures and liabilities in regard to employees) would have increased in approximately $13 million.

Impact of Inflation

We believe that the rate of inflation in Israel has had a minor effect on our business to date. However, our dollar costs in Israel 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.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Act") as of the end of the period covered by this annual report on Form 20-F. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of such date, at a reasonable level of assurance, in ensuring that the information required to be disclosed by our company in the reports we file or submit under the Act is (i) accumulated and communicated to our management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2008.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Attestation Report of the Registered Public Accounting Firm. The attestation report of our registered public accounting firm is included in page F-1 of our audited consolidated financial statements set forth in "Item 18. Financial Statements," and is incorporated herein by reference.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that a member of our audit committee, Mr. Ilan Flato, is an audit committee financial expert and is independent as defined by NASDAQ Marketplace Rule 4350.

ITEM 16B. CODE OF ETHICS

We adopted a code of ethics that applies to all of our directors, officers and employees, including our Chief Executive Officer, Chief Financial Officer, controller, and persons performing similar functions. We have posted our code of ethics on our website, www.towersemi.com under "About Tower".

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents fees for professional services rendered by our independent registered public accounting firm for audit services, audit-related services and for tax services:

	2008*	2007*
	(US Dollars In Thousands)	
Audit fees (1)	342	217
All other fees (2)	257	29
Tax fees (3)	120	--
	719	246

* 2008 costs include Tower's costs to Deloitte Israel and commencing the merger date also include Jazz costs to Deloitte US and Ernst & Young US; 2007 costs include only Tower's costs to Deloitte Israel.

(1) Audit fees consist of fees for professional services rendered for the audit of our financial statements, services in connection with statutory and regulatory filings and engagements (including review of Forms 20-F, 10-K, 10-Q, F-1, F-3, F-4 and S-8 and SOX), and reviews of our unaudited interim consolidated financial statements included in our quarterly reports.

(2) Non-audit related fees consist of accounting consultation, due diligence services in connection with the merge and consultation on financial accounting standards, not arising as part of the audit.

(3) Tax fees consist of fees for tax compliance services, tax planning and tax advice.

Our audit committee's charter states that the audit committee is responsible for receiving specific information on the independent auditor's proposed services and for pre-approving all audit services annually and separately approving any other permitted non-audit related services. All of the non-audit services provided in 2008 and 2007 were pre-approved without reliance on the Waiver Provisions in paragraph (c)(7)(i)(C)of Regulation S-X.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES.

Not Applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.

Not Applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

See Index to Financial Statements following the signature page.

ITEM 19. EXHIBITS

1.1 Articles of Association of the Registrant, approved by shareholders on November 14, 2000, as amended (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form F-1, File No. 333-126909, "Form F-1 No. 333-126909").

1.2 Amendment to Articles of Association of the Registrant (incorporated by reference to exhibit 4.2 to the Registration Statement on Form S-8 No. 333-117565 ("Form S-8 No. 333-117565").

1.3 Amendment to the Articles of Association of the Registrant (approved by shareholders on September 28, 2006) (incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form S-8, File No. 333-138837 (the "2006 Form S-8").

1.4 Amendment to Articles of Association of Registrant (approved by shareholders on September 24, 2008) (incorporated by reference to Exhibit 3.4 of the Registrant's Registration Statement on Form S-8, File No. 333-153710 (the "2008 Form S-8").

2.1 Bank Warrants, dated January 18, 2001, between the Registrant and Bank Hapoalim B.M. and Bank Leumi Le-Israel B.M. (incorporated by reference to exhibit 2.2 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2000 (the "2000 Form 20-F")).

2.2 Registration Rights Agreement, dated January 18, 2001, by and between SanDisk Corporation, Israel Corporation, Alliance Semiconductor Ltd. and Macronix International Co., Ltd. (incorporated by reference to exhibit 2.2 to the 2000 Form 20-F).

2.3 Terms of the Registrant's Convertible Debentures issued under an Indenture, dated January 22, 2002, (incorporated by reference to the summary of terms included under the caption "Description of the Debentures" in Exhibit C to the Registrant's Report on Form 6-K for January 2002 (No. 2), filed January 16, 2002 ("January 2002 Form 6-K")).

2.4 Terms of the Registrant's Options (Series 1) (incorporated by reference to the summary of terms included under the caption "Description of the Options" in Exhibit C to the January 2002 Form 6-K).

2.5 Form of Indenture (incorporated by reference to exhibit 4.2 to the Registrant's Amendment No. 6 to the Registration Statement on Form F-1/A No. 333-126909 (the "Form F-1 No. 333-126909").

2.6 Form of Note for the Debentures (incorporated herein by reference to Exhibit A to the Indenture filed as exhibit 4.2 to Form F-1 No. 333-126909).

2.7 First Amendment to a Warrant Issued on December 11, 2003 to Tarshish Hahzakot Vehashkaot Hapoalim Ltd., dated September 28, 2006 (incorporated by reference to exhibit 99.14 of the November 2006 Form 6-K).

2.8 First Amendment to a Warrant Issued on December 11, 2003 to Bank Leumi Le-Israel, dated September 28, 2006 (incorporated by reference to exhibit 99.15 of the November 2006 Form 6-K).

2.9 First Amendment to a Warrant Issued on August 4, 2005 to Bank Hapoalim B.M., dated September 28, 2006 (incorporated by reference to exhibit 99.16 of the November 2006 Form 6-K).

2.10 First Amendment to a Warrant Issued on August 4, 2005 to Bank Leumi Le-Israel B.M., dated September 28, 2006 (incorporated by reference to exhibit 99.17 of the November 2006 Form 6-K).

2.11 Form of Series I Warrant (incorporated by reference to exhibit 99.6 of the March 2007 Form 6-K).

2.12 Form of Series II Warrant (incorporated by reference to exhibit 99.7 of the March 2007 Form 6-K).

3.1 Consolidated Shareholders Agreement, dated January 18, 2001, by and between SanDisk Corporation, Israel Corporation, Alliance Semiconductor Ltd. and Macronix International Co., Ltd. (incorporated by reference to the correspondingly-numbered exhibit to the 2000 Form 20-F).

4.1 Share Purchase Agreement, dated July 4, 2000, by and between SanDisk Corporation and the Registrant (incorporated by reference to the correspondingly-numbered exhibit to the 2000 Form 20-F).

4.2 Additional Purchase Obligation Agreement, dated July 4, 2000, by and between SanDisk Corporation ("SanDisk") and the Registrant (incorporated by reference to the correspondingly-numbered exhibit to the 2000 Form 20-F).

4.3 Share Purchase Agreement, dated August 29, 2000, by and between Alliance Semiconductor Corporation ("Alliance") and the Registrant (incorporated by reference to the correspondingly-numbered exhibit to the 2000 Form 20-F).

4.4 Share Purchase Agreement, dated December 11, 2000, by and between QuickLogic Corporation ("QuickLogic") and the Registrant (incorporated by reference to the correspondingly-numbered exhibit to the 2000 Form 20-F).

4.5 Share Purchase Agreement, dated December 12, 2000, by and between Macronix International Co., Ltd. ("Macronix") and the Registrant (incorporated by reference to the correspondingly-numbered exhibit to the 2000 Form 20-F).

4.6 Share Purchase Agreement, dated December 12, 2000, between Israel Corporation and the Registrant (incorporated by reference to the correspondingly-numbered exhibit to the 2000 Form 20-F).

4.7 Additional Purchase Obligation Agreement, dated December 12, 2000, between Israel Corporation and the Registrant (incorporated by reference to the correspondingly-numbered exhibit to the 2000 Form 20-F).

4.8 Share Purchase Agreement, dated February 11, 2001, between The Challenge Fund — Etgar II and the Registrant (incorporated by reference to the correspondingly-numbered exhibit to the 2000 Form 20-F).

4.9 Facility Agreement, dated January 18, 2001, among the Registrant, Bank Hapoalim B.M. and Bank Leumi Le-Israel B.M. (the "Facility Agreement") (incorporated by reference to the correspondingly-numbered exhibit to the 2000 Form 20-F).

4.10 Design and Construction/Turn-Key Contract, dated August 20, 2000, among the Registrant, M+W Zander Holding GmbH, Meissner-Baran Ltd. and Baran Group Ltd. (incorporated by reference to the correspondingly-numbered exhibit to the 2000 Form 20-F).

4.11 Approval, dated December 31, 2000, of the Israeli Investment Center (Hebrew language document; a summary of the terms is included in the 2000 Form 20-F under the caption “Fab 2 Agreements” in “Item 5. Operating and Financial Review and Prospects”) (incorporated by reference to the correspondingly-numbered exhibit to the 2000 Form 20-F).

4.12 Agreement between the Registrant and Saifun, dated October 9, 1997 (incorporated by reference to exhibit 1.1 to the Registrant’s Annual Report on Form 20-F for the year ended December 31, 1997).

4.13 Registrant’s Non-Employee Director Share Option Plan 2000/3 (incorporated by reference to exhibit 4.5 to the Registrant’s Registration Statement on Form S-8 No. 333-83204 (“Form S-8 No. 333-83204”)).

4.14 Form of Grant Letter for Non-Employee Directors Share Option Plan 2001/4 (incorporated by reference to exhibit 4.9 to the Form S-8 No. 333-83204).

4.15 Form of Grant Letter for Non-Employee Directors Share Option Plan 2001/5 (incorporated by reference to exhibit 4.10 to the Form S-8 No. 333-83204).

4.16 Wafer Partner Conversion Agreements, dated September 2001, between the Registrant and each of SanDisk, Alliance and Macronix (incorporated by reference to exhibit 4.17 to the Registrant’s Annual Report on Form 20-F for the year ended December 31, 2001 (the “2001 Form 20-F)).

4.17 Letter Agreement, dated November 29, 2001, among SanDisk, Alliance, Macronix, QuickLogic and the Registrant regarding the Utilization of Prepayments (incorporated by reference to exhibit 4.18 to the 2001 Form 20-F).

4.18 Letter Agreements among Alliance, Macronix, QuickLogic, Israel Corp. and the Registrant and between SanDisk and the Registrant regarding Additional Wafer Partner Financing Date (incorporated by reference to exhibit 4.19 to the 2001 Form 20-F).

4.19 Letter Agreement, dated November 15, 2001, among SanDisk, Alliance, Macronix, QuickLogic, ICTech and the Registrant regarding Amendment to Financing Plan (incorporated by reference to exhibit 4.20 to the 2001 Form 20-F).

4.20 First Amendment, dated January 29, 2001, to the Facility Agreement (incorporated by reference to exhibit 4.21 to the 2001 Form 20-F).

4.21 Second Amendment, dated January 10, 2002, to Facility Agreement (incorporated by reference to exhibit 4.22 to the 2001 Form 20-F).

4.22 Third Amendment, dated March 7, 2002, to the Facility Agreement (incorporated by reference to exhibit 4.23 to the 2001 Form 20-F).

4.23 Joint Development and Transfer and Cross License Agreement, dated May 2002, between the Registrant and a Japanese manufacturer (incorporated by reference to exhibit 10.3 to the Registrant’s Registration Statement on Form F-2, No. 333-97043).

4.24 Technology License Agreement, dated April 7, 2000, between the Registrant and Toshiba Corporation (incorporated by reference to exhibit 10.4 to the Registrant’s Registration Statement on Form F-2, No. 333-97043). (Portions of this exhibit have been omitted pursuant to a request for confidential treatment.)

4.25 Technology Transfer License Agreement, dated September 2002, between Registrant and Motorola, Inc. (incorporated by reference to exhibit 10.5 to the Registrant’s Registration Statement on Form F-2, No. 333-97043). (Portions of this exhibit have been omitted pursuant to a request for confidential treatment.)

4.26 Fourth Amendment, dated April 29, 2002, to the Facility Agreement (incorporated by reference to exhibit 4.27 to the Registrant’s Annual Report on Form 20-F for the year ended December 31, 2002 (the “2002 Form 20-F)).

4.27 Fifth Amendment dated September 18, 2002 to the Facility Agreement (incorporated by reference to exhibit 4.28 to the 2002 Form 20-F).

4.28 Amendment to Fifth Amendment to the Facility Agreement, dated October 22, 2002, to the Facility Agreement (incorporated by reference to exhibit 4.29 to the2002 Form 20-F).

4.29 Letter Agreement, dated March 2002, among SanDisk, Alliance, Macronix, ICTech and Challenge Fund to advance Third and Fourth Milestone Payments (incorporated by reference to exhibit 4.30 to the 2002 Form 20-F).

4.30 Letter Agreement, dated July 2002, among SanDisk, Alliance, Macronix, and ICTech to exercise rights distributed in rights offering (incorporated by reference to exhibit 4.31 to the 2002 Form 20-F).

4.31 Letter Agreement, dated March 2003, among SanDisk, Alliance, Macronix, ICTech, and the Registrant (incorporated by reference to exhibit 4.32 to the 2002 Form 20-F).

4.32 Form of Rights Agent Agreement between the Registrant and American Stock Transfer & Trust Company (including form of Rights Certificate) (incorporated by reference to exhibit 4.1 to the Registrant’s Registration Statement on Form F-2, No. 333-97043).

4.33 Form of Warrant Agreement between the Registrant and American Stock Transfer & Trust Company (including form of Warrant Certificate) (incorporated by reference to exhibit 4.2 to the Registrant’s Registration Statement on Form F-2, No. 333-97043).

4.34 Investment Center Agreement related to Fab 1, dated November 13, 2001 (English translation of Hebrew original) (incorporated by reference to exhibit 10.2 to the Registrant’s Registration Statement on Form F-2, No. 333-97043).

4.35 Development and License Agreement, dated March 31, 2002, between Virage Logic Corporation and the Registrant (incorporated by reference to exhibit 4.37 to the 2002 Form 20-F). (Portions of this exhibit have been omitted pursuant to a request for confidential treatment.)

4.36 Master Services and License Agreement, dated June 2002, between Artisan Components, Inc. and the Registrant (incorporated by reference to exhibit 4.38 to the 2002 Form 20-F).

4.37 Seventh Amendment to the Facility Agreement, dated November 11, 2003, (incorporated by reference to Exhibit 99.1 of the Registrant's Report on Form 6-K filed on December 17, 2003).

4.38 Undertaking of the Registrant, dated November 11, 2003 (incorporated by reference to Exhibit 99.3 of the Registrant's Report on Form 6-K filed on December 17, 2003).

4.39 Letter Agreement, dated November 11, 2003, by and among the Registrant, Israel Corporation Technologies, SanDisk Corporation, Alliance Semiconductor Corporation and Macronix International Co., Ltd. (incorporated by reference to Exhibit 99.4 of the Registrant's Report on Form 6-K filed on December 17, 2003).

4.40 Foundry Agreement, dated May 12, 2004, between the Registrant and Siliconix incorporated (incorporated by reference to exhibit 4.42 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2004 (the " 2004 Form 20-F)). (Portions of this exhibit have been omitted pursuant to a request for confidential treatment.)

4.41 Share Purchase Agreement, dated December 8, 2004, between the Registrant and the Purchasers named therein (incorporated by reference to exhibit 4.43 to the 2004 Form 20-F).

4.42 Agreement, dated December 31, 2004, by and among the Registrant and the Purchasers named therein (incorporated by reference to exhibit 4.44 to the 2004 Form 20-F).

4.43 Employee Share Option Plan 2004 (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-8 No. 333-117565 ("Form S-8 No. 333-117565").

4.44 Form of Grant Letter to Israeli Employees (incorporated by reference to Exhibit 4.4 to Form S-8 No. 333-117565).

4.45 Form of Grant Letter to US Employees (incorporated by reference to Exhibit 4.5 to Form S-8 No. 333-117565).

4.46 Bank Warrants, dated August 2005, between the Registrant and Bank Hapoalim B.M. and Bank Leumi Le-Israel B.M (incorporated by reference to correspondingly-numbered exhibit to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2005 (the "2005 Form 20-F").

4.47 Ninth Amendment to the Facility Agreement, dated July 2005, dated July 24, 2005 (incorporated by reference to exhibit 4.5 to the Form F-1 No. 333-126909 ("Form F-1 No. 333-126909").

4.48 Tenth Amendment to the Facility Agreement, dated September 2005 (incorporated by reference to Exhibit 4.4 to Form F-1 No. 333-126909).

4.49 Eleventh Amendment to the Facility Agreement, dated October 2005 (incorporated by reference to Exhibit 4.3 to Form F-1 No. 333-126909).

4.50 Twelfth Amendment to the Facility Agreement, dated November 2005 (incorporated by reference to Exhibit 4.6 to Form F-1 No. 333-126909).

4.51 Thirteenth Amendment to the Facility Agreement, dated May 2006 (incorporated by reference to correspondingly-numbered exhibit to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2006"2006 Form 20-F").

4.52 Fourteenth Amendment to the Facility Agreement, dated May 2006 (incorporated by reference to correspondingly-numbered exhibit to the 2006 Form 20-F).

4.53 Fifteenth Amendment to the Facility Agreement, dated June 2006 (incorporated by reference to correspondingly-numbered exhibit to the 2006 Form 20-F).

4.54 Form of Rights Agent Agreement with Rights Certificate Attached (incorporated by reference to Exhibit 4.1 to Form F-1 No. 333-126909).

4.55 Development and License Agreement, dated July 2005, between Impinj, Inc. and the Registrant (incorporated by reference to correspondingly-numbered exhibit to the 2005 Form 20-F). (Portions of this exhibit have been omitted pursuant to a request for confidential treatment.)

4.56 License and Design Agreement, dated January 10, 2003 between Chipidea Microelectronics S.A. and the Registrant (incorporated by reference to correspondingly-numbered exhibit to the 2005 Form 20-F). (Portions of this exhibit have been omitted pursuant to a request for confidential treatment.)

4.57 Amendment to Design Agreement of January 2003 between Chipidea Microelectronics S.A. and the Registrant, dated June 2005 (incorporated by reference to correspondingly-numbered exhibit to the 2005 Form 20-F). (Portions of this exhibit have been omitted pursuant to a request for confidential treatment.)

4.58 License Agreement, dated April 29, 2004, between Synopsys, Inc. and the Registrant (incorporated by reference to correspondingly-numbered exhibit to the 2005 Form 20-F). (Portions of this exhibit have been omitted pursuant to a request for confidential treatment.)

4.59 Employee Share Option Plan 2005, as amended (incorporated by reference to Exhibit 4.1 of the 2008 Form S-8).

4.60 Form of Grant Letter to Israeli Employees (incorporated by reference to Exhibit 4.4 of the 2006 Form S-8).

4.61 Form of Grant Letter to US Employees (incorporated by reference to Exhibit 4.5 of the 2006 Form S-8).

4.62 Form of Grant Letter for grants to Jazz employees under the Employee Share Option Plan 2005 (incorporated by reference to Exhibit 4.4 of the 2008 Form S-8).

4.63 Jazz Technologies, Inc. 2006 Equity Incentive (incorporated by reference to Exhibit 4.5 of the 2008 Form S-8)

4.64 Form of Assumption Letter from the Registrant to holders of Jazz Technologies, Inc. 2006 Equity Incentive Plan options (incorporated by reference to Exhibit 4.6 of the 2008 Form S-8)

4.65 Form of Option Agreement under the Jazz Technologies, Inc. 2006 Equity Incentive Plan (incorporated by reference to Exhibit 4.7 of the 2008 Form S-8)

4.66 CEO Share Option Plan 2005 (incorporated by reference to Exhibit 4.6 of the 2006 Form S-8).

4.67 Option Grant Letter Agreement – CEO Share Option Plan 2005 from the Registrant to Russell Ellwanger, dated July 15, 2005 (incorporated by reference to Exhibit 4.7 of the 2006 Form S-8).

4.68 Option Grant Letter Agreement – CEO Share Option Plan 2005 from the Registrant to Russell Ellwanger, dated September 28, 2006 (incorporated by reference to Exhibit 4.8 of the 2006 Form S-8).

4.69 Option Grant Letter Agreement – CEO Share Option Plan 2005 from Tower Semiconductor USA, Inc. to Russell Ellwanger, dated July 15, 2005 (incorporated by reference to Exhibit 4.9 of the 2006 Form S-8).

4.70 Equity Convertible Capital Note, dated September 28, 2006, issued to Israel Corporation Ltd. (incorporated by reference to Exhibit 99.4 of the Form 6-K for the month of November 2006 No. 6 filed on November 7, 2006 (the "November 2006 Form 6-K")).

4.71 Registration Rights Agreement, dated September 28, 2006, with Israel Corporation Ltd. (incorporated by reference to Exhibit 99.5 of the November 2006 Form 6-K).

4.72 Amending Agreement, dated August 24, 2006, with Bank Hapoalim B.M. and Bank Leumi Le-Israel B.M., to the Facility Agreement (incorporated by reference to Exhibit 99.6 of the November 2006 Form 6-K).

4.73 Facility Agreement, as amended and restated by the parties through August 24, 2006 (incorporated by reference to Exhibit 99.7 of the November 2006 Form 6-K).

4.74 Conversion Agreement, dated September 28, 2006, with Bank Hapoalim B.M. (incorporated by reference to Exhibit 99.8 of the November 2006 Form 6-K).

4.75 Conversion Agreement, dated September 28, 2006, with Bank Leumi Le-Israel B.M. (incorporated by reference to Exhibit 99.9 of the November 2006 Form 6-K).

4.76 Registration Rights Agreement, dated September 28, 2006, with Bank Hapoalim B.M. (incorporated by reference to Exhibit 99.10 of the November 2006 Form 6-K).

4.77 Registration Rights Agreement, dated September 28, 2006, with Bank Leumi Le-Israel B.M. (incorporated by reference to Exhibit 99.11 of the November 2006 Form 6-K).

4.78 Equity Convertible Capital Note, dated September 28, 2006, issued to Bank Hapoalim B.M. (incorporated by reference to Exhibit 99.12 of the November 2006 Form 6-K).

4.79 Equity Convertible Capital Note, dated September 28, 2006, issued to Bank Leumi Le-Israel B.M. (incorporated by reference to Exhibit 99.13 of the November 2006 Form 6-K).

4.80 Form of Securities Purchase Agreement (incorporated by reference to Exhibit 99.2 of the Form 6-K for the month of March 2007 No.1 filed on March 15, 2007 (the "March 2007 Form 6-K")).

4.81 Form of Registration Rights Agreement (incorporated by reference to Exhibit 99.4 of the March 2007 Form 6-K).

4.82 Loan Agreement, dated August 2006, between the Registrant and SanDisk Corporation (incorporated by reference to correspondingly-numbered exhibit to the 2006 Form 20-F).

4.83 Amendment No. 1 to restated Facility Agreement, dated September 10, 2007 (incorporated by reference to Exhibit 4.85 to the 2007 20-F).

4.84 Agreement and Plan of Merger and Reorganization, dated May 19, 2008, between the Registrant, Jazz Technologies, Inc. and Armstrong Acquisition Corp. (incorporated by reference to Exhibit 2.1 of the May 20, 2008 Form 6-K)

4.85 Amending Agreement to the Facility Agreement, dated September 25, 2008, with Bank Hapoalim B.M. and Bank Leumi Le-Israel B.M.

4.86 Facility Agreement, as amended and restated by the parties through September 29, 2008.

4.87 Conversion Agreement, dated September 25, 2008, with Bank Hapoalim B.M.

4.88 Conversion Agreement, dated September 25, 2008, with Bank Leumi Le-Israel B.M.

4.89 Conversion Agreement, dated September 25, 2008, with the Israel CorporationLtd.

4.90 Pledge Agreement, dated September 25, 2008, with Bank Hapoalim B.M. and Bank Leumi Le-Israel B.M.

4.91 Amended and Restated Registration Rights Agreement, dated September 25, 2008, with Bank Hapoalim B.M.

4.92 Amended and Restated Registration Rights Agreement, dated September 25, 2008, with Bank Leumi Le-Israel B.M.

4.93 Undertaking by Israel Corporation Ltd., dated September 25, 2008.

4.94 Securities Purchase Agreement, dated September 25, 2008, with the IsraelCorporation Ltd.

4.95 Equity Convertible Capital Note, dated September 29, 2008, issued to Bank Hapoalim B.M.

4.96 Equity Convertible Capital Note, dated September 29, 2008, issued to Bank Leumi Le-Israel B.M.

4.97 Equity Convertible Capital Note, in the principal amount of $30 million, dated September 25, 2008, issued to the Israel Corporation Ltd. in connection with the conversion of debt.

4.98 Equity Convertible Capital Note, in the principal amount of $20 million, dated September 25, 2008, issued to the Israel Corporation Ltd. in connection with the conversion of debt.

4.99 Equity Convertible Capital Note, in the principal amount of $20 million, dated September 25, 2008, issued to the Israel Corporation Ltd. in connection with the investment.

4.100 Equity Convertible Capital Note, in the principal amount of $20 million, dated January 7, 2008, issued to the Israel Corporation Ltd. in connection with the investment.

4.101 Amended and Restated Registration Rights Agreement, dated September 25, 2008, with the Israel Corporation Ltd.

4.102 Amendment to Undertaking by the Israel Corporation Ltd., dated January 6, 2009.

12.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

12.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

13.1 Certification by Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

13.2 Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

14.1 Consent of Brightman Almagor & Co.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant hereby certifies that it meets all the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this Annual Report to be signed on its behalf.

TOWER SEMICONDUCTOR LTD.

By: /s/ Russell C. Ellwanger

Russell C. Ellwanger
Chief Executive Officer

June 30, 2009

TOWER SEMICONDUCTOR LTD.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2008

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the shareholders of
Tower Semiconductor Ltd.

We have audited the accompanying consolidated balance sheets of Tower Semiconductor Ltd. and subsidiaries ("the Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Tower Semiconductor Ltd. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 23, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Member Firm of Deloitte Touche Tohmatsu

Tel Aviv, Israel
February 23, 2009

Deloitte.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Board of Directors and the shareholders of
Tower Semiconductor Ltd.

We have audited the internal control over financial reporting of Tower Semiconductor Ltd. and subsidiaries (the "Company") as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As described in ITEM 15 CONTROLS AND PROCEDURES – INTERNAL CONTROL OVER FINANCIAL REPORTING, management excluded from its assessment the internal control over financial reporting at Jazz Technologies, Inc, which was acquired on September 19, 2008 and whose financial statements constitute 42 % and 27 % of net and total assets, respectively, 22 % of revenues, and 1 % of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2008. Accordingly, our audit did not include the internal control over financial reporting at Jazz Technologies, Inc. The Company's Board of Directors and management are responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in ITEM 15 CONTROLS AND PROCEDURES – INTERNAL CONTROL OVER FINANCIAL REPORTING. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2008 of the Company and our report dated February 23, 2009 expressed an unqualified opinion on those financial statements.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Member Firm of Deloitte Touche Tohmatsu

Tel Aviv, Israel
February 23, 2009

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

	Note	As of December 31, 2008	As of December 31, 2007
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents		$ 34,905	$ 44,536
Trade accounts receivable:	18		
Related parties		2,379	12,823
Others		43,481	32,154
Other receivables	4	2,320	4,748
Inventories	5	38,729	27,806
Other current assets	20	7,657	1,580
Total current assets		129,471	123,647
LONG-TERM INVESTMENTS	6	29,499	15,093
PROPERTY AND EQUIPMENT, NET	7	449,697	502,287
INTANGIBLE ASSETS, NET	8	81,034	34,711
GOODWILL	3	7,000	-
OTHER ASSETS , NET	9	8,802	11,044
TOTAL ASSETS		$ 705,503	$ 686,782
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Current maturities of convertible debentures	13	$ 8,330	$ 7,887
Short-term bank loan	10	7,000	-
Trade accounts payable		49,462	49,025
Deferred revenue and short-term customers' advances		6,634	1,915
Other current liabilities	11	35,202	18,109
Total current liabilities		106,628	76,936
LONG-TERM LOANS FROM BANKS (*)	10, 12, 14	222,989	379,314
DEBENTURES (**)	13, 14	208,512	117,460
LONG-TERM CUSTOMERS' ADVANCES	16A, 16D	11,138	27,983
OTHER LONG-TERM LIABILITIES	15	45,959	40,380
Total liabilities		595,226	642,073
SHAREHOLDERS' EQUITY	16A, 17	110,277	44,709
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 705,503	$ 686,782

(*) **of which $202,989 and $365,563 are calculated based on its fair value as of December 31, 2008 and December 31, 2007, respectively.**

(**) **of which $16,825 and $28,484 are calculated based on its fair value as of December 31, 2008 and December 31, 2007, respectively.**

See notes to consolidated financial statements.

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

	Note	Year ended December 31, 2008	2007	2006
REVENUES	18	$ 251,659	$ 230,853	$ 187,438
COST OF REVENUES		298,683	284,771	267,520
GROSS LOSS		(47,024)	(53,918)	(80,082)
OPERATING COSTS AND EXPENSES				
Research and development		14,969	13,790	15,048
Marketing, general and administrative		33,223	31,604	25,831
Write-off of in-process research and development	3	1,800	-	-
Merger related costs		520	-	-
Fixed assets impairment	7B	120,538	-	-
		171,050	45,394	40,879
OPERATING LOSS		(218,074)	(99,312)	(120,961)
FINANCING EXPENSE, NET	14, 19	(17,566)	(34,976)	(47,563)
GAIN ON DEBT RESTRUCTURING	12B	130,698	-	-
OTHER INCOME (EXPENSE), NET		(918)	92	597
LOSS BEFORE INCOME TAX EXPENSES		(105,860)	(134,196)	(167,927)
INCOME TAX PROVISION	20	(575)	-	-
LOSS FOR THE YEAR		$ (106,435)	$ (134,196)	$ (167,927)
BASIC LOSS PER ORDINARY SHARE				
Loss per share		$ (0.79)	$ (1.13)	$ (2.03)
Weighted average number of ordinary shares outstanding - in thousands		134,749	118,857	82,581

See notes to consolidated financial statements.

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

	Ordinary shares		Additional paid-in capital	Capital notes	Cumulative stock based compensation	Treasury stock	Accumulated Other comprehensive gain (loss)	Accumulated deficit	Comprehensive income (loss)	Total
	Shares	Amount								
BALANCE - JANUARY 1,	68,232,056	$16,548	$524,600	$ -	$ (26)	$(9,072)	$ (1,554)	$(559,724)		$ (29,228)

2006										
Issuance of shares and warrants	**16,729,145**	**3,860**	**26,126**							**29,986**
Conversion of convertible debentures to shares	**16,734,316**	**3,696**	**15,634**							**19,330**
Employee stock-based compensation					**4,896**					**4,896**
Exercise of options	**7,250**	**2**	**9**							**11**
Exercise of warrants	**350,000**	**81**	**469**							**550**
Stock-based compensation, note 17B(5)			**4,146**							**4,146**
Capital notes				**176,401**						**176,401**
Other comprehensive gain							**1,351**		**1,351**	**1,351**
Loss for the year								**(167,927)**	**(167,927)**	**(167,927)**
Comprehensive loss									**(166,576)**	
BALANCE - DECEMBER 31, 2006	**102,052,767**	**$24,187**	**$570,984**	**$176,401**	**$ 4,870**	**$(9,072)**	**$ (203)**	**$(727,651)**		**$ 39,516**
Issuance of shares and warrants	**22,705,598**	**5,398**	**29,469**							**34,867**
Conversion of convertible debentures to shares	**591,520**	**142**	**674**							**816**
Employee stock-based compensation					**8,731**					**8,731**
Exercise of options	**176,231**	**44**	**183**							**227**
Reclassification of bifurcated conversion option to shareholders' equity			**28,377**							**28,377**
Stock-based compensation, note 17B(5)			**1,331**							**1,331**
Other comprehensive loss							**(167)**		**(167)**	**(167)**
Cumulative effect adjustment of the Facility Agreement to retained earnings								**65,207**	**65,207**	**65,207**
Loss for the year								**(134,196)**	**(134,196)**	**(134,196)**
Comprehensive loss									**(69,156)**	
BALANCE - DECEMBER 31, 2007	**125,526,116**	**$29,771**	**$631,018**	**$176,401**	**$13,601**	**$(9,072)**	**$ (370)**	**$(796,640)**		**$ 44,709**
Issuance of shares and warrants	**34,256,292**	**9,699**	**37,045**							**46,744**
Conversion of convertible debentures to shares	**1,543,226**	**459**	**1,692**							**2,151**
Employee stock-based compensation					**6,127**					**6,127**
Exercise of options	**5**									**-**
Reclassification of bifurcated conversion option to shareholders' equity			**3,907**							**3,907**
Capital notes				**115,071**						**115,071**
Other comprehensive loss							**(1,997)**		**(1,997)**	**(1,997)**
Loss for the year								**(106,435)**	**(106,435)**	**(106,435)**
Comprehensive loss									**(108,432)**	
BALANCE - DECEMBER 31, 2008	**161,325,639**	**$39,929**	**$673,662**	**$291,472**	**$19,728**	**$(9,072)**	**$ (2,367)**	**$(903,075)**		**$ 110,277**

See notes to consolidated financial statements.

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

	Year ended December 31,		
	2008	2007	2006
CASH FLOWS - OPERATING ACTIVITIES			
Loss for the year	$ (106,435)	$ (134,196)	$ (167,927)
Adjustments to reconcile loss for the year to net cash provided by (used in) operating activities:			
Income and expense items not involving cash flows:			
Gain on debt restructuring	(130,698)	-	-
Depreciation and amortization	138,808	154,343	171,743
Effect of indexation, translation and fair value measurement on debt	(6,937)	6,227	2,569
Fixed assets impairment	120,538		
Write down of customer advance	-	(9,747)	-
Other expense (income), net	918	(92)	(597)
Write-off of in-process research and development	1,800	-	-
Changes in assets and liabilities:			
Trade accounts receivable	15,666	(13,479)	(14,722)
Other receivables and other current assets	5,527	333	(2,662)
Inventories	(4,008)	459	(14,064)
Trade accounts payable	(5,119)	15,435	(4,733)
Deferred revenue and customers' advances	(12,864)	-	-
Other current liabilities	(7,224)	(1,363)	6,551
Other long-term liabilities	3,247	935	(3,285)
	13,219	18,855	(27,127)
Decrease in customers' advances, net	(658)	(2,172)	(2,306)
Net cash provided by (used in) operating activities	12,561	16,683	(29,433)
CASH FLOWS - INVESTING ACTIVITIES			
Investments in property and equipment	(87,224)	(107,485)	(161,187)
Investment grants received	-	1,654	5,219
Proceeds related to sale and disposal of property and equipment	-	108	600
Acquisition of subsidiary consolidated for the first time (a)	2,616	-	-
Investments in other assets and intangible assets	(78)	(500)	(4,000)
Decrease in designated cash and short-term interest-bearing deposits	-	-	31,661
Decrease (increase) in short-term interest-bearing deposits	-	1,230	(1,230)
Long-term investments	-	(950)	-
Net cash used in investing activities	(84,686)	(105,943)	(128,937)
CASH FLOWS - FINANCING ACTIVITIES			
Proceeds from long-term loans	52,000	28,000	18,295
Proceeds on account of capital notes	20,000	-	100,000
Proceeds from issuance of debentures and warrants, net	1,440	50,690	58,766
Proceeds from issuance of ordinary shares and warrants, net	-	26,534	20,673
Proceeds from exercise of warrants	-	-	550
Repayment of debenture	(8,179)	(7,088)	(6,476)
Proceeds from exercise of share options	-	227	9
Fees related to amendment of line of credit	(926)	(1,047)	(1,074)
Debt repayment	(2,000)	(3,230)	-
Net cash provided by financing activities	62,335	94,086	190,743
Effect of foreign exchange rate change	159	-	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,631)	4,826	32,373
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	44,536	39,710	7,337
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 34,905	$ 44,536	$ 39,710

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

	Year ended December 31,		
	2008	2007	2006
NON-CASH ACTIVITIES			
Investments in property and equipment	$ 11,667	$ 17,982	$ 42,575
Stock-based compensation	$ -	$ 1,331	$ 4,146
Investments in other assets	$ -	$ -	$ 433
Conversion of long-term customers' advances to share capital	$ -	$ 6,414	$ 7,621
Conversion of long term debt and convertible debentures to capital notes	$ 95,071	$ -	$ 76,401
Conversion of convertible debentures to share capital	$ 2,151	$ 816	$ 19,330
Cumulative effect adjustment of the Facility Agreement to retained earnings	$ -	$ 65,207	$ -
Reclassification of bifurcated conversion option to shareholders' equity	$ 3,907	$ 28,377	$ -
Issuance of shares and warrants relating the merger with Jazz	$ 46,744	$ -	$ -
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for interest	$ 18,520	$ 28,831	$ 35,008
Cash paid during the year for income taxes	$ 7	$ 55	$ 134

(a) ACQUISITION OF SUBSIDIARY CONSOLIDATED FOR THE FIRST TIME, SEE ALSO NOTE 3 :

Assets and liabilities of the subsidiary as of September 19, 2008 :	
Working capital (excluding cash and cash equivalents)	$ (1,086)
Fixed assets	95,244
Long-term investments	17,100
Intangible assets	59,500
Other assets	66
Convertible debenture	(108,600)
Long-term liabilities	(22,640)
Goodwill	7,000
	46,584
Less:	
Issuance of share capital and warrants	46,744
Accrued merger related costs	2,456
	49,200
	$ 2,616

See notes to consolidated financial statements.

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

NOTE 1 – DESCRIPTION OF BUSINESS AND GENERAL

Tower Semiconductor Ltd. ("the Company"), incorporated in Israel, commenced operations in 1993. The Company is an independent specialty wafer foundry that delivers customized solutions in a variety of advanced complementary metal oxide semiconductor (CMOS) technologies, including digital CMOS, mixed-signal and RF (radio frequency) CMOS, CMOS image sensors and power management devices. The Company manufactures integrated circuits in geometries ranging between 1.0 and 0.35 microns at its 150-millimeter fabrication facility ("Fab 1"), and in geometries ranging between 0.18 and 0.13 microns at its 200-millimeter fabrication facility ("Fab 2"). As a foundry, the Company manufactures wafers using its advanced technological capabilities and the proprietary integrated circuit designs of its customers.

The Company's ordinary shares are traded on the NASDAQ Global Market and on the Tel-Aviv Stock Exchange.

In September 2008, the Company completed its merger with Jazz Technologies in a stock for stock transaction. Jazz Technologies is the parent company of its wholly-owned subsidiary, Jazz Semiconductor, Inc., an independent semiconductor foundry focused on specialty process technologies for the manufacture of analog intensive mixed-signal semiconductor devices. As a result of this transaction, both Jazz Technologies and Jazz Semiconductor became wholly owned subsidiaries of the Company (Jazz Technologies and Jazz Semiconductor shall collectively be referred to as "Jazz"). Jazz's process technologies include Analog-Intensive Mixed-Signal (AIMS) process technologies, Analog CMOS, RFCMOS, bipolar and silicon germanium bipolar complementary metal oxide ("SiGe") Silicon and SiGe BiCMOS, SiGe C-BiCMOS, Power CMOS and High Voltage CMOS. Its customers'analog and mixed-signal semiconductor devices are used in cellular phones, wireless local area networking devices, digital TVs, set-top boxes, gaming devices, switches, routers and broadband modems.

The Company's consolidated financial statements include Jazz results for the period between September 19, 2008 and December 31, 2008 and Jazz balance sheet as of December 31, 2008. The Company's consolidated financial statements are presented after elimination of inter-company transactions and balances. For additional data regarding the merger, see also Note 3.

The industry in which the Company and Jazz operate is characterized by wide fluctuations in supply and demand. Such industry is also characterized by the complexity and sensitivity of the manufacturing process, high levels of fixed costs, and the need for constant advancements in production technology. During the past several years, the Company has experienced significant recurring losses, negative net cash flows and an increasing accumulated deficit. The Company is working in various ways to mitigate its financial difficulties. Since the second half of 2005, the Company has increased its customer base, mainly in Fab 2, modified its organizational structure to better address its customers and to improve its market positioning, increased its sales activities, improved its quarterly and yearly EBITDA and cash flow from operations, increased its installed capacity level, raised funds and restructured its debt. See details in Notes 12B, 16A(3) and 17 F-J.

NOTE 1 – DESCRIPTION OF BUSINESS AND GENERAL (Cont.)

In September 2008, the Company signed and closed definitive agreements with the two leading Israeli banks, Bank Hapoalim B.M. and Bank Leumi Le-Israel B.M.,("Banks") and the Israel Corporation ("TIC") for the conversion of approximately $250,000 of the Company's debt into equity and for TIC's additional equity investments in the Company in the amount of up to $40,000. For details see Note 12B.

The current worldwide economic downturn, the prevailing adverse market conditions in the semiconductor industry including global decreased demand, downward price pressure, excess inventory, unutilized capacity and the lack of availability of funding sources may adversely affect the future financial results and position of the Company, including its ability to continue to support its ongoing operations and growth plans. The Company is working to mitigate the potential effect of this downturn through several measures, which it believes could result in sufficient timely funding to allow it to continue its operations, including completing the execution of the previously announced cost reduction plan, which is targeted at saving approximately $60,000 on an annual run-rate, and exploring alternative sources of funding (such as a possible sale and lease-back of a portion of its real estate assets, sale of other assets and/or intellectual property, licensing, receipt of all or part of pending grants from the Israeli Investment Center and other alternatives for fund raising). There is no assurance that the Company will be able to obtain sufficient funding from these or other sources to allow it to maintain its ongoing activities and operations. See also Notes 12B, 16A(3), 16A(6) and 17 F-J.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's consolidated financial statements are presented in accordance with U.S. generally accepted accounting principles ("US GAAP").

A. Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

B. Principles of Consolidation

The Company's consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries, which include its marketing and sales subsidiary in the United States and Jazz, a leading independent wafer foundry focused on Analog-Intensive Mixed –Signal (AIMS) process technologies based in Newport Beach, California (see also Note 3). The Company's consolidated financial statements

include Jazz results for the period between September 19, 2008 and December 31, 2008 and Jazz balance sheet as of December 31, 2008. The Company's consolidated financial statements are presented after elimination of inter-company transactions and balances.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. Presentation of Assets and Liabilities Resulting from the Merger with Jazz

Assets and liabilities resulting from the merger with Jazz are presented based on estimated fair values as of the date of the merger, see Note 3. The fair values of Jazz's assets and liabilities are based on a preliminary valuation performed by the Company in accordance with SFAS No. 141, "Business Combinations" ("SFAS No. 141"). Final valuation of Jazz's assets and liabilities may vary significantly.

D. Cash and Cash Equivalents

Cash and cash equivalents consist of banks deposits and short-term investments (primarily time deposits and certificates of deposit) with original maturities of three months or less.

E. Allowance for Doubtful Accounts

The allowance for doubtful accounts is computed mainly on the specific identification basis for accounts whose collectability, in the Company's estimation, is uncertain.

F. Inventories

Inventories are stated at the lower of cost or market. Cost is determined for raw materials and supplies mainly on the basis of the weighted moving average cost per unit. Cost is determined for work in process and finished goods on the basis of actual production costs.

G. Property and Equipment

(1) Property and equipment are presented at cost, including financing expenses and other capitalizable costs. Capitalizable costs include only incremental direct costs that are identifiable with, and related to, the property and equipment and are incurred prior to its initial operation. Identifiable incremental direct costs include costs associated with the funding, acquiring, constructing, establishing and installing property and equipment (whether performed by others or internally), and costs directly related to preproduction test runs of property and equipment that are necessary to get it ready for its intended use. Those costs include payroll and payroll-related costs of employees who devote time and are dedicated to the acquiring, constructing, establishing and installing of property and equipment. Allocation, when appropriate, of capitalizable incremental direct costs is based on the Company's estimates and methodologies including time sheet inputs.

Cost is presented net of investment grants received or receivable, and less accumulated depreciation and amortization. The accrual for grants receivable was determined based on qualified investments made during any reporting period, provided that the primary criteria for entitlement had been met.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

G. Property and Equipment (Cont.)

(1) (Cont.)

During 2007, the Company reassessed the estimated useful lives of its machinery and equipment and as a result, machinery and equipment are depreciated over estimated useful lives of 7 years commencing the second quarter of 2007 (as opposed to 5 years prior to such period). The change was based on the Company's best estimate of the useful lives of its equipment, its experience accumulated from Fab 1 and recent trends in industry practices. The Company believes that the change better reflects the economics associated with the ownership of the equipment. This change has been accounted for as a change in estimate and was applied prospectively.

For the effect of this change, see Note 7A.

Property and equipment resulting from the merger with Jazz were recorded at estimated fair value as of the date of the merger and are depreciated as described below (See Note 3).

Depreciation is calculated based on the straight-line method over the estimated economic lives commonly used in the industry of the

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

assets or terms of the related leases, as follows:

Buildings and building improvements (including facility infrastructure)	10-25 years
Machinery and equipment	3-7 years

(2) Impairment examinations and recognition are performed and determined based on the accounting policy outlined in S below.

H. Intangible Assets

Technology

The cost of Fab 2 technologies includes the technology process cost and incremental direct costs associated with implementing the technologies until the technologies are ready for their intended use. The costs in relation to Fab2 technologies are amortized over the expected estimated economic life of the technologies commonly used in the industry. Amortization phases commence on the dates on which each of the Fab2 manufacturing lines is ready for its intended use. Fab2 technologies are presented net of accumulated amortization as of December 31, 2008 and 2007 in the amounts of $73,948 and $63,911, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Intangible Assets (Cont.)

Technology (Cont.)

Impairment examinations and recognition are performed and determined based on the accounting policy outlined in S below.

Intangible assets and goodwill resulting from the merger with Jazz were recorded at estimated fair value as of the date of the merger, see Note 3.

I. Other Assets

Prepaid Long-Term Land Lease

Prepaid lease payments to the Israel Land Administration (“ILA”) as detailed in Notes 16A(7) and 16C are amortized over the lease period.

J. Convertible Debentures

Under Accounting Principles Board Opinion No. 14 (“APB 14”), the proceeds from the sale of the securities are allocated to each security issued based on their relative fair value. SFAS 133 generally provides criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria are (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not remeasured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument subject to the requirements of SFAS 133. In determining whether embedded derivative should be bifurcated the Company considers all other scope exceptions provided by SFAS No. 133. One scope exception particularly relevant to convertibles provides that if the embedded conversion feature is both indexed to and classified in the Company’s equity based on the criteria established in EITF 00-19 and other EITF’s, bifurcation is not required.

Convertible debentures resulting from the merger with Jazz are based on its estimated fair value as of the date of the merger, see Note 3.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

J. Convertible Debentures (Cont.)

Stock-Based Instruments in Financing Transactions

The Company calculates the fair value of stock-based instruments included in the units issued in its financing transactions. That fair value is recognized in equity, if determined to be eligible for equity classification. The amount allocated to such instruments, in connection with the

issuance of debt not accounted at fair value is considered a discount on the debt issued and results in an adjustment to the yield on the debt issued.

K. Income Taxes

The Company and its subsidiaries account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). This Statement prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities. Deferred taxes are computed based on the tax rates anticipated (under applicable law as of the balance sheet date) to be in effect when the deferred taxes are expected to be paid or realized.

Deferred tax assets are recognized if it is probable that such assets would be realized, for temporary differences, which will result in deductible amounts in future years and for carryforwards. An allowance against such deferred tax assets is recognized if it is probable that some portion or all of the deferred tax assets will not be realized. Due to the material loss carryforward amount of the Company as of December 31, 2008 and uncertainties with regard to its utilization in the future, no deferred taxes were recorded in the Company's results of operations, however deferred tax assets were recorded in Jazz, see Note 20C.

The future utilization of Jazz's net operating loss carry forwards to offset future taxable income may be subject to an annual limitation as a result of ownership changes that may have occurred previously or that could occur in the future, see Note 20E.

The Company and its subsidiaries account for unrecognized tax benefits in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48") and recognize interest and penalties that would be assessed in relation to the settlement value of unrecognized tax benefits as a component of income tax expense.

L. Revenue Recognition

The Company and Jazz's net revenues are generated principally from sales of semiconductor wafers. The Company and Jazz derives the remaining balance of its net revenues from the resale of photomasks and other engineering services. The majority of the Company and Jazz's sales are achieved through the efforts of its direct sales force.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

L. Revenue Recognition (Cont.)

In accordance with SEC Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101"), and SAB No. 104, "Revenue Recognition" ("SAB No. 104"), the Company and Jazz recognize revenues when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price to the customer is fixed or determinable and (iv) collection of the resulting receivable is reasonably assured. These criteria are usually met at the time of product shipment. Revenues are recognized when the acceptance criteria are satisfied, based on performing electronic, functional and quality tests on the products prior to shipment and customer on-site testing. Such Company testing reliably demonstrates that the products meet all of the specified criteria prior to formal customer acceptance, and that product performance can reasonably be expected to conform to the specified acceptance provisions.

Revenues from contracts with multiple elements are recognized as each element is earned based on the relative fair value of each element and when there are no undelivered elements that are essential to the functionality of the delivered elements and when the amount is not contingent upon delivery of the undelivered elements. Advances received from customers towards future engineering services, product purchases and in some cases capacity reservation are deferred until products are shipped to the customer, services are rendered or the capacity reservation period ends.

The Company and Jazz provides for sales returns and allowances relating to specified yield or quality commitments as a reduction of revenues at the time of shipment based on historical experience and specific identification of events necessitating an allowance.

M. Research and Development

Research and development costs are charged to operations as incurred. Amounts received or receivable from the government of Israel and others, as participation in research and development programs, are offset against research and development costs. The accrual for grants receivable is determined based on the terms of the programs, provided that the criteria for entitlement have been met.

N. Loss Per Ordinary Share

Basic earnings per share is calculated, in accordance with SFAS No. 128, "Earnings Per Share" ("SFAS No. 128"), by dividing profit or loss attributable to ordinary equity holders of the Company (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the reported period. Diluted earnings per share is calculated by adjusting profit or loss attributable to ordinary equity holders of the Company, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

O. Comprehensive Income (Loss)

In accordance with SFAS 130, comprehensive income (loss) represents the change in shareholders' 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 are included in comprehensive income but excluded from net income.

P. Functional Currency and Transaction Gains and Losses

The currency of the primary economic environment in which the Company and its subsidiaries conduct their operations is the U.S. dollar ("dollar"). Accordingly, the dollar is the functional and reporting currency. Financing expenses, net in 2008 include net foreign currency transaction gains of $2,401 and financing expenses, net in 2007 and 2006 include net foreign currency transaction losses of $3,526 and $3,659, respectively.

Q. Jazz's Pension Plans

Jazz's liabilities relating its retirement plan for hourly employees and postretirement health and life benefits plans are stated at their fair values.

Jazz adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)", ("SFAS No. 158") which requires to recognize the funded status of the defined benefit and other postretirement benefit plans in the balance sheet, with changes in the funded status recognized through comprehensive income, net of tax, in the year in which they occur. SFAS No. 158 requires the amounts recognized in financial statements be determined on an actuarial basis. To accomplish this, extensive use is made of assumptions about inflation, investment returns, mortality, turnover, medical trend rates and discount rates. A change in these assumptions could cause actual results to differ from those reported.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

R. Stock-Based Compensation

In January 1, 2006, the Company adopted the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123(R)), under which employee share-based equity awards accounted for under the fair value method. Accordingly, stock-based compensation to employees and directors is measured at the grant date, based on the fair value of the award. The Company elected the modified prospective method as its transition method. Under the modified prospective method the compensation cost recognized by the Company beginning in 2006 includes (a) compensation cost for all equity incentive awards granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all stock-based compensations granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). The Company uses the straight-line attribution method to recognize stock-based compensation costs over the service period of the award.

S. Impairment of Assets

Impairment of Fixed Assets and Intangible Assets

The Company reviews long-lived assets and intangible assets on a periodic basis, as well as when such a review is required based upon relevant circumstances, to determine whether events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Application of SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") resulted in an impairment charge which was recorded during 2008, see Note 7B.

Impairment of Goodwill

Goodwill is subject to an impairment test on at least an annual basis or upon the occurrence of certain events or circumstances. Goodwill impairment is assessed based on a comparison of the fair value of the unit, to which the goodwill is ascribed to as against the underlying carrying value of its net assets, including goodwill. If the carrying amount of the unit exceeds its fair value, the implied fair value of the goodwill is compared with its carrying amount to measure the amount of impairment loss, if any.

T. Derivatives

The Company issues derivatives from time to time, whether embedded or freestanding, that are denominated in currency other than its functional currency (generally the NIS in which its shares are also traded). The Company considers those instruments to be indexed only to its own stock

and not dual indexed. After considering the various guidance available on this issue, the Company decided that pending the final consensus in EITF 07-5 it will continue to consider such instruments as indexed solely to its own shares.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

U. Initial Adoption of New Standards

FAS 157-3

In October 2008, the FASB staff issued Staff Position (FSP) No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active."The FSP amends Statement 157 by incorporating "an example to illustrate key considerations in determining the fair value of a financial asset" in an inactive market. The FSP is effective upon issuance and should be applied to prior periods for which financial statements have not been issued.

The FSP's illustrative example and associated guidance clarifies various application issues raised by preparers of financial statements. With regard to the measurement principles of Statement 157, the FSP emphasizes the following:

— Objective of Fair Value – The objective of a fair value measurement is to determine the price that would be received to sell an asset in an orderly transaction that is not a forced liquidation or distressed sale between market participants as of the measurement date. This objective does not change even when there is little, if any, market activity for an asset as of the measurement date.

— Distressed Transactions – "Even in times of market dislocation, it is not appropriate to conclude that all market activity represents forced liquidations or distressed sales. However, it is also not appropriate to automatically conclude that any transaction price is determinative of fair value." The evaluation of whether individual transactions are forced (that is, whether one of the parties is forced or otherwise compelled to transact) depends on the facts and circumstances and may require the use of significant judgment.

— Relevance of Observable Data – Observable market data may require significant adjustment to meet the objective of fair value. "For example, in cases where the volume and level of trading activity in the asset have declined significantly, the available prices vary significantly over time or among market participants, or the prices are not current, the observable inputs might not be relevant and could require significant adjustment." If the adjustment is significant, the measurement would be considered Level 3.

— The Company's Assumptions and Nonperformance and Liquidity Risks – The use of the Company's internal "assumptions about future cash flows and appropriately risk-adjusted discount rates" is acceptable when relevant observable market data does not exist. In addition, such assumptions or techniques must incorporate adjustments for nonperformance and liquidity risks that market participants would consider in valuing the asset.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

U. Initial Adoption of New Standards (Cont.)

FAS 157-3(Cont.)

— Third Party Pricing Quotes – Quotes and information obtained from brokers or pricing services "are not necessarily determinative if an active market does not exist for the financial asset" being measured. In addition, "an entity should place less reliance on quotes that do not reflect actual market transactions."

The Company considered the guidance in this FSP in evaluating its Banks' loans and certain of its debt securities that are traded in inactive markets.

V. Recently Issued Accounting Standards

SFAS No. 161

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS 133" ("SFAS 161"). SFAS 161 applies to all derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities"("SFAS 133"). The provisions of SFAS 161 require entities to provide greater transparency through additional disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related

interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the additional disclosure requirements of SFAS 161.

FSP 142-3

In April 2008, the FASB issued FASB Staff Position 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets"("SFAS 142"). The objective of FSP 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R), "Business Combinations", and other U.S. generally accepted accounting principles. FSP 142-3 will be effective beginning in fiscal year 2010. The Company is currently evaluating the impact that FSP 142-3 will have, if at all, on its consolidated financial statements and disclosures.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

V. Recently Issued Accounting Standards (Cont.)

FSP APB 14-1

In May 2008, the FASB issued FASB Staff Position (FSP) APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("APB 14-1"). APB 14-1 requires the issuer to separately account for the liability and equity components of convertible debt instruments in a manner that reflects the issuer's nonconvertible debt borrowing rate. The guidance will result in companies recognizing higher interest expense in the statement of operations due to amortization of the discount that results from separating the liability and equity components. APB 14-1 will be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is currently assessing the impact of APB 14-1 on its consolidated financial statements.

FSP EITF 03-6-1

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities"("FSP EITF 03-6-1"). FSP EITF 03-6-1 establishes that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities as defined in Emerging Issues Task Force ("EITF") Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128", and should be included in the computation of earnings per share pursuant to the two-class method as described in Statement of Financial Accounting Standards No. 128, "Earnings per Share". FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period earnings per share data presented shall be adjusted retrospectively to conform to the provisions of FSP EITF 03-6-1. Early application is not permitted. The Company is currently evaluating the impact that the adoption of FSP EITF 03-6-1 will have on its consolidated financial statements but believes that its effect will be immaterial due to immaterial use of instruments within the scope of the FSP.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

V. Recently Issued Accounting Standards (Cont.)

EITF Issue No. 07-5

In June 2008, the FASB Emerging Items Task Force reached a consensus on EITF Issue No. 07-5, "Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock". The Consensus was reached on the following three issues:

1. The way an entity should evaluate whether an instrument (or embedded feature) is indexed to its own stock.

2. The way the currency in which the strike price of an equity-linked financial instrument (or embedded equity-linked feature) is denominated affects the determination of whether the instrument is indexed to an entity's own stock.

3. The way an issuer should account for market-based employee stock option valuation instruments.

This consensus will affect entities with (1) options or warrants on their own shares (not within the scope of Statement 150), including market-

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based employee stock option valuation instruments; (2) forward contracts on their own shares, including forward contracts entered into as part of an accelerated share repurchase program; and (3) convertible debt instruments and convertible preferred stock. Also affected are entities that issue equity-linked financial instruments (or financial instruments that contain embedded equity-linked features) with a strike price that is denominated in a foreign currency.

The consensus is effective for fiscal years (and interim periods) beginning after December 15, 2008. The consensus must be applied to outstanding instruments as of the beginning of the fiscal year in which the issue is adopted as a cumulative-effect adjustment to the opening balance of retained earnings for that fiscal year. Early application is not permitted.

The Company is currently evaluating the effect of EITF 07-5 and has not yet determined the impact of the consensus on its financial position or results of operations.

W. Reclassification

Certain amounts in prior years' financial statements have been reclassified in order to conform to the 2008 presentation.

NOTE 3 – MERGER WITH JAZZ

Introduction

In connection with the merger of the Company with Jazz described in Note 1 in a stock for stock transaction, upon the closing of the merger with Jazz, each outstanding share of Jazz common stock was converted into 1.8 ordinary shares of the Company, each outstanding warrant, option and convertible debentures to acquire one Jazz common stock became exercisable for 1.8 ordinary shares of the Company. Effective September 19, 2008, Jazz's common stock, warrants and units were no longer traded on the American Stock Exchange (AMEX).

In consideration for the shares, options and warrants of Jazz, the Company issued approximately 34,256,292 ordinary shares 5,381,213 options and 59,459,423 warrants with a total value of $46,744 (or $50,070 including transaction costs). The per share value, as well as the value of the options and warrants, was calculated based on the Company's stock price prevailing around May 19, 2008, the date of signing the definitive agreement of the merger and announcing it, in accordance with provisions of EITF 99-12 "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination". The merger was accounted for under the purchase method of accounting in accordance with U.S. generally accepted accounting principles for accounting and financial reporting purposes. Under this method, Jazz was treated as the "acquired" company. The results of Jazz's operations have been included in the consolidated financial statements for the period between September 19, 2008 and December 31, 2008 and its balance sheet was included as of December 31, 2008.

Estimated Fair Values of Jazz's Assets and Liabilities as of the Date of Merger

The following table summarizes the estimated fair values of Jazz's assets and liabilities at the date of merger:

	September 19, 2008
Current assets	$ 42,035
Long-term investments	17,100
Property, plant, and equipment	95,244
Intangible assets	59,500
Other assets	66
Goodwill	7,000
Total assets as of merger date	220,945
Current liabilities	39,635
Convertible debentures	108,600
Other long-term liabilities	22,640
Total liabilities as of merger date	170,875
Net assets as of merger date	$ 50,070

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

NOTE 3 – MERGER WITH JAZZ (Cont.)

Estimated Fair Values of Jazz's Assets and Liabilities as of the Date of Merger (Cont.)

Of the $59,500 of intangible assets, $1,300 were assigned to existing technology, $15,100 were assigned to patents and other core technology, $1,800 were assigned to in-process research and development, $2,600 were assigned to customer relations, $5,200 were assigned to trade name and $33,500 were assigned to real estate lease agreements; $7,000 represent goodwill. The fair values set forth above are based on a preliminary valuation of Jazz's assets and liabilities performed by the Company in accordance with SFAS No. 141, "Business Combinations" ("SFAS No. 141"). Final valuation of Jazz's assets and liabilities may vary significantly.

Pro-Forma Financial Information

The following unaudited pro-forma financial information assumes that the merger occurred on January 1, 2007. Such information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have been achieved if the merger had taken place on the date specified, nor are they indicative of the Company's future operating results.

	Year ended December 31,	
	2008	2007
	(Unaudited)	
Revenues	$ 384,044	$ 438,502
Loss	(103,304)	(147,396)
Loss per share - basic and diluted	$ (0.65)	$ (0.96)

NOTE 4 – OTHER RECEIVABLES

Other receivables consist of the following:

	As of December 31,	
	2008	2007
Government agencies	$ 2,277	$ 4,685
Others	43	63
	$ 2,320	$ 4,748

NOTE 5 – INVENTORIES

Inventories consist of the following:

	As of December 31,	
	2008	2007
Raw materials	$ 12,662	$ 12,351
Work in process	13,229	14,964
Finished goods	12,838	491
	$ 38,729	$ 27,806

Work in process and finished goods are presented net of aggregate write-downs to net realizable value of $12,488 and $6,497 as of December 31, 2008 and 2007, respectively.

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

NOTE 6 – LONG-TERM INVESTMENTS

Long-term investments consist of the following:

	As of December 31,	
	2008	2007
Severance pay funds (see Note 15B)	$ 12,193	$ 13,848
Investment in HHNEC (see below)	17,100	--
Investment in limited partnership (see below)	206	950
Others	--	295
	$ 29,499	$ 15,093

Investment in Limited Partnership:

In December 2007, the Company together with CMT Medical Technologies Ltd., a leading provider of advanced digital X-ray imaging systems for medical diagnosis, established a limited partnership to develop and market X-ray detectors for medical applications. The Company owns 38% of the limited partnership and accounts for the investment in the limited partnership using the equity method.

Investment in HHNEC:

Jazz is holding an equity investment in HHNEC (Shanghai Hau Hong NEC Electronics Company, Ltd.). As of December 31, 2008, the investment represented a minority interest of approximately 10% in HHNEC, hence the investment in HHNEC was recorded at fair value as of the date of the merger and subsequently carried using the cost method of accounting for investments, as the Company does not have the ability to exercise significant influence, see Note 3.

As part of the acquisition of 10% interest in HHNEC, Jazz is obligated to pay additional amounts to former stockholders of Jazz Semiconductor if it will realize proceeds in excess of $10,000 from a liquidity event through February 16, 2010. In that event, Jazz will pay the former Jazz Semiconductor stockholders an amount equal to 50% of the proceeds over $10,000.

NOTE 7 – PROPERTY AND EQUIPMENT, NET

A. Composition:

	As of December 31,	
	2008	2007
Cost:		
Buildings (including facility infrastructure)	$ 262,332	$ 235,960
Machinery and equipment (*)	1,010,370	985,912
	1,272,702	1,221,872
Accumulated depreciation and amortization		
Buildings (including facility infrastructure)	89,914	75,227
Machinery and equipment	733,091	644,358
	823,005	719,585
	$ 449,697	$ 502,287

(*) Presented net of impairment charges as of December 31, 2008, see B below.

Supplemental disclosure relating to cost of property and equipment:

(1) As of December 31, 2008 and 2007, the cost of buildings, machinery and equipment was reflected net of investment grants in the aggregate of $267,922.

(2) Depreciation expenses, in relation to Fab 2 property and equipment were $94,211, $113,393 and $123,422 in 2008, 2007 and 2006,

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

respectively.

Depreciation expenses, in relation to Jazz property and equipment were $5,513 in the period between the merger date and December 31, 2008.

(3) Had the Company calculated its depreciation for machinery and equipment using a useful life of a five year schedule (see Note 2G(1)), depreciation expenses for 2008 would have been $129,870 (as compared to $102,256 presented using a useful life of a seven year schedule).

B. Fixed Assets Impairment

Due to the current worldwide economic downturn, the prevailing market conditions in the semiconductor industry, global decreased demand, downward price pressure and excess inventory (see also Note 1), the Company has determined during 2008 that the events and circumstances indicate that the carrying amount of its machinery and equipment may not be recoverable. In accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company tested the recoverability of its machinery and equipment based, among others, on its business plan and prevailing market conditions, and determined that the carrying amounts of its machinery and equipment may not be recoverable. The Company evaluated the fair value of its machinery and equipment and determined that the carrying amounts exceed the fair values by $120,538. The Company recorded a charge in that amount in a separate line in its 2008 statement of operations.

The fair values of the Machinery and Equipment were determined using expected cash flows discounted at discount rate commensurate with the risk involved in generating such cash flows.

NOTE 7 – PROPERTY AND EQUIPMENT, NET (Cont.)

C. Investment Grants

In January 1996, an investment program ("1996 program") for expansion of Fab 1 in the aggregate amount (as amended in December 1999 and 2001) of $228,680, entitling the Company to investment grants, was approved by the Investment Center. The Company completed its investments under the 1996 program in December 2001 and invested through such date approximately $207,000. In May 2002, the Company submitted the final report in relation to the 1996 program. As of December 31, 2008, the report has not yet received final approval from the Investment Center.

See Note 16A(6) with respect to the Fab 2 program approved by the Investment Center in December 2000.

Entitlement to the above grants and other tax benefits is subject to various conditions stipulated by the Israeli Law for the Encouragement of Capital Investments – 1959 ("Investments Law") and the regulations promulgated thereunder, as well as the criteria set forth in the certificates of approval. In the event the Company fails to comply with such conditions, the Company may be required to repay all or a portion of the grants received plus interest and certain inflation adjustments. In order to secure fulfillment of the conditions related to the receipt of investment grants, floating liens were registered in favor of the State of Israel on substantially all of the Company's assets, see Note 20A.

D. For liens, see Notes 12D, 16A(6) and 16D(2)**.**

NOTE 8 – INTANGIBLE ASSETS, NET

Intangible assets, net consist of the following:

		As of December 31,	
	Useful Life	2008	2007
Real estate lease (*)	19	$ 32,988	$ -
Technologies in relation to Fab2	4	23,799	33,836
Patents and other core technology rights (*)	9	14,625	-
Trade name (*)	9	5,037	-
Customers relationship (*)	15	2,551	-
Existing technology (*)	9	1,259	-
Others		775	875
		$ 81,034	$ 34,711

(*) Intangible assets amounts in relation to Jazz are based on its fair value as of the merger date, see Note 3.

In process research and development in the amount of 1,800 was immediately written off and included in a separate line in the statement of operations.

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NOTE 9 – OTHER ASSETS, NET

Other assets, net consist of the following:

	As of December 31,	
	2008	2007
Prepaid long-term land lease, net (see Note 16C)	$ 4,503	$ 4,622
Debentures issuance expenses, net (see Note 17)	2,781	3,418
Prepaid expenses - long-term	1,202	1,270
Deferred financing charges, net	316	1,734
	$ 8,802	$ 11,044

NOTE 10 – ASSET-BASED REVOLVING CREDIT FACILITY

On September 19, 2008, Jazz entered into a Second Amended and Restated Loan and Security Agreement, as guarantor of its subsidiary Jazz Semiconductor, Inc., with Wachovia Capital Markets, LLC, as lead arranger, bookrunner and syndication agent, and Wachovia Capital Finance Corporation (Western), as administrative agent ("Wachovia"), and Jazz Semiconductor, Inc. and Newport Fab, LLC, as borrowers (the "Wachovia Loan Agreement"), with respect to a three-year secured asset-based revolving credit facility in the total amount of up to $55,000. On December 31, 2008, Wells Fargo acquired all of Wachovia Corporation and its businesses and obligations.

The borrowing availability varies according to the levels of the borrowers' eligible accounts receivable, eligible equipment and other terms and conditions described in the Wachovia Loan Agreement. The maturity date of the facility is September 2011, unless terminated earlier. Loans under the facility bear interest at a rate equal to, at the borrowers' option, either the lender's prime rate plus a margin ranging from 0.25% to 0.75% or the LIBOR rate (as defined in the Wachovia Loan Agreement) plus a margin ranging from 2.0% to 2.5% per annum.

The Wachovia Loan Agreement contains customary covenants and other terms, including covenants based on Jazz's EBITDA (as defined in the Wachovia Loan Agreement), as well as customary events of default. The facility is secured by the assets of Jazz and the borrowers. If any event of default occurs, Wachovia may declare that all borrowings under the facility are due immediately, foreclose on the collateral and increase the interest rate on any amounts outstanding. As of December 31, 2008, Jazz was in compliance of all the covenants under this facility.

As of December 31, 2008, Jazz had an outstanding balance of $27,000 in loans, of which $20,000 is classified as long-term debt. In addition, as of such date, there were approximately $2,000 outstanding under letters of credit, and the remaining available credit line was approximately $13,000.

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NOTE 11 – OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	As of December 31,	
	2008	2007
Accrued compensation and benefits	$ 10,648	$ 6,138
Vacation accrual	4,652	3,574
Interest payable (primarily in relation to convertible debentures)	5,726	742
Due to related parties	11,324	7,459
Other	2,852	196
	$ 35,202	$ 18,109

NOTE 12 – LONG-TERM LOANS FROM BANKS

A. Composition:

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

	As of December 31, 2008	
	Effective interest rate (*)	
In U.S. Dollar	5.30%	$ 120,000
In U.S. Dollar	4.00%	86,087
Total long-term debt from Banks-principal amount		206,087
Fair value adjustments		(3,098)
Total long-term debt from Banks		202,989
Jazz's long-term debt from Banks, see Note 10	4.00%	20,000
Total long-term debt from Banks		$ 222,989

	As of December 31, 2007	
	Effective interest rate (*)	
In U.S. Dollar	5.98%	$ 288,693
In U.S. Dollar	5.10%	80,000
In U.S. Dollar, see B below, "September 2007 Amendment"	7.88%	14,000
Total long-term debt from Banks- principal amount		382,693
Fair value adjustments		(3,379)
Total long-term debt from Banks		$ 379,314

(*) The effective interest rate as of December 31, 2008 and 2007 of loans in the amount of $200,000 and $80,000, respectively, takes into account the terms of the hedging agreements described in Note 14A.

NOTE 12 – LONG-TERM LOANS FROM BANKS (Cont.)

B. Facility Agreement

Introduction

In January 2001, the Company entered into a credit Facility Agreement with the Banks, which was revised several times, under which the Company borrowed an aggregate of $557,000 to fund the establishment and equipping of Fab 2 ("Facility Agreement"). The Facility Agreement has been most recently amended in September 2008, see below. As of December 31, 2008, the Company's outstanding debt under this Facility Agreement is approximately $206,000, which carries interest at a rate of three-month USD LIBOR plus 2.5% per annum. For details, see below.

September 2006 Amendment

As part of the financing for the ramp-up plan, in September 2006, the Company closed a definitive amendment to the Facility Agreement. Pursuant to the amendment, among other things: (i) $158,000 of debt under the Facility Agreement was converted into equity equivalent capital notes of the Company, which notes are convertible into 51,973,684 of the Company's ordinary shares, representing twice the average closing price per share during the ten days prior to signing the Memorandum of Understanding ("MOU") that preceded the final amendment; these equity equivalent capital notes have no voting rights, no maturity date, no dividend rights, are not tradable, are not registered, do not carry interest, are not linked to any index and are not redeemable; (ii) the interest rate applicable for the quarterly actual interest payment on the loans was decreased from three-month USD LIBOR plus 2.5% per annum to three-month USD LIBOR plus 1.1% per annum, effective from May 17, 2006 (the "Decreased Amount"). As compensation for the Decreased Amount and subject to adjustment, it was agreed that in January 2011, the Banks would be issued such number of shares (or equity equivalent capital notes or convertible debentures) that equals the Decreased Amount divided by the average closing price of the Company's ordinary shares during the fourth quarter of 2010 (the "Fourth Quarter 2010 Price"). If during the second half of 2010, the closing price of Company's ordinary shares on every trading day during this period exceeds $3.49, then the Banks will only be granted such number of shares (or equity equivalent capital notes or convertible debentures) that equals half of the Decreased Amount divided by the Fourth Quarter 2010 Price. If during the period ending December 31, 2010, the Banks sell a portion of the equity equivalent capital notes or shares issuable upon the conversion of the equity equivalent capital notes described in (i) above, at a price per share in excess of $3.49, then the consideration payable for the interest rate reduction will be reduced proportionately. The amounts payable in securities of the Company may be payable in cash under certain circumstances; (iii) the repayment schedule of the outstanding loans, which following the conversion was

approximately $369,000, was set to be in 12 equal quarterly installments between September 2009 and June 2012 (which payment schedule was further postponed according to the closing of the September 2008 definitive agreement with the Company's Banks and TIC); (iv) the exercise periods of the warrants held by the Banks immediately prior to the signing of the September 2006 amendment, were extended such that they are exercisable until September 2011, see Note 17B(5)(a); and (v) the financial ratios and covenants that the Company is to satisfy were revised.

NOTE 12 – LONG-TERM LOANS FROM BANKS (Cont.)

B. Facility Agreement (Cont.)

September 2007 Credit Line Agreements with the Banks and TIC and September 2007 Amendment

In September 2007, the Company signed and closed definitive agreements with the Banks and with TIC, providing for credit lines totaling up to $60,000, 25% of which was to be provided by each Bank and 50% by TIC, $28,000 of which had been borrowed during 2007 and the remainder during 2008. Each drawdown comprised of 25% from each bank and 50% from TIC. Loans under the credit lines carried an interest at an annual rate of three-month USD LIBOR plus 3% and were repayable 2 years from the date any loan was borrowed. The above described loans' terms, including repayment schedule, outstanding amounts and other terms, were later revised to result in postponed schedule, lower amount outstanding and other terms, for details, see "*September 2008 definitive agreement with the Banks and TIC*" below. The Company paid the Banks and TIC customary fees. For details regarding 5,411,764 warrants granted to the Banks and TIC in connection with this agreement, see Note 17B(5). Further, in September 2007, the Company signed and closed a definitive amendment to the Facility Agreement mainly to reflect into it the Credit Line Agreements described above and to revise the financial ratios and covenants that the Company was to satisfy.

September 2008 Definitive Agreement with the Company's Banks and TIC

In September 2008, the Company signed and closed definitive agreements with its Banks and TIC.

Pursuant to the agreements: (i) $200,000 of the Company's debt to the Banks was converted at a conversion rate of $1.42 into equity equivalent capital notes of the Company, exercisable into the Company's ordinary shares, representing two times the average closing price per share on NASDAQ for the ten trading days prior to August 7, 2008 (the date of the Company's public announcement regarding its debt conversion negotiations with the Banks and TIC); (ii) the commencement date for the repayment of the remaining principal of the Banks' loans was postponed from September 2009 to September 2010, such that the outstanding loans shall be repaid in eight equal quarterly installments between September 2010 and June 2012; (iii) interest payments owed to the Banks and originally due September 2008 through June 2009 were added to the remaining principal of the Banks' loans and will be paid according to the same schedule; (iv) the interest rate on the remaining principal of the Banks' loans was set to be LIBOR plus 2.5% per annum; (v) the compensation for the Decreased Amount agreed to in the September 2006 amendment was revised pro-rata to the decreased loans; (vi) the Banks waived in full the Company's compliance with financial covenants through the end of 2008; (vii) $50,000 of debt owed by the Company to TIC (consisting of $30,000 owed under a loan facility and $20,000 of the Company's convertible debentures series B held by TIC) were converted at a conversion rate of $1.42 into equity equivalent capital notes exercisable into the Company's ordinary shares, representing two times the average closing price per share on NASDAQ for the ten trading days prior to August 7, 2008; and (viii) TIC invested $20,000 in the Company in exchange for equity equivalent capital notes of the Company exercisable into the Company's ordinary shares at $0.71 per share, representing the average closing price per share on NASDAQ for the ten trading days prior to August 7, 2008.

NOTE 12 – LONG-TERM LOANS FROM BANKS (Cont.)

B. Facility Agreement (Cont.)

September 2008 Definitive Agreement with the Company's Banks and TIC (Cont.)

Furthermore, TIC committed to invest up to an additional $20,000 under certain conditions. In January 2009, such conditions were satisfied and TIC invested said amount. In consideration for such investment, TIC received an amount of equity equivalent capital notes of the Company, exercisable into ordinary shares of the Company, at a price of $0.26 per share. The above mentioned equity equivalent capital notes have no voting rights, no maturity date, no dividend rights, are not tradable, are not registered, do not carry interest, are not linked to any index and are not redeemable. The equity equivalent capital notes are akin to options with an exercise price of zero and are economically equivalent to the shares issuable upon exercise, and are therefore classified in permanent equity.

As part of the definitive agreements with the Banks and TIC, the Company issued in 2008 equity equivalent capital notes exercisable into approximately 204 million ordinary shares of the Company with total value of $115,071, calculated based on the price of the stock of the Company around September 25, 2008, the date of signing and closing of the definitive agreements. Such debt conversion resulted in a gain of $130,698 that was recorded in the Company's statement of operations for 2008.

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

Accounting for the Loans under the Facility Agreement

Loans received under the Facility Agreement, as amended to date, are presented commencing January 1, 2007 at fair value, with changes in value reflected on the statement of operations, following an early adoption by the Company of FASB No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" and the Company's election to apply the fair value option to the Facility Agreement.

The effect of the election of fair value option to the Facility Agreement as of January 1, 2007 was a gain of $65,207 which has been recorded as a cumulative-effect adjustment to retained loss (no tax effects have been recorded).

The carrying amount of the Facility Agreement prior and after the election was $432,430 and $367,223, respectively.

In 2006, prior to the fair value election, the loans under the amendment of September 2006 were treated as a troubled debt restructuring within the scope of FASB No. 15. The September 2008 amendment was accounted for by calculating the fair value of the remaining outstanding obligation to the Banks. The excess of the fair value of the obligation prior to the amendment over the fair value of the remaining obligation was considered settled ("the Settled Amount"). A gain on conversion of debt was recognized in the amount of the excess of the Settled Amount over the fair value of the equity equivalent capital notes issued. The fair value of the notes was calculated based on the price of the stock of the Company around September 25, 2008, the date of signing and closing of the definitive agreements with the Banks and TIC.

NOTE 12 – LONG-TERM LOANS FROM BANKS (Cont.)

B. Facility Agreement (Cont.)

Accounting for the Loans under the Facility Agreement (Cont.)

As required by SFAS No. 159 the Company also adopted the provisions of FASB 157 *Fair Value Measurements*. The adoption of the Standard is effective January 1, 2007. According to the Standard, the Company can choose to carry at fair value eligible items as defined in the Standard from the date of early adoption and accordingly the Company decided to apply the fair value option to the Facility Agreement. For fair value measurement, see Note 14D.

C. Repayment Schedule

The principal amount of the long-term debt as of December 31, 2008 is repayable as follows:

2010	$	71,522
2011		103,043
2012		51,522
	$	226,087

D. The Facility Agreement with the Banks restricts the Company's ability to place liens on its assets (other than to the State of Israel in respect of investment grants – see Note 16A(6) and to SanDisk – see Note 16D(2)), without the prior consent of the Banks. Furthermore, the agreements contain certain restrictive financial ratios and covenants. For further details concerning the Facility Agreement and its amendments, see Note 16A(5).

E. For long term bank loans of Jazz see Note 10.

NOTE 13 – DEBENTURES

A. Composition:

	As of December 31, 2008			
Interest rate	Carrying amount	Bifurcated embedded feature	Fair value	Total

2002 Convertible debentures series A (*)	4.7%	$ 8,330	$ --	$ --	$ 8,330
2005 Convertible debentures series B	5%	5,283	--	--	5,283
2006 Convertible debentures series C	--(**)	46,738	--	--	46,738
2007 Non-convertible debentures series D	8%	29,614	--	--	29,614
2007 Convertible debentures series E, see Note 14	8%	--	--	16,825	16,825
		89,965	--	16,825	106,790
Jazz's Convertible debentures	8%	110,052	--	--	110,052
Less - current maturities		8,330	--	--	8,330
		$ 191,687	$ --	$ 16,825	$ 208,512

(*) In January 2009, the outstanding amount was fully paid and the debentures were redeemed in full.

(**) See D below

	As of December 31, 2007				
	Interest rate	Carrying amount	Bifurcated embedded feature	Fair value	Total
2002 Convertible debentures series A (*)	4.7%	$ 15,774	$ --	$ --	$ 15,774
2005 Convertible debentures series B	5%	9,547	--	--	9,547
2006 Convertible debentures series C	--(**)	36,602	7,313	--	43,915
2007 Non-convertible debentures series D	8%	27,627	--	--	27,627
2007 Convertible debentures series E, see Note 14	8%	--	--	28,484	28,484
		89,550	7,313	28,484	125,347
Less - current maturities		7,887	--	--	7,887
		$ 81,663	$ 7,313	$ 28,484	$ 117,460

(*) In January 2009, the outstanding amount was fully paid and the debentures were redeemed in full.

(**) See D below

If on a payment date of the principal or interest on the debentures (series A-E) there exists an infringement of certain covenants and conditions under the Facility Agreement, the dates for payment of interest and principal on the debentures may be postponed, depending on various scenarios under the Facility Agreement until such covenant or condition is settled. The debentures and interest thereon are unsecured and subordinated to the Company's existing and future secured indebtedness, including indebtedness to the Banks under the Facility Agreement – see Note 16A(5), to SanDisk – see Note 16D(2) and to the government of Israel – see Note 7C.

NOTE 13 – DEBENTURES (Cont.)

B. 2002 Convertible Debentures Series A

In January 2002, the Company issued on the Tel-Aviv Stock Exchange, NIS 110,579,800 (approximately $24,300) principal amount of convertible debentures, linked to the Israeli Consumer Price Index ("CPI"). The debentures were issued at 96% of their par value, and bore annual interest at the rate of 4.7%, payable in January of each year commencing in January 2003. The principal amount was payable in four equal installments in January of each year between 2006 and 2009. The debentures were convertible until December 31, 2008 into ordinary shares, at a conversion rate of one Ordinary Share per each NIS 41.00 principal amount of the debentures. The outstanding principal amount of convertible debentures as of December 31, 2008, adjusted to the CPI was $8,449, and has been paid in January 2009, thereby redeeming the debentures in full.

C. 2005 Convertible Debentures Series B

The Company issued $48,169 principal amount of convertible debentures by way of a rights offering based on a prospectus which became effective on December 2005. The debentures are listed for trade on the Tel-Aviv Stock Exchange and on the NASDAQ Capital Market ("Series B"). The debentures accrue annual interest at the rate of 5% which will be payable, together with the principal of the debentures, in one installment in January 2012. As of December 31, 2008, the outstanding principal amount of those convertible debentures is $10,681 following conversions occurred. See also below.

The debentures are convertible into the Company's ordinary shares at a conversion price of $1.10 per share. The conversion price was subject to

downward adjustment under certain circumstances if the Company had sold securities in future financings at a price per share which was lower than the conversion price, provided that such financings closed, or agreements for such financings were signed, through December 2006. No such adjustment was or will be required and the downward adjustment mechanism has expired.

In analyzing whether the conversion feature requires bifurcation, the Company considered whether the conversion feature would be classified as a liability orwithin shareholders' equity. To determine classification, the conversion feature must be analyzed under EITF 00-19. The first step of the EITF 00-19 analysis for these features is to determine whether the host contract is a conventional convertible instrument. Since the conversion feature in Series B contains a reset provision that adjusts the conversion rate, the Company determined that Series B cannot be considered a "conventional convertible instrument".

Since Series B does not qualify as conventional convertible debt, paragraphs 12-32 of EITF 00-19 must be analyzed to determine whether the conversion feature should be accounted for as a liability or as equity.

NOTE 13 – DEBENTURES (Cont.)

C. 2005 Convertible Debentures Series B (Cont.)

The Company considered the provisions of Series B and determined that the number of shares issuable upon conversion of the convertible instrument is uncapped and thus requires bifurcation and treatment as derivative classified as liability. Such classification remains until the adjustment feature expires and shares issuable are fixed. The conversion feature was bifurcated using the with and without method prescribed in DIG Issue B6 and subsequently marked the conversion feature to fair value through profit and loss.

(i) In December 2006 the downward adjustment to the conversion rate feature expired resulting in the change to the embedded derivative such that it no longer require bifurcation under SFAS 133 and the amount of the liability for the conversion option reclassified to stockholders' equity was $28,377 in accordance with EITF 06-7 "Issuer's Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in SFAS No. 133".

(ii) The remaining balance of unamortized discount as of December 31, 2008 and 2007 was 5,398 (including the effect of September 2008 amendment described in Note 12B) and $19,567, respectively.

SanDisk Corporation, Alliance Semiconductor Corporation and Macronix International Co. Ltd. (collectively, the "Primary Wafer Partners") and TIC have invested $27,811 in the framework of the rights offering.

As part of the September 2008 definitive agreement with the Company's Banks and TIC, $20,000 in convertible debentures series B were converted into equity equivalent capital notes of the Company, see Note 12B.

Through December 31, 2008, $20,306 aggregate principal amount of debentures were converted into 18,460,368 ordinary shares of the Company. Following said conversion into ordinary shares and the conversion to equity equivalent capital notes as part of the September 2008 definitive agreement with the Company's Banks and TIC, the outstanding principal amount of convertible debentures Series B as of December 31, 2008 is $10,681.

NOTE 13 – DEBENTURES (Cont.)

D. 2006 Convertible Debentures Series C

In 2006, the Company issued in a public offering NIS 164,430,000 principal amount of convertible debentures linked to the CPI, for gross proceeds of NIS 139,765,500 (approximately $31,219), and 391,500 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 CPI. Such options were exercised fully to convertible debentures such that the total principal amount issued was NIS 203,580,000. The convertible debentures were convertible into the Company's ordinary shares at a conversion rate of one ordinary share per NIS 8.40 principal amount of convertible debentures. The conversion price was subject to a reduction feature until June 2008, according to which the conversion rate of Series C was reduced in July 2008 from NIS 8.4 to NIS 4.31. The convertible debentures carry a zero coupon with principal payable at maturity in December 2011, at a premium of 37% over principal value, linked to the CPI. Through December 31, 2008, NIS 1,774,255 aggregate principal amount of debentures were converted into 408,576 ordinary shares of the Company.

The outstanding principal amount of convertible debentures as of December 31, 2008 is $56,150.

As described in C above, Series C conversion rate contained a reduction feature that was considered a derivative that requires bifurcation and

subsequent mark to market through earnings.

The embedded feature was measured at fair value using a valuation technique that utilizes the discounted cash flows of Black-Scholes and Monte Carlo simulation. The Monte Carlo simulation was used to incorporate the possible adjustment of the conversion rate in different scenarios. The key inputs included were interest rate, the spot price of the Company's share and its volatility.

In June 2008 the conversion rate reduction feature expiration resulted in a change of the embedded derivative, such that it no longer required bifurcation under SFAS133 and the amount of the liability for the conversion option reclassified to stockholders'equity was $3,907 in accordance with EITF 06-7 "Issuer's Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133".

NOTE 13 – DEBENTURES (Cont.)

E. 2007 Non-Convertible Debentures Series D and Convertible Debentures Series E

In the second half of 2007, the Company consummated a private placement with Israeli institutions of long-term convertible and non-convertible debentures and warrants, by which the Company raised gross proceeds of approximately $40,000. In the funding, 342 units were sold, each comprised of: (i) long-term non-convertible-debentures, repayable in six equal annual installments between the dates of December 2011 and December 2016, with a face amount of NIS 250,000 (approximately $59.7) and carrying an annual interest rate of 8 percent ("series D"); (ii) long-term convertible-debentures repayable in December 2012 with a 17.2 NIS conversion price, with a face amount of NIS 262,500 (approximately $62.7), carrying an annual interest of 8 percent("series E"), and (iii) 5,800 warrants, each exercisable until 2011, for one Tower Ordinary Share at a price of $2.04. The debentures are linked to the CPI and were issued at 95.5% of par value. The conversion and exercise prices are subject to reduction in certain limited circumstances.

In September 2007, the Company expanded its series of long-term debentures and warrants, by selling 12,118 units, each comprised of long-term non-convertible debentures, with a face amount of NIS 2,500 (approximately $0.62), long-term convertible debentures, with a face amount of NIS 2,625 (approximately $0.65), and 58 warrants. The debentures were issued at 90% of par value and with the other same terms as the debentures and the warrants issued in the private placement. In this expansion, the Company raised gross proceeds of approximately $14,000.

The outstanding principal amount of series D and E as of December 31, 2008 was $32,632 and $36,095, respectively. The Company elected to carry series E at fair value in accordance with provisions of SFAS No. 155.

F. Convertible Debentures Issued By Jazz

In 2006, Jazz completed private placements of convertible debentures. The convertible debentures bear interest at a rate of 8% per annum payable twice a year. The convertible debentures may be redeemed on or after December 31, 2009 at agreed upon redemption prices, plus accrued and unpaid interest. Otherwise, the convertible debentures mature on December 31, 2011. As a result of the merger, the holders of the convertible debentures have the option to convert the convertible debentures into the Company's ordinary shares based on an implied conversion price of $4.07 per Company Ordinary Share.

As of December 31, 2008, $128,200 in principal amount of convertible debentures were outstanding.

NOTE 14 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASURMENTS

The Company makes certain disclosures with regard to financial instruments, including derivatives. These disclosures include, among other matters, the nature and terms of derivative transactions, information about significant concentrations of credit risk, and the fair value of financial assets and liabilities.

A. Interest Rate Derivatives

A derivative is typically defined as an instrument whose value is derived from an underlying instrument, index or rate, has a notional amount, requires no or little initial investment and can be net settled.

SFAS 133 requires that all derivatives be recorded in the financial statements at their fair value at the date of the financial statements. The changes in the fair value of the derivatives are charged to the statement of operations unless designated as hedging item in a cash flows hedge at which time changes are classified in other comprehensive income, to the extent effective.

The Company, from time to time, enters into agreements to hedge variable interest rate exposure on long-term loans. The Company uses interest rate collar agreements, some of which with a knock-out and knock-in features to hedge its LIBOR-based variable long-term debt cash flow

exposure. The knock-out feature was set above the cap level and the knock-in feature was set below the floor level. The derivatives, although used as economic hedges, are not treated as hedges for accounting purposes. The changes in fair value are recorded immediately in earnings.

As of December 31, 2008, the Company had outstanding agreements to economically hedge interest rate exposure on loans drawn down under the Facility Agreement, the aggregate amount of which was $200,000, out of which, $120,000 are to be settled commencing June 30, 2009, concurrent with the expected interest cash payments on the Banks loans following the September 2008 definitive agreement with the Company's Banks and TIC. As of December 31, 2007, the Company had such outstanding agreements in the amount of $80,000. Total changes of fair value of all derivatives above resulted in $3,531 loss for the year ended December 31, 2008.

The Company does not hold or issue derivative financial instruments for non-hedging purposes.

NOTE 14 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASURMENTS (Cont.)

B. Concentration of Credit Risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short-term bank deposits, trade receivables and government agencies receivables. The Company's cash, cash equivalents are maintained with the two largest banks in Israel, and the composition and maturities of investments are regularly monitored by the Company. Generally, these securities may be redeemed upon demand and bear minimal risk.

The Company generally does not require collateral insurance; however, in certain circumstances, the Company maintains a credit insurance policy or may require letters of credit. An allowance for doubtful accounts is determined with respect to those amounts that were determined to be doubtful of collection. The Company performs ongoing credit evaluations of its customers, see Note 18.

The Company is exposed to credit-related losses in respect of derivative financial instruments in a manner similar to the credit risk involved in the realization or collection of other types of assets. The Company believes that its exposure to credit risk is immaterial considering its overall position with the Banks that are the counterparty to the derivatives.

C. Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments, excluding the Company's long-term debentures and long-term Banks loans, do not materially differ from their respective carrying amounts as of December 31, 2008 and 2007. The fair values of the Company's debentures, based on quoted market prices as of December 31, 2008, 2007 and 2006 were $34,664, $157,683 and $126,048, respectively.

Jazz's assets and liabilities are presented based on an estimated fair value performed by the Company as of the merger date, see Note 3.

D. Fair Value Measurements

The Company decided to early adopt the provisions of SFAS No. 157 effective January 1, 2007, concurrent with the adoption of FASB 159 "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159). Fair values were determined using the income approach using a present value technique, as follows:

— For Loans – the cash flows used in that technique reflect the income stream expected to be used to satisfy the obligation over its economic life. The Company discounted expected cash flows as forecasted each quarter using the appropriate discount rate for the applicable maturity.

— For Embedded Derivatives - the Company utilized the Black Scholes Merton formula.

NOTE 14 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASURMENTS (Cont.)

D. Fair Value Measurements (Cont.)

— For Over the Counter derivatives – the Company used the market approach using quotation from dealer markets.

— For convertible debentures series E – until recently the market approach using quoted market prices was used. Due to recent downturn of the financial markets, including the inactive and depressed market conditions for these debentures in Israel, the Company believes that the market price does not provide evidence of fair value without adjustment. Hence, the market approach was adjusted to take into account other features that have not been captured by the market.

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

Recurring Fair Value Measurements Using the Indicated Inputs:

	December 31, 2008	Quoted prices in active market for identical liability (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Convertible debentures series E	$ 16,825	$ --	$ --	$ 16,825
Long-term debt	202,989	--	--	202,989
Derivatives	3,236	--	3,236	--
	$ 223,050	$ --	$ 3,236	$ 219,814

Liabilities measured on a recurring basis using significant unobservable inputs (Level 3):

	Long-term debt	Convertible debentures series E	Derivatives
As of January 1, 2008 - at fair value	$ 365,563	$ 28,484	$ 7,313
Total losses (gains) recognized in earnings	2,670	(11,659)	(3,406)
Conversion of Bank loans under the Definitive Agreements with the Banks and TIC, see Note 12B	(165,244)	--	--
Reclassification of previously bifurcated conversion option to shareholders' equity	--	--	(3,907)
As of December 31, 2008 - at fair value	$ 202,989	$ 16,825	$ --
Unrealized losses (gains)recognized in earnings from liabilities held at period end	$ 6,301	$ (11,659)	$ (3,406)

NOTE 14 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASURMENTS (Cont.)

D. Fair Value Measurements (Cont.)

Non Recurring Fair Value Measurements Using the Indicated Inputs:

	September 19, 2008	Significant unobservable inputs (Level 3)
Long-lived assets held and used	$ 95,244	$ 95,244
Intangible assets	59,500	59,500
Goodwill	7,000	7,000
Long-term investments	17,100	17,100
Convertible Debentures	108,600	108,600
	$ 287,444	$ 287,444

Recurring Fair Value Measurements Using the Indicated Inputs:

	December 31, 2007	Quoted prices in active market for identical liability (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Trading securities - convertible debentures series E	$ 28,484	$ 28,484	$ --	$ --
Long-term debt	365,563	--	--	365,563
Derivatives	7,018	--	(295)	7,313

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

$ 401,065	$ 28,484	$ (295)	$ 372,876

Liabilities measured on a recurring basis using significant unobservable inputs (Level 3):

	Long-term debt	Derivatives
As of January 1, 2007 - at fair value	$ 367,223	$ 11,513
Total gains unrealized in earnings	(1,660)	(4,200)
As of December 31, 2007 - at fair value	$ 365,563	$ 7,313
Unrealized gain in earnings from liabilities still held at period end	$ (1,660)	$ (4,200)

NOTE 15 – OTHER LONG-TERM LIABILITIES

A. Other long-term liabilities consist of the following:

	As of December 31,	
	2008	2007
Accrued severance pay and other employee benefit plans, see B and C below	$ 26,752	$ 18,374
Long-term loans from TIC, see Note 12B "September 2007 Amendment",	--	14,000
Long-term liability to a Primary Wafer Partner net of current maturity, see Notes 16A(4) and 16D(2)	710	5,073
Deferred tax liability	11,749	--
Others (*)	6,748	2,933
	$ 45,959	$ 40,380

(*) Includes $718 and $2,468 as of December 31, 2008 and December 31, 2007, respectively, of interest payable to related parties in regard to Series B, see also Note 13C.

B. Employee Termination Benefits

Israeli law and labor agreements determine the obligations of the Company to make severance payments to dismissed employees and to employees leaving employment under certain circumstances. Generally, the liability for severance pay benefits, as determined by Israeli Law, is based upon length of service and the employee's monthly salary. This liability is primarily covered by regular deposits made each month by the Company into recognized severance and pension funds and by insurance policies purchased by the Company, based on the employee's salary for the relevant month. The amounts so funded and the liability are reflected separately on the balance sheets in long-term investments and other long-term liabilities, respectively. Commencing January 1, 2005 the Company started implementing with regard to most of its employees, a labor agreement according to which, monthly deposits into recognized severance and pension funds or insurance policies release it from any additional severance obligation to its employees and therefore the Company incurs no liability or asset, since that date. Any net severance pay amount as of such date will be released thereafter on the employee's termination date. Payments relating to Israeli employee termination benefits were approximately $4,018, $3,323 and $2,807 for 2008, 2007 and 2006, respectively.

NOTE 15 – OTHER LONG-TERM LIABILITIES (Cont.)

C. Employee Benefit Plans

The following information provided, recognizes the periodic expenses and changes in benefit obligations in the period between September 19, 2008 and December 31, 2008 due to the new bargaining agreement effective May 2, 2008 entered into by Jazz with its collective bargaining unit

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

employees.

Postretirement Medical Plan

The components of the net periodic benefit cost and other amounts recognized in other comprehensive income (loss) for postretirement medical plan expense are as follows:

	Year ended December 31, 2008
Net periodic benefit cost	
Service cost	$ 46
Interest cost	126
Expected return on the plan's assets	--
Amortization of transition obligation/(asset)	--
Amortization of prior service costs	--
Amortization of net (gain) or loss	--
Total net periodic benefit cost	$ 172
Other changes in plan assets and benefits obligations recognized in other comprehensive income	
Prior service cost for the period	$ --
Net (gain) or loss for the period	1,338
Amortization of transition obligation (asset)	--
Amortization of prior service costs	--
Amortization of net (gain) or loss	--
Total recognized in other comprehensive income	$ 1,338
Total recognized in net periodic benefit cost and other comprehensive income	$ 1,510
Weighted average assumptions used:	
Discount rate	7.00%
Expected return on plan assets	N/A
Rate of compensation increases	N/A
Assumed health care cost trend rates:	
Health care cost trend rate assumed for current year	9.00%
Ultimate rate	5.00%
Year the ultimate rate is reached	2014
Measurement date	December 31, 2008

NOTE 15 – OTHER LONG-TERM LIABILITIES (Cont.)

C. Employee Benefit Plans (Cont.)

Impact of one-percentage point change in assumed health care cost trend rates as of December 31, 2008:

	Increase	Decrease
Effect on service cost and interest cost	$ 32	$ (28)
Effect on postretirement benefit obligation	$ 1,293	$ (1,177)

The components of the change in benefit obligation; change in plan assets and funded status for postretirement medical plan are as follows:

	Year ended December 31, 2008
Change in benefit obligation:	
Benefit obligation at beginning of period	$ 6,226

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

Service cost		46
Interest cost		126
Benefits paid		(48)
Change in plan provisions		--
Actuarial loss (*)		1,338
Benefit obligation end of period	$	7,688
Change in plan assets:		
Fair value of plan assets at beginning of period	$	--
Actual return on plan assets		--
Employer contribution		48
Benefits paid		(48)
Fair value of plan assets at end of period		--
Funded status	$	(7,688)

(*) The actuarial loss for the period ended December 31, 2008 resulted primarily due to the decrease in discount rate from 7.00% to 6.10%.

NOTE 15 – OTHER LONG-TERM LIABILITIES (Cont.)

C. Employee Benefit Plans (Cont.)

	As of December 31, 2008
Amounts recognized in statement of financial position :	
Non-current assets	$ --
Current liabilities	(180)
Non-current liabilities	(7,508)
Net amount recognized	$ (7,688)
Weighted average assumptions used:	
Discount rate	6.10%
Rate of compensation increases	N/A
Assumed health care cost trend rates:	
Health care cost trend rate assumed for next year	9.00%
Ultimate rate	5.00%
Year the ultimate rate is reached	2015

The following benefit payments are expected to be paid in each of the next five fiscal years and in the aggregate for the five fiscal years thereafter:

Fiscal Year	Other Benefits ($)
2009	180
2010	251
2011	338
2012	416
2013	489
2014 - 2018	3,963

Pension Plan

Jazz has a pension plan that provides for monthly pension payments to eligible employees upon retirement. The pension benefits are based on years of service and specified benefit amounts. Jazz uses a December 31 measurement date. Jazz makes quarterly contributions in accordance with the minimum actuarially determined amounts.

NOTE 15 – OTHER LONG-TERM LIABILITIES (Cont.)

C. Employee Benefit Plans (Cont.)

The components of the change in benefit obligation, the change in plan assets and funded status for the pension plan are as follows:

	Year ended December 31, 2008
Net periodic benefit cost	
Service cost	$ 101
Interest cost	203
Expected return on plan assets	(189)
Amortization of transition obligation/(asset)	--
Amortization of prior service costs	--
Amortization of net (gain) or loss	--
Total net periodic benefit cost	$ 115
Other changes in plan assets and benefits obligations recognized in other comprehensive income	
Prior service cost for the period	$ --
Net (gain) or loss for the period	2,804
Amortization of transition obligation (asset)	--
Amortization of prior service costs	--
Amortization of net (gain) or loss	--
Total recognized in other comprehensive income	$ 2,804
Total recognized in net periodic benefit cost and other comprehensive income	$ 2,919
Weighted average assumptions used:	
Discount rate	7.00%
Expected return on plan assets	7.50%
Rate of compensation increases	N/A
Estimated amounts that will be amortized from accumulated other comprehensive income in the next fiscal year ending:	
Transition obligation (asset)	$ --
Prior service cost	--
Net actuarial (gain) or loss	$ 192

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NOTE 15 – OTHER LONG-TERM LIABILITIES (Cont.)

C. Employee Benefit Plans (Cont.)

The components of the change in benefit obligation; change in plan assets and funded status for the postretirement medical plan are as follows (dollars in thousands):

	Year ended December 31, 2008
Change in benefit obligation:	
Benefit obligation at beginning of period	$ 9,961
Service cost	101
Interest cost	203
Benefits paid	(47)
Change in plan provisions	--
Actuarial loss (gain) (*)	883

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

Benefit obligation end of period	$	11,101
Change in plan assets		
Fair value of plan assets at beginning of period	$	8,560
Actual return on plan assets		(1,732)
Employer contribution		214
Benefits paid		(47)
Fair value of plan assets at end of period	$	6,995
Funded status	$	(4,106)
Accumulated benefit obligation	$	(11,101)

(*) The actuarial loss for the period ended December 31, 2008 resulted primarily due to the poor asset performance (approximately 20% loss) and a decrease in the discount rate from 7.00% to 6.20%.

	As of December 31, 2008
Amounts recognized in statement of financial position	
Non-current assets	$ --
Current liabilities	--
Non-current liabilities	(4,106)
Net amount recognized	$ (4,106)
Weighted average assumptions used	
Discount rate	6.20%
Expected return on plan assets	7.50%
Rate of compensation increases	N/A

NOTE 15 – OTHER LONG-TERM LIABILITIES (Cont.)

C. Employee Benefit Plans (Cont.)

The following benefit payments are expected to be paid in each of the next five fiscal years and in the aggregate for the five fiscal years thereafter:

Fiscal Year		Other Benefits
2009	$	308
2010		359
2011		396
2012		455
2013		518
2014 - 2018	$	3,525

Jazz has estimated the expected return on assets of the plan of 7.5% based on assumptions derived from, among other things, the historical return on assets of the plan, the current and expected investment allocation of assets held by the plan and the current and expected future rates of return in the debt and equity markets for investments held by the plan. The obligations under the plan could differ from the obligation currently recorded if the Company's estimates are not consistent with actual investment performance.

The pension plan weighted average asset allocations at December 31, 2008 by asset category are as follows:

Asset Category:	December 31, 2008	Target allocation 2009
Equity securities	65%	65 - 75%
Debt securities	35%	25 - 35%
Real estate	--%	--%

Other	--%	--%
Total	100%	100%

The primary policy goals regarding the plan's assets are cost-effective diversification of plan assets, competitive returns on investment, and preservation of capital. Plan assets are currently invested in mutual funds with various debt and equity investment objectives. The target asset allocation for the plan assets is 25-35% debt, or fixed income securities, and 65-75% equity securities. Individual funds are evaluated periodically based on comparisons to benchmark indices and peer group funds and necessary investment decisions are made by the Company in accordance with the policy goals.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

A. Commitments and Contingencies Relating to Fab 2

(1) Overview

In 2001, the Company's Board of Directors approved the establishment of the Company's second wafer fabrication facility in Israel ("Fab 2"). In Fab 2, the Company manufactures semiconductor integrated circuits on silicon wafers in geometries of 0.18 to 0.13 micron on 200-millimeter wafers. In connection with the establishment, equipping and financing of Fab 2, the Company has entered into several related agreements and other arrangements and has completed several public and private financing transactions. The agreements and arrangements include those with technology partners, with SanDisk Corporation, Alliance Semiconductor Corporation, Macronix International Co., Ltd. and QuickLogic Corporation (collectively, the "Wafer Partners"), TIC, Banks, the Government of Israel through the Investment Center and others. The Company has also entered into agreements for the design and construction of Fab 2, for equipping Fab 2 and for the transfer to the Company of process technologies to produce wafers in Fab 2.

(2) Wafer Partner Agreements

During the years 2000 and 2001, the Company entered into various shares purchase agreements ("Wafer Partner Agreements") with Wafer Partners to partially finance the construction and equipping of Fab 2. Pursuant to the Wafer Partner Agreements, the Wafer Partners agreed to invest an aggregate of $250,000 to purchase ordinary shares of the Company. According to the Wafer Partner Agreements, the Company agreed, subject to certain conditions, to reserve for each Wafer Partner a certain portion, and collectively approximately 50%, of Fab 2 wafer manufacturing capacity for a period of 10 years ending January 2011.

Through December 31, 2004, the Wafer Partners invested under the Wafer Partner Agreements an aggregate of $246,823. Of such amount, $201,059, was credited as paid in capital and $45,764, was established as long-term customers' advances which may be, subject to the terms and conditions stipulated in the Wafer Partner Agreements, as amended to date, utilized as credit against purchases to be made by the Wafer Partners, primarily through December 2010, or converted into paid-in-capital for a limited term. Through December 31, 2008, the Wafer Partners were issued an aggregate of 36,489,681 ordinary shares at an average price per share of $6.94, which was determined based on the average closing sale price of the Company's ordinary shares for the 15-30 trading days prior to making any capital investment, see (4) below.

Due to the termination by one of the Wafer Partners of its semiconductor business, the Company believes that no future utilization of the wafer credits will be made by such Wafer Partner, hence a full write-down of its outstanding wafer credits in the amount of $9,747 was recorded during 2007.

NOTE 16 – COMMITMENTS AND CONTINGENCIES (Cont.)

A. Commitments and Contingencies Relating to Fab 2 (Cont.)

(2) Wafer Partner Agreements (Cont.)

In addition, the Primary Wafer Partners invested in rights offering in 2002 and 2005 an aggregate amount of $19,089, see also Note 17F .

In August 2006, the Company signed an agreement with SanDisk, one of the Wafer Partners, to invest in the expansion of its 0.13 micron manufacturing capacity. For the agreement with SanDisk, as amended, see Note D(2) below.

For amendments to the Wafer Partner Agreements, see (4) below.

(3) TIC Agreements

During the years 2001-2004, TIC invested $50,000 in the Company for the purchase of an aggregate of 6,749,669 ordinary shares of the Company at an average price per share of $7.41, which was determined based on the average closing sale price of the Company's ordinary shares for the 15-30 trading days prior to making any investment. The investment of TIC was made in accordance with the share purchase agreement entered into in January 2001. For a description of an additional investments made by TIC in the aggregate amount of $29,152 in connection with the 2005 rights offerings, see Note 17F.

In 2006, in connection with the September 2006 amendment to the Facility Agreement, described in Note 12B, TIC invested $100,000 in the Company for equity equivalent capital notes convertible into 65,789,474 of the Company's 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 equity equivalent capital notes have no voting rights, no maturity date, no dividend rights, are not tradable, are not registered, do not carry interest, are not linked to any index and are not redeemable.

In 2007, in connection with the September 2007 Credit Line Agreements with the Banks and TIC, the Company received from TIC a credit line for loans of $30,000, see Note 12B.

NOTE 16 – COMMITMENTS AND CONTINGENCIES (Cont.)

A. Commitments and Contingencies Relating to Fab 2 (Cont.)

(3) TIC Agreements (Cont.)

As part of the September 2008 definitive agreements with the Company's Banks and TIC (i) an amount of $50,000 of debt owned by the Company to TIC was converted into equity equivalent capital notes convertible into 35,211,268 of the Company's ordinary shares, representing twice the average closing price per share on NASDAQ for the ten trading days prior to August 7, 2008 and (ii) TIC invested $20,000 in the Company in exchange for equity equivalent capital notes of the Company convertible into 28,169,014 of the Company's ordinary shares, representing the average closing price per share on NASDAQ for the ten trading days prior to August 7, 2008. In January 2009, following an additional investment by TIC of $20,000, the Company issued TIC equity equivalent capital notes convertible into 76,923,077 of the Company's ordinary shares.

The equity equivalent capital notes are akin to options with an exercise price of zero and are economically equivalent to the shares issuable upon exercise, and are therefore classified in permanent equity.

(4) Amendments to the Primary Wafer Partner Agreements

Pursuant to the Primary Wafer Partner Agreements, as amended to date, each of the Primary Wafer Partners had an option to convert, at the end of each calendar quarter commencing 2004, that portion of the long-term customers' advances which it is entitled to utilize, based upon payments made by such Primary Wafer Partner and purchase orders received from the Wafer Partners through December 31, 2006, (subject to the below amendment with one of the Wafer Partners), into fully-paid ordinary shares of the Company. The number of shares was determined based on the average closing sale price of the Company's ordinary shares for the 15 trading days preceding the end of the relevant quarter. Accordingly, through December 31, 2007, two of the Primary Wafer Partners had elected to convert an aggregate of $12,487 of long-term customer advances into 7,908,063 fully-paid ordinary shares of the Company, at an average share price of $1.58 per share. Any quarterly amount, which the Primary Wafer Partners did not so convert, was utilizable against purchases and was to be repaid on December 2007. The amounts bore interest, payable at the end of each quarter, at an annual rate equal to three-month USD LIBOR plus 2.5% through December 31, 2007, subject to the amendment described below with respect to one of the Wafer Partners.

In 2006, the Company and one of the Primary Wafer Partners, entered into an agreement to extend the date until which the credits could be utilized and would be subject to repayment if not so utilized to December 2009. Further, according to the agreement, with respect to certain orders placed until July 2006, and all orders placed thereafter through December 2009, such unutilized advances bear interest at an annual rate equal to three-month USD LIBOR plus 1.1%, payable at the end of each quarter, through December 2009.

NOTE 16 – COMMITMENTS AND CONTINGENCIES (Cont.)

A. Commitments and Contingencies Relating to Fab 2 (Cont.)

(5) Facility Agreement

Compliance with Financial Ratios and Covenants

As of the balance sheet date, the Company was in full compliance with all of the financial ratios and covenants under the Facility Agreement, as amended to date, see also Note 12B regarding the Banks' waiver of the Company's compliance with financial covenants through the end of 2008 as part of the September 2008 definitive agreement with the Company's Banks and TIC. 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 approval date of the financial statements amounted to approximately $206,000) plus penalties, and the Banks would be entitled to exercise the remedies available to them under the Facility Agreement, including enforcement of their liens against all of the Company's assets.

Liens

Under the Facility Agreement, the Company agreed to register liens in favor of the Banks on substantially all its present and future assets. If, as a result of any default under the Facility Agreement, the Banks were to accelerate the Company's obligations, the Company would be obligated to immediately repay all loans made by the Banks (which as of the approval date of the financial statements amounted to approximately $206,000), plus penalties, and the Banks would be entitled to exercise the remedies available to them under the Facility Agreement, including enforcement of the liens against the Company's assets.

Offeror by the Banks

If one or more certain bankruptcy related events occur, the Banks are entitled to bring a firm offer made by a potential investor to purchase the Company's ordinary shares ("the Offer") at a price provided in the Offer. In such case, the Company shall be required thereafter to procure a rights offering to invest up to 60% of the amount of the Offer on the same terms. If the Offer is conditioned on the offeror purchasing a majority of the Company's outstanding share capital, the rights offering will be limited to allow for this, unless TIC and the Primary Wafer Partners agree to exercise in a rights offering rights applicable to their shareholdings and agree to purchase in a private placement enough shares to ensure that the full amount of the Offer is invested.

For further details in regard to the Facility Agreement, see Note 12B.

For interest rate derivatives agreements in connection with the loans under the facility agreement, see Note 14.

NOTE 16 – COMMITMENTS AND CONTINGENCIES (Cont.)

A. Commitments and Contingencies Relating to Fab 2 (Cont.)

(6) Approved Enterprise Status

In December 2000, the Investment Center approved an investment program in connection with Fab 2 for expansion of the Company's plant. The approval certificate for the program provided for a benefit track entitling the Company to investment grants at a rate of 20% of qualified investments of up to $1,250,000, or an aggregate of up to $250,000, of which as of the balance sheet date, an aggregate of approximately $165,000 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 72% of the investments within the time frame stipulated in the approved enterprise program. In December 2007, the Company submitted the final report in relation to the program. The Company has been holding discussions with the Investment Center to achieve satisfactory arrangements to approve a new expansion program since January 1, 2006.

In May 2008, the Company filed a petition with the Israeli High Court of Justice in which the Company asked the Court to order that its expansion plan (in connection with its Fab 2 Approved Enterprise Program) be brought before the relevant Israeli Governmental bodies for their respective approvals without delay. In July, the Court ordered that the proceeding be transferred to a three-judge panel. A hearing has been scheduled for October 2009. On August 11, 2008, the Investment Center rejected the Company's expansion plan request. The Company has appealed this decision before the Israeli Minister of Finance and the Israeli Minister of Industry, Trade and Labor.

As of the approval date of the financial statements, the Company cannot estimate when, if at all, the Company will receive approval of its request for a new expansion program.

Any failure by the Company to meet the conditions of the 2000 approval certificate may result in the cancellation of all or a portion of the grants to be received and tax benefits and in the Investment Center requiring the Company to repay all or a portion of grants already received. Under Israeli law, the Company's non-completion of investments in an amount of $1,250,000 by December 31, 2005 may permit the Investment Center to require the Company to repay all or a portion of grants already received. The Company believes that it is improbable that the Investment Center would demand the Company to repay all or a portion of grants already received, or deny investment grants receivable as of December 31, 2005, due to its non-completion of investments in the amount of $1,250,000 by December 31, 2005. See also Note 20A.

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NOTE 16 – COMMITMENTS AND CONTINGENCIES (Cont.)

A. Commitments and Contingencies Relating to Fab 2 (Cont.)

(7) Agreement with the ILA

In November 2000, the Company entered into a development agreement with the Israel Land Administration ("ILA") with respect to a parcel of land on which Fab 2 was constructed. Following the completion of the construction of Fab 2 on the land, in June 2003, the Company entered into a long-term lease agreement with the ILA for a period ending in 2049. The lease payments through 2049 relating to this lease have been paid in advance and are expensed through the operational lease period.

B. License Agreements

(1) In June 2000, the Company entered into a cross license agreement with a major technology company. According to the agreement, each party acquired a non-exclusive license to certain of the other's patents. The Company agreed to pay an annual license fee through July 2005. In July 2006, the Company extended its cross license agreement with the major technology company until December 2010. According to terms of the new agreement, each party acquired a non-exclusive license to certain of the other's patents, and the Company agreed to pay an annual license fee through 2010.

(2) In October 1997 the Company and Saifun Semiconductors Ltd ("Saifun") entered into an agreement for certain exclusive semiconductor manufacturing rights on certain licensed technology. The agreement set certain limitations on Saifun regarding future licensing of such technology. Pursuant to certain provisions of the agreement, the Company and Saifun were obligated to pay each other royalties. The agreement was terminated in 2006, with the signing of a new agreement, according to which, among other things, Saifun extended the term of the license granted to the Company for certain licensed technology.

(3) The Company and Jazz enter into intellectual property and licensing agreements with third parties from time to time. The effect of each of them on the Company's total assets and results of operations is immaterial. Certain of these agreements call for royalties to be paid by the Company and Jazz to these third parties.

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NOTE 16 – COMMITMENTS AND CONTINGENCIES (Cont.)

C. Leases

(1) The Company's offices and engineering and manufacturing operations are located in a building complex situated in an industrial park in Migdal Ha'emek, in the northern part of Israel. These premises are currently occupied under a long-term lease from the ILA, which expires in 2032. The Company has no obligation for lease payments related to this lease through the year 2032.

(2) With respect to a long-term lease agreement of land on which Fab 2 was constructed, see A(7) above.

(3) The Company occupies certain other premises under various operating leases. The obligations under such leases were not material as of December 31, 2008.

(4) Jazz leases its fabrication facilities and headquarters from Conexant Systems, Inc. ("Conexant") under non-cancelable operating leases through 2017. Jazz has the unilateral option to extend the terms of each of these leases for two consecutive five-year periods ending in 2027. Jazz's rental payments under these leases consist solely of its pro rata share of the expenses incurred by Conexant in the ownership of these buildings and applicable adjustments for increases in the consumer price index. These expenses include property taxes, building insurance, depreciation and common area maintenance and are included in operating expenses in the accompanying consolidated statements of operations. Jazz is not permitted to sublease space that is subject to the leases with Conexant without Conexant's prior approval. Jazz also leases office and warehouse facilities from third parties. In connection with acquisition of Jazz Semiconductor, Jazz and Conexant executed amendments to the leases. Under the lease amendments, Jazz's headquarters may be relocated one time no earlier than 12 months from the completion of the acquisition of Jazz Semiconductor to another building within one mile of Jazz's current location at Conexant's option and expense subject to certain conditions. The amount allocated to facilities leases represents the fair value of acquired leases calculated as the difference between market rates for similar facilities in the same geographical area and the rent Jazz is estimated to pay over the life of the leases, discounted back over the life of the lease. The future minimum costs under these leases have been estimated based on costs incurred during 2008.

At December 31, 2008, future minimum payments under operating leases are primarily due to Conexant and these costs have been estimated based on the actual costs incurred during 2008 and when applicable have been adjusted for increases in the consumer price index.

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NOTE 16 – COMMITMENTS AND CONTINGENCIES (Cont.)

C. Leases (Cont.)

Future minimum payments under non-cancelable operating leases are as follows:

	Payment Obligations by Year (dollars in thousands)						
	2009	2010	2011	2012	2013	2014-2017	Total
Operating leases	$ 2,468	$ 2,300	$ 2,300	$ 2,300	$ 2,300	$ 7,353	$ 19,021

D. Other Principal Agreements

The Company, from time to time in the ordinary course of business, enters into long-term agreements with various entities for the joint development of products and processes utilizing technologies owned by both the other entities and the Company.

(1) Siliconix

In 2004, the Company and Siliconix incorporated ("Siliconix"), a subsidiary of Vishay Intertechnology Inc., entered into a definitive long-term foundry agreement for semiconductor manufacturing in the Company's Fab 1. During 2008, the parties amended the agreement to revise the terms of the purchase of trench wafers as well as transfer additional product platforms to Tower for the manufacturing of new products in Fab 1.

(2) SanDisk Corporation

In 2006, the Company signed an agreement with SanDisk Corporation ("SanDisk"), one of its wafer partners, according to which, SanDisk is committed to purchase volume quantities of 0.13 micron wafers during 2007 and 2008 and will have a right of first refusal for a portion of the Company's 0.13 micron capacity in 2009. The Company and SanDisk also signed a Loan Agreement under which the Company borrowed approximately $10,000 from SanDisk for the purpose of financing the purchase of a portion of the equipment needed for 0.13 micron production and SanDisk was granted a first ranking charge on the equipment purchased therewith. The loan bears interest on the amounts outstanding at three-month USD LIBOR plus 1.1%. In 2008, the parties amended the agreement mainly to revise the terms of the loan repayments schedule. Pursuant to the agreement, SanDisk has been granted a first ranking charge on the equipment purchased therewith.

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NOTE 16 – COMMITMENTS AND CONTINGENCIES (Cont.)

E. Environmental Affairs

The Company's operations are subject to a variety of laws and governmental regulations in Israel relating to the use, discharge and disposal of toxic or otherwise hazardous materials used in the production processes. Operating permits and licenses are required for the operations of the Company's facilities and these permits and licenses are subject to revocation, modification and renewal. Government authorities have the power to enforce compliance with these regulations, permits and licenses. As of the approval date of the financial statements, the Company was in compliance with the terms of the permits and licenses.

F. International Trade Commission Action

During 2008, an International Trade Commission ("ITC") action was filed by LSI/Agere Corporation ("LSI"), which alleged infringement by 17 corporations of LSI's patent no. 5227335. Following the initial filing, LSI amended the ITC complaint requesting to add the Company, Jazz and three other corporations as additional respondents. Jazz, the Company and the other three corporations were added as additional respondents to the ITC action in October 2008. The Company and Jazz are assessing the merits of this action and cannot provide an estimate of any possible losses or predict the outcome thereof, which could have a material and adverse effect on the Company and Jazz's business and financial position. The Company and Jazz intend to vigorously defend the litigation.

G. The Company's merger with Jazz was submitted for review by the Committee on Foreign Investment in the United States ("CFIUS"), a group of U.S. agencies that reviews foreign investments in U.S. companies for national security reasons. CFIUS has notified that it has completed its review, there are no unresolved national security concerns with respect to the Merger and no further action will be taken by CFIUS.

H. In connection with Jazz's aerospace and defense business, its facility security clearance and trusted foundry status, the Company and Jazz are working with the Defense Security Service of the United States Department of Defense ("DSS") to develop an appropriate structure to mitigate any concern of foreign ownership, control or influence over the operations of Jazz specifically relating to protection of classified information and prevention of potential unauthorized access thereto. In order to safeguard classified information, it is expected that the DSS will require adoption of a Special Security Agreement ("SSA"). The SSA may include certain security related restrictions, including restrictions on the composition of the board of directors, the separation of certain employees and operations, as well as restrictions on disclosure of classified information to the Company. The provisions contained in the SSA may also limit the projected synergies and other benefits to be realized from the Merger. There is no assurance when, if at all, an SSA will be reached.

NOTE 16 – COMMITMENTS AND CONTINGENCIES (Cont.)

I. Jazz's Supply Agreement

Jazz has a guaranteed supply agreement for certain gases used in Jazz's manufacturing process that expires in 2014. The agreement specifies minimum purchase commitments and contains a termination fee that is adjusted downward on each of the agreement's anniversary dates. The initial minimum purchase commitment of approximately $1,000 annually is adjusted based on supplemental gas purchases, wage increases for the labor portion of the minimum purchase commitment and price increases for supplemental product. If Jazz were to terminate the supply agreement prior to 2014, the termination fee would be approximately $4,000.

J. Other Commitments

Receipt of certain research and development grants from the government of Israel is subject to various conditions. In the event the Company fails to comply with such conditions, the Company may be required to repay all or a portion of the grants received. In the Company's opinion, the Company has been in full compliance with the conditions through December 31, 2008. In regard to investment center grants, see A(6) above.

NOTE 17 – SHAREHOLDERS' EQUITY

A. Description of Ordinary Shares

As of December 31, 2008 and 2007, the Company had 1.1 billion and 800 million authorized ordinary shares, respectively, par value NIS 1.00 each, of which 160,025,639 and 124,226,116, respectively, were issued and outstanding (net of 1,300,000 ordinary shares held by the Company as of such dates). As of the balance sheet date, there were 550,130,248 ordinary shares of the Company contingently issuable. This amount includes ordinary shares to be issued under various agreements according to their provisions: (i) TIC warrants, see B(5)(b) below; (ii) the exercise of outstanding warrants, see G,H,I and J below; (iii) options granted to employees of the Company and Jazz and non-employees, see B(1) below; (iv) the conversion of all outstanding convertible debentures, see Note 13; (v) the exercise of all equity equivalent capital notes, see Notes 12B and 16A(3) (vi) the exercise of all Banks warrants and (vii) the conversion of Jazz's convertible debentures and the exercise of Jazz's outstanding warrants into the Company's ordinary shares, see Note 3. Holders of ordinary shares are entitled to participate equally in the payment of cash dividends and bonus share (stock dividend) distributions and, in the event of the liquidation of the Company, in the distribution of assets after satisfaction of liabilities to creditors. Each Ordinary Share is entitled to one vote on all matters to be voted on by shareholders.

NOTE 17 – SHAREHOLDERS' EQUITY (Cont.)

B. Share Option Plans

(1) Employee, Former Chairman of the Board of Directors, ChiefExecutive Officer and Director Share Options (Cont.)

(a) ***General***

The Company has granted to its employees and Jazz's employees options to purchase its ordinary shares under several option plans adopted by the Company since 1995. The particular provisions of each plan and grant vary as to vesting period, exercise price, exercise period and other terms. Generally, the options are granted at an exercise price which equals the market value of the ordinary shares immediately prior to the date of grant, vest over a two to four-year period according to various vesting schedules, and are not exercisable beyond ten years from the grant date.

(b) ***Options to the Former Chairman of the Company's Board of Directors***

The former chairman served as the chairman of the Company's Board of Directors until January 5, 2009. Pursuant to his

appointment as chairman, in December 2006, the Audit Committee and Board of Directors of the Company approved granting him options to purchase 3,158,090 ordinary shares of the Company, which constituted 1% of the Company's issued and outstanding share capital on a fully diluted basis as of December 2006, the date the Board of Directors approved the grant. The exercise price is $1.88, which was the closing price of the Company's ordinary shares on the NASDAQ Global Market on the trading day immediately prior to the date of approval of the grant by the Shareholders of the Company. The options vest over 4 years, 25% on the 12 month anniversary of the shareholders approval date and 6.25% on each 3 month anniversary of the first vesting date until fully vested. The options grant to the former chairman of the Board of Directors was approved by the shareholders of the Company in January 2007. The compensation cost of the options granted was determined based on the fair value at the grant dates and amounted to $3,568. Such amount is expensed on an accelerated basis over the vesting periods of the options. Upon termination of the Company's chairman, all unvested options immediately expire and all vested options are exercisable within a 24-month period following termination.

NOTE 17 – SHAREHOLDERS' EQUITY (Cont.)

B. Share Option Plans (Cont.)

(1) Employee, Former Chairman of the Board of Directors, ChiefExecutive Officer and Director Share Options (Cont.)

(c) ***Options to the Company's Chief Executive Officer andDirector***

In April 2005, the Company's Board of Directors approved the grant of options to purchase up to 1,325,724 ordinary shares to the Company's Chief Executive Officer ("CEO"), who also serves as a director, which was further approved by the Company's shareholders in October 2005. These options are exercisable at an exercise price of $1.56, which was the closing market price of the Company's shares on the last trading day prior to the board approval of the grant. These options will vest over a four-year period, with 25% vesting over each year of employment. The options granted are exercisable for a period of ten years from the date of grant.

In May 2006, the Company's Audit Committee and Board of Directors approved the grant of options to the CEO, in addition to the options granted to him in 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 the additional options was $1.45, the 90-day average closing price of the Company's shares prior to the Board of Directors' approval. Dilutive events following May 2006 and until May 2008 also entitled him to additional options grants with an exercise price equal to the price per share of the newly issued securities. The additional options granted during the two-year period, will vest in equal amounts over 4 years of employment commencing from May 2006. The options are exercisable for a period of 10 years from the date of grant. The new grant of options and its terms were approved by the Company's shareholders in September 2006.

As of the balance sheet date, a total of 14,861,813 options were outstanding to the CEO. The compensation cost of the total options granted to the CEO was determined based on the fair value at the grant dates and amounted to $11,702. Such amount is expensed on an accelerated basis over the vesting periods of the options.

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NOTE 17 – SHAREHOLDERS' EQUITY (Cont.)

B. Share Option Plans (Cont.)

(1) Employee, Former Chairman of the Board of Directors, ChiefExecutive Officer and Director Share Options (Cont.)

(d) ***Employee Options***

In May 2006, the Company's board of directors approved a plan to offer each of the Company's 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. Accordingly, 4,299,250 options were exchanged. The new options were granted based on terms similar to the existing employee option plan with new vesting periods, starting May 2006. The cost of the new options was determined based on the fair value at the grant dates in and amounted to $1,726. Such amount is amortized as an expense on an accelerated basis over the vesting periods of the new options. The Board of Directors further approved that if the total number of employee options, including the options to the CEO, during the two-year period from May 2006 will represent less than 8% of the Company's shares on a fully diluted basis, additional options will be allocated for grants to the Company's employees. As of the balance sheet date, approximately 1,332,000 options are available for future grant of options to employees.

(e) ***Options Granted to Directors***

During 2001, the Audit Committee, the Board of Directors of the Company and the shareholders of the Company approved a stock option plan pursuant to which certain of the Company's directors will be granted options to purchase up to 400,000 ordinary shares of the Company (40,000 to each eligible director appointed to the Board of Directors) at an exercise price equal to the market price of the Company's shares on the grant dates. In accordance with this option plan, 80,000 options were granted in 2007 to two directors who were appointed in 2007 at an average exercise price of $1.74, which equals the market price of the Company's shares on the grant date. As of December 31, 2008, 120,000 options were outstanding under the plan with a weighted average exercise price of $1.58.

Options granted under the plan vest over a four-year period according to various vesting schedules, and generally may not be exercised beyond five years from the date they first become exercisable. So long as the Independent Directors Option Plan described below remains in effect, no new independent director, following January 2007, will be entitled to receive options under the 2001 director options plan.

NOTE 17 – SHAREHOLDERS' EQUITY (Cont.)

B. Share Option Plans (Cont.)

(1) Employee, Former Chairman of the Board of Directors, ChiefExecutive Officer and Director Share Options (Cont.)

(f) ***Independent Directors Option Plan***

In November 2006, the Company's Board of Directors approved, following the approval by the Audit Committee, the grant to each independent director options to purchase ordinary shares ("Initial Options") that shall equal 150,000 less the number of options to purchase ordinary shares held by such independent director as of January 31, 2007, the date the shareholders approved the grant (the "Initial Grant Date") and which, as of the Initial Grant Date, have not vested. The Initial Options shall vest over 3 years, one third will vest on the 12 month anniversary of the Initial Grant Date, and thereafter, the remaining two thirds will vest on a monthly basis until fully vested. The exercise price of the Initial Options was $1.88, which was the closing price of the Company's ordinary shares on the NASDAQ on the trading day immediately prior to the Initial Grant Date. Each new independent director appointed after the Initial Grant Date shall be granted 150,000 options to purchase ordinary shares ("Subsequent Options"), which, shall vest over 3 years, one third on the 12 month anniversary of the date on which such independent director shall have served on the Board of Directors of the Company, the remaining two thirds will vest on a monthly basis until fully vested. The exercise price per Subsequent Option shall be the closing price of the Company's ordinary shares on the NASDAQ on the trading day immediately prior to the relevant date of appointment.

Upon each 36 month anniversary of a previous grant of options to an independent director (each a "Tenure Grant Date"), each such independent director shall be granted an additional 150,000 options to purchase ordinary shares ("Tenure Options"), which will vest over 3 years on a monthly basis until fully vested. The exercise price per Tenure Option shall be the closing price of the Company's ordinary shares on the NASDAQ on the trading day immediately prior to the relevant Tenure Grant Date. Subject to certain conditions, the Initial Options, Subsequent Options and Tenure Options that have vested shall be exercisable by an Independent Director for a period of ten years following the date on which the Initial Options, Subsequent Options or Tenure Options, as the case may be, first vested. So long as this option plan remains in effect, no future grants will be made to independent directors under the plan described in -(e) above.

As of December 31, 2008 713,328 options were outstanding under the plan with a weighted average exercise price of $1.05.

NOTE 17 – SHAREHOLDERS' EQUITY (Cont.)

B. Share Option Plans (Cont.)

(1) Employee, Former Chairman of the Board of Directors, ChiefExecutive Officer and Director Share Options (Cont.)

(f) ***Independent Directors Option Plan (Cont.)***

The compensation cost of the total options granted to the directors and to independent directors under the plans described in (e) above was determined based on the fair value at the grant dates and amounted to $483. Such amount is expensed on an

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

accelerated basis over the vesting periods of the options.

(2) Summary of the Status of all the Company's Employee and Director Share Options

A summary of the status of all employee and director share option plans as of December 31, 2008, 2007 and 2006, as well as changes during each of the years then ended, is presented below (for options granted to the Banks, a related party and a consultant, see B(5) below):

	2008		2007		2006	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding as of beginning of year	29,595,535	$ 1.79	23,514,042	$ 1.87	13,011,575	$ 4.19
Granted	10,847,825	1.23	9,127,384	1.88	17,414,268	1.52
Exercised	(5)	1.45	(176,231)	1.30	(7,250)	1.58
Terminated	(32,712)	6.83	(525,000)	7.07	(132,176)	10.95
Forfeited	(5,292,490)	1.77	(2,344,660)	1.81	(6,772,375)	5.23
Outstanding as of end of year	35,118,153	1.62	29,595,535	1.79	23,514,042	1.87
Options exercisable as of end of year	15,585,571	$ 1.87	7,827,743	$ 2.15	2,849,132	$ 4.25

NOTE 17 – SHAREHOLDERS' EQUITY (Cont.)

B. Share Option Plans (Cont.)

(3) Summary of Information about Employee Share Options Outstanding

The following table summarizes information about employee share options outstanding as of December 31, 2008:

Outstanding as of December 31, 2008				Exercisable as of December 31, 2008	
Range of exercise Prices	Number outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$ 0.32-$ 0.54	1,009,051	9.89	0.44	--	$ 0.00
0.61-0.69	1,300,120	9.46	0.62	211,363	0.61
0.84-0.95	770,497	9.46	0.87	390	0.95
1.06	2,929,200	9.15	1.06	--	0.00
1.16-1.40	1,423,834	7.29	1.36	796,104	1.35
1.45	7,245,318	7.33	1.45	3,652,662	1.45
1.46-1.59	8,887,721	7.14	1.54	5,133,442	1.54
1.6-1.78	2,522,020	8.07	1.73	795,647	1.73
1.8-1.83	1,627,228	8.24	1.81	808,384	1.81
1.88-1.98	4,639,977	7.77	1.88	2,207,320	1.88
2.02-2.28	1,898,464	7.31	2.13	1,277,426	2.15
$ 3.25-$ 25.00	864,723	5.54	$ 6.46	702,833	$ 6.99
	35,118,153			15,585,571	

(4) Weighted Average

Grant-Date Fair Value of Options Granted to Employees

The weighted average grant-date fair value of the options granted during 2008, 2007 and 2006 to employees and directors amounted to

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

$0.43, $0.87 and $0.81 per option, respectively. The Company utilized the Binomial lattice model since 2006 and the Black-Scholes option-pricing model in 2005. Jazz utilizes the Black-Scholes model. The Company and Jazz estimated the fair value, utilizing the following assumptions for the years 2008, 2007 and 2006 (all in weighted averages):

	2008	2007	2006
Risk-free interest rate	2.61%-4.27%	3.61%-6.09%	4.44%-4.81%
Expected life of options	10 years*	10 years	10 years
Expected annual volatility	51%-72%	55%-65%	65%-67%
Expected dividend yield	None	None	None

(*) Expected life of options for options granted to Jazz employees was 6 years.

NOTE 17 – SHAREHOLDERS' EQUITY (Cont.)

B. Share Option Plans (Cont.)

(5) Non-Employee Warrants

(a) ***Banks Warrants***

As of December 31, 2008, 11,631,648 warrants to purchase ordinary shares of the Company, at terms described below, were outstanding and exercisable, at a weighted average exercise price of $1.77 per share. 9,161,060 of the warrants are exercisable until September 2011 and 2,470,588 exercisable through March 2010.

The cost of the 9,161,060 warrants issued to the Banks, determined based on the fair value at the grant and amendment dates in accordance with SFAS 123, amounted to a total of $10,886. Such amount was amortized as deferred financing charges over the terms of the loans under the Facility Agreement.

In September 2007, as part of the Company's credit line agreement with the Banks described in Note 12B, the Banks received an aggregate of 2,470,588 warrants to purchase ordinary shares of the Company at an exercise price of $2.04 per share. All the warrants are exercisable until March 2010. The cost of the warrants, determined based on the fair value at the grant and amendment dates in accordance with SFAS 123R, amounted to a total of $608. Such amount was amortized as deferred financing charges over the term of the loans under the Facility Agreement.

In lieu of paying the exercise price in cash, the Banks are entitled to exercise their warrants on a "cashless" basis, i.e. by forfeiting part of the warrants in exchange for ordinary shares equal to the aggregate fair market value of the shares underlying the warrants forfeited less the aggregate exercise price.

(b) ***Warrants Granted to TIC***

The Company issued TIC warrants for the purchase of 58,906 of the Company's ordinary shares. The exercise price for the warrants is $6.17 per share, the 15-day average closing price of the Company's ordinary shares prior to the date the November 2003 amendment with the Banks was signed. The warrants were exercisable for a five-year period ending December 2008, none of which were exercised. The cost of the warrants award granted to TIC, determined based on the fair value at the grant date in accordance with SFAS 123, amounted to a total of $259. Such amount was allocated to other assets as deferred financing charges and was amortized a financing expense over the term of the loans under the Facility Agreement with the Banks.

NOTE 17 – SHAREHOLDERS' EQUITY (Cont.)

B. Share Option Plans (Cont.)

(5) Non-Employee Warrants (Cont.)

(b) ***Warrants Granted to TIC (Cont.)***

In September 2007, as part of the Company's credit line agreement with TIC described in Note 12B, TIC received an aggregate

of 2,941,176 warrants to purchase ordinary shares of the Company at an exercise price of $2.04 per share. All the warrants are exercisable until March 2010. The cost of the warrants, determined based on the fair value at the grant and amendment dates in accordance with SFAS 123R, amounted to a total of $723. Such amount was amortized as deferred financing charges over the term of the loans under the Facility Agreement.

C. Equity-Equivalent Capital Notes

(1) Banks'Equity-Equivalent Capital Notes

For information regarding the equity equivalent capital notes to the Banks, see Note 12B.

(2) TIC's Equity-Equivalent capital notes

For information regarding the equity equivalent capital notes to TIC, see Note 16A(3).

D. Treasury Stock

During 1998, the Board of Directors of the Company authorized, subject to certain conditions, the purchase of up to 1,400,000 ordinary shares of the Company to facilitate the exercise of employee stock options under the Company's share option plans. During 1999 and 1998, the Company funded the purchase by a trustee of 142,500 and 1,157,500, respectively, of the Company's ordinary shares.

E. Dividend Distributions

According to the Facility Agreement, as amended to date, the Company undertook not to distribute any dividends prior to the date that all amounts payable under the Facility Agreement have been paid in full.

NOTE 17 – SHAREHOLDERS' EQUITY (Cont.)

F. Rights Offering – December 2005

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 Series B 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 options plans that entitle the options 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 $0.1, 100 U.S. dollar denominated convertible debentures.

In connection with the exercise of the rights, the Company raised $48,169 and issued convertible debentures under terms described in Note 13C.

As of the balance sheet date, following conversions made, $10,681 are outstanding out of the $48,169.

For investment by Primary Wafer Partners and TIC see also Note 13C.

For the conversion of the debentures Series B held by TIC into equity equivalent capital notes, as part of the September 2008 definitive agreements with the Company's Banks and TIC see Note 12B.

G. Public Offering In Israel – June 2006

In June 2006 the Company completed an underwritten public offering of the Company's securities on the Tel-Aviv Stock Exchange resulting in immediate gross proceeds of approximately NIS 140,000,000 (approximately $31,000). The units sold consisted of (i) convertible debentures Series C in the face amount of NIS 163,800,000 (approximately $36,661), (ii) 390,000 options each exercisable for the three months ended September 27, 2006 for NIS 100 principal amount of convertible debentures at an exercise price equal to 85% of their face amount, (iii) 10,920,000 warrants each exercisable for the three months ended September 27, 2006 for one Ordinary Share of the Company at a price of NIS 6.75 (approximately $0.00157, and (iv) 5,460,000 warrants Series 4 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 $0.00195). The convertible debentures are convertible into the Company's ordinary shares at a conversion rate of one Ordinary Share per NIS 4.31 (approximately $0.00113) principal amount of convertible debentures, following the reduction in the conversion price which was effected in 2008, see Note 13D. 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.

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NOTE 17 – SHAREHOLDERS' EQUITY (Cont.)

G. Public Offering In Israel – June 2006 (Cont.)

Through September 2006, 391,500 options to purchase convertible debentures described in (ii) above were exercised and 350,000 short term warrants described in (iii) above were exercised into ordinary shares, totaling in proceeds of approximately $8,000.

The net proceeds received were allocated to each of the components in the units sold using the relative fair value method prescribed in APB Opinion No. 14. The Company determined the fair values of each component using the average quoted prices at the first 2 days of trading. The allocation to each component was as follow:

	Fair Values	Amount allocated
Total net proceeds received for the units issued as of issuance date		$ 28,752
Proceeds allocated to convertibles debentures as of issuance date based on relative fair value	$ 31,402	$ 26,735
Proceeds allocated to short term options to purchase additional debentures	246	210
Proceeds allocated to long term warrants	1,513	1,287
Proceeds allocated to short term warrants	611	520
Total allocated	$ 33,772	$ 28,752

As described in Note 13D, the Company further bifurcated the conversion feature from the convertible debt using the method prescribed in DIG issue No. B16. That bifurcation was done, as a next step, after the determination of the allocated proceeds described above.

H. Private Placement In Israel – November 2006

In the fourth quarter of 2006, the Company received and accepted orders from Israeli investors in private placements for 11,615,000 ordinary shares and 5,227,500 warrants ("Series 5 Warrants"). The price of the ordinary shares was equal to the closing price of the Company's shares on the Tel-Aviv Stock Exchange prior to the relevant private placements and the warrants were issued for no consideration. Total immediate gross proceeds amounted to approximately $22,000. Each of the Series 5 Warrants is exercisable at any time during a period of four years ending in December 2010 at a price per share equal to a 25% premium to the market price of the Company's shares at the date the prospectus is published. As of December 28, 2006, following the publication of the prospectus, the exercise price was finalized and determined to be NIS 9.48 linked to the CPI. Series 5 Warrants have been classified to equity.

NOTE 17 – SHAREHOLDERS' EQUITY (Cont.)

I. Private Placement In the US – March 2007

In March 2007, the Company completed a private placement of its securities in which it sold ordinary shares and warrants for the purchase of ordinary shares, raising a total of approximately $29,000 in gross proceeds. In the private placement, the Company issued approximately 18.8 million shares and warrants exercisable into approximately 9.4 million shares at an exercise price of $2.04 (subject to possible adjustments under certain circumstances) exercisable until March 15, 2012 ("Series I Warrants"). The Company also issued short-term warrants at an exercise price of $1.70 ("Series II Warrants"), however all Series II Warrants were not exercised and fully expired as of December 31, 2007.

J. Long-Term Debentures Issued in Israel – 2007

In the second half of 2007, the Company consummated a private placement with Israeli institutions of long-term convertible and non-convertible debentures and warrants, which was expanded in September 2007, by which the Company raised gross proceeds of approximately $54,000. In the funding, the Company sold units comprised of: (i) NIS 115,795,000 principal amount of long-term non-convertible-debentures, (approximately $27,224) ("series D"); (ii) NIS 121,584,750 principal amount of long-term convertible-debentures (approximately $28,585) with a 17.2 NIS conversion price ("series E"), and (iii) 2,686,444 warrants Series 6, each exercisable until 2011, for one Ordinary Share of the Company at a price of $2.04. The conversion and exercise prices are subject to reduction in certain limited circumstances.

K. U.S Shelf Prospectus

In January 2008, the Company filed a shelf registration statement on Form F-3 with the U.S. Securities and Exchange Commission, registering the possible offer and sale from time to time of up to $40,000 of securities which the Company may elect to so offer and sell during the three years following the effective date of the registration statement. The registration form was declared effective in February 2008. The Company has made no decisions as to when, if at all, it will actually raise funds under this registration statement.

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NOTE 17 – SHAREHOLDERS' EQUITY (Cont.)

L. Securities Issuance Pursuant to the Merger with Jazz

On September 19, 2008, pursuant to the terms of the merger signed on May 19, 2008, the Company acquired all of Jazz's outstanding capital in a stock-for-stock transaction. See Note 3.

For accounting purposes, the purchase price for the acquisition of Jazz's stock was reconciled against all consideration made to date as follows:

Stock consideration	$	39,189
Other equity consideration		7,555
Total merger consideration		46,744
Transaction costs		3,326
Total revised purchase price	$	50,070

Pursuant to the merger, Jazz's outstanding stock options immediately prior to September 19, 2008, whether vested or unvested, were converted to options to purchase the Company's ordinary shares on the same terms and conditions as were applicable to such options, with adjusted exercise prices and numbers of shares to reflect the exchange ratio of the common stock. This conversion was accounted for as a modification in accordance with SFAS No. 123(R) with the fair value of the outstanding options of $1,290 being included as part of the purchase price.

Pursuant to the merger, all outstanding warrants to purchase the shares of Jazz's common stock that were outstanding immediately prior to September 19, 2008, became exercisable for the Company's ordinary shares. The fair value of the outstanding warrants of $6,265 was included as part of the purchase price.

The Company's transaction costs of $3,326 primarily consist of fees for financial advisors, attorneys, accountants and other advisors incurred in connection with the merger.

NOTE 18 – INFORMATION ON GEOGRAPHIC AREAS AND MAJOR CUSTOMERS

A. Revenues by Geographic Area – as percentage of total sales

	Year ended December 31,		
	2008	2007	2006
United States	77%	75%	69%
Israel	5	7	7
Asia Pacific	11	10	16
Europe	7	8	8
Total	100%	100%	100%

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NOTE 18 – INFORMATION ON GEOGRAPHIC AREAS AND MAJOR CUSTOMERS (Cont.)

B. Long-Lived Assets by Geographic Area – Substantially all of the Company's long-lived assets are located in Israel and substantially all of Jazz's long-lived assets are located in the United States.

C. Major Customers – as percentage of total Customers

Accounts receivable from significant customers representing 10% or more of the net accounts receivable balance as of December 31, 2008 and December 31, 2007 consist of the following customers:

	As of December 31,

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

	2008	2007
Customer 1	19%	0%
Customer 2	14	8
Customer 3	7	17
Customer 4	3	22

D. Major Customers – as percentage of total sales

	Year ended December 31,		
	2008	2007	2006
Customer A	17%	13%	9%
Customer B	13	11	2
Customer C (*)	9	29	23
Customer D	5	7	10
Customer E (*) (**)	3	5	11
Other customers (***)	8	11	16

(*) Related party

(**) Including its affiliates

(***) Represents sales to one customer who accounted for 8% of sales during 2008; to two different customers each of whom accounted for between 5% and 6% of sales during 2007 and to three different customers each of whom accounted for between 5% and 6% of sales during 2006.

NOTE 19 – FINANCING EXPENSES, NET

Financing expenses, net consist mainly of Banks' loans interest (see Note 12), and interest and other financing expenses in connection with our debentures (see Note 13).

NOTE 20 – INCOME TAXES

A. Approved Enterprise Status

Substantially all of the Company's existing facilities and other capital investments through December 31, 2005 have been granted approved enterprise status, as provided by the Israeli Law for the Encouragement of Capital Investments — 1959 ("Investments Law"). See also Note 7C.

The tax benefits derived from approved enterprise status relate only to taxable income attributable to each approved enterprise investments program. Pursuant to the Investments Law and the approval certificates, the Company's income attributable to its various approved enterprise investments is taxed at a rate of up to 25% through 2012. Taxable income attributable to the Fab 2 approved program shall be tax-exempt for the first two profitable years for tax purposes. The portion of the Company's taxable income that is not attributable to approved enterprise investments is taxed at a rate of 27% in 2008 ("regular Company Tax"). The regular Company Tax rate is to be gradually reduced to 25% until 2010.

The tax benefits are also conditioned upon fulfillment of the requirements stipulated by the Investments Law and the regulations promulgated thereunder, as well as the criteria set forth in the certificates of approval. In the event of a failure by the Company to comply with these conditions, the tax benefits could be canceled, in whole or in part, and the Company would be required to refund the amount of the canceled benefits, plus interest and certain inflation adjustments. In the Company's opinion, the Company has been in compliance with the conditions through the approval date of the financial statements. See Notes 7C and 16A(6).

B. Income Tax provision is as follows:

	Year ended December 31, 2008
Current tax expense:	
Federal	$ 2
State	17
Foreign	14
Total current	33
Deferred tax expense:	

Federal	430
State	112
Total deferred	542
Income tax provision	$ 575

NOTE 20 – INCOME TAXES (Cont.)

C. Components of Deferred Tax Asset/Liability

The following is a summary of the components of the deferred tax benefit and liability reflected on the balance sheets as of the respective dates:

	As of December 31,	
	2008	2007
Deferred tax benefit - current		
Employees benefits and compensation	$ 2,282	$ 797
Accruals, reserves and others	2,596	438
	4,878	1,235
Valuation allowance	(783)	(1,235)
Total current deferred tax benefit	$ 4,095	$ --
Net deferred tax benefit - long-term		
Deferred tax assets -		
Net operating loss carryforwards	$ 210,907	$ 200,000
Employees benefits and compensation	5,757	905
Research and development	1,923	1,851
	218,587	202,756
Valuation allowance	(176,251)	(151,844)
	42,336	50,912
Deferred tax liability - depreciation and amortization	(26,527)	(50,912)
Intangible assets	(18,508)	--
Investment basis difference	(3,142)	--
Others	(5,908)	--
Total net long-term deferred tax benefit	$ (11,749)	$ --

Deferred tax assets in the amount of $4,095 is presented in Other Current Assets.

Deferred tax liability in the amount of $11,749 is presented in other Long-Term Liabilities.

Jazz establishes a valuation allowance for deferred tax assets, when it is unable to conclude that it is more likely than not that such deferred tax assets will be realized. In making this determination Jazz evaluates both positive and negative evidence as well as potential tax planning strategies. At December 31, 2008 Jazz has not recorded a valuation allowance against its deferred tax assets. Jazz's determination to not record a valuation allowance at December 31, 2008 is primarily based on the projected reversal of taxable temporary differences.

A valuation allowance of $177,034 at December 31, 2008 and $153,079 as of December 31, 2007 has been recorded to offset the related net deferred tax assets as the Company is unable to conclude that it is more likely than not that such deferred tax assets will be realized.

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NOTE 20 – INCOME TAXES (Cont.)

D. Effective Income Tax Rates

The reconciliation of the statutory tax rate to the effective tax rate is as follows:

	Year ended December 31,		
	2008	2007	2006
Tax benefit computed at statutory rates	(28,780)	(38,917)	(52,057)
Reduced tax rate for approved enterprise	7,410	12,078	18,472
Tax benefits for which deferred taxes were not recorded	23,955	22,540	27,645
State tax, net of federal benefit	76	--	--
In-process research and development	630	--	--
Permanent differences and other, net	(2,716)	4,299	5,940
Income tax provision	575	--	--

E. Net Operating Loss Carryforward

As of December 31, 2008, the Company had net operating loss carryforwards for tax purposes of approximately $1 billion, which may be carried forward for an unlimited period of time.

At December 31, 2008, Jazz had federal and state net operating loss carry forwards of approximately $23,500. The federal and state tax loss carry forwards will begin to expire in 2021, unless previously utilized.

The future utilization of the Jazz's net operating loss carry forwards to offset future taxable income may be subject to an annual limitation as a result of ownership changes that may have occurred previously or that could occur in the future. Jazz has had two "change in ownership" events that limit the utilization of net operating loss carry forwards. The first "change in ownership" event occurred in February 2007 upon the acquisition of Jazz Semiconductor. The second "change in ownership" event occurred on September 19, 2008, the date of the merger by the Company. Currently, the net operating loss limitation for the change in ownership which occurred in September 2008 is in the process of being determined and accordingly, the amount of Jazz's net operating losses which may be available to offset future taxable income is not finalized. Jazz expects it will not be able to utilize a significant portion of its net operating loss carry forwards, potentially eliminating the vast majority of the entire future benefits of such net operating loss carryforwards, as such have adjusted its net operating loss carryforwards to reflect its current estimated utilization limited to $1,000. However, Jazz has currently not finalized its analysis of this matter. Once the final information is available, the purchase accounting impact on the deferred tax assets and liabilities will be recognized and disclosed.

NOTE 20 – INCOME TAXES (Cont.)

F. Final Tax Assessments

The Company possesses final tax assessments through the year 1998. In addition, the tax assessments for the years 1999-2004 are deemed final.

Jazz and its subsidiaries are subject to U.S. federal income tax as well as income tax in multiple state and foreign jurisdictions. With few exceptions, Jazz is no longer subject to U.S. federal income tax examinations for years before 2005; state and local income tax examinations before 2004; and foreign income tax examinations before 2004. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss carryforward amount. Jazz is not currently under Internal Revenue Service ("IRS") tax examination. Jazz is not currently under examination by any other state, local or foreign jurisdictions.

The Company and its subsidiaries account for uncertain tax positions in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48") and recognize interest and penalties that would be assessed in relation to the settlement value of unrecognized tax benefits as a component of income tax expense.

NOTE 21 – RELATED PARTIES BALANCES AND TRANSACTIONS

A. Balances

	The nature of the relationships involved	As of December 31,	
		2008	2007

Trade accounts receivable	Customers who are Primary Wafer Partners and a limited partnership	$ 2,379	$ 12,823
Long-term investment	Equity investment in a limited partnership	$ 206	$ 950
Current liabilities- Due to related parties	Mainly loans from Primary Wafer Partners	$ 11,324	$ 7,459
Debentures	Debenture Series B held by Primary Wafer Partners and TIC	$ 7,318	$ 24,500
Long-term customers' advances	Up-front payments for product from Primary Wafer Partner to be credited against future sales	$ 8,183	$ 9,922
Other long-term liabilities	Long term liability to a Primary Wafer Partner and Debenture B accrued interest related to Primary Wafer Partners.	$ 1,428	$ 21,541
Capital notes	Accumulated equity investment and debt conversion by TIC (See B below)	$ 139,014	$ 100,000

NOTE 21 – RELATED PARTIES BALANCES AND TRANSACTIONS (Cont.)

B. Transactions

	Description of the transactions	As of December 31,		
		2008	2007	2006
Revenues	Mainly from customers who are Primary Wafer Partners	$ 31,314	$ 78,870	$ 64,055
Financing expenses	Interest on loans received from Primary Wafer Partners and Series B held by Primary Wafer Partners and TIC	$ 1,543	$ 2,252	$ 1,632
General and Administrative expenses	Mainly directors fees and reimbursement to directors	$ 120	$ 289	$ 46
Customer's advance conversion into Equity - see Note 16A(4)	Customer's advance conversion into ordinary shares by Primary Wafers Partners	$ --	$ 6,414	$ 7,621
Customer advance conversion into Long-term loans - see Note 16A(4)	Customer's advance conversion into ordinary shares by a Primary Wafer Partner	$ 1,738	$ 1,258	$ 2,823
Loans repayment	Loan repayment to a Primary Wafer Partner	$ 2,000	$ 2,974	$ --
Long-term loan received	Loan received from TIC and a Primary Wafer Partner	$ 16,000	$ 14,000	$ 9,705
Capital Notes	Conversion of long-term loans and debenture Series B by TIC to equity equivalent capital notes	$ 50,000	$ --	$ --
Capital Notes	Investment of TIC in equity equivalent capital notes	$ 20,000	$ --	$100,000

C. For commitments, contingencies and other transaction relating to Fab 2 Wafer Partner and TIC agreements, see Note 16A.

A M E N D I N G A G R E E M E N T
TO THE FACILITY AGREEMENT

THIS AMENDING AGREEMENT IS MADE AND ENTERED INTO AS OF THE 25TH DAY OF SEPTEMBER, 2008, BY AND BETWEEN:

(1) **TOWER SEMICONDUCTOR LTD.** (**"THE BORROWER"**)

AND

(2) **BANK HAPOALIM B.M.** AND **BANK LEUMI LE – ISRAEL B.M.** (**"THE BANKS"**)

WHEREAS: THE BORROWER, ON THE ONE HAND, AND THE BANKS, ON THE OTHER HAND, ARE PARTIES TO A FACILITY AGREEMENT DATED JANUARY 18, 2001, AS AMENDED AND RESTATED ON AUGUST 24, 2006 AND AS FURTHER AMENDED BY AMENDMENT NO.1 THERETO DATED SEPtember 10, 2007 (**"the Facility Agreement"**); and

WHEREAS: the Borrower has requested that changes be made to various provisions of the Facility Agreement, including the conversion of a portion of the Loans into capital notes to be issued by the Borrower to the Banks and the postponement of the Borrower's obligation to make repayments of principal with respect to the Loans; and

WHEREAS: the Borrower and the Banks have agreed to amend the Facility Agreement, subject to the terms and conditions set out in this Amending Agreement below,

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. INTERPRETATION

1.1. In this Agreement, including the Exhibits hereto:

1.1.1. **"Amending Agreement"** – means this Amending Agreement;

1.1.2. **"Amendment Closing Date"** – means September 29, 2008, provided the Banks are satisfied that by September 25, 2008 ("**the Completion Date**") all the conditions precedent referred to in clause 3 below shall have been fulfilled in form and substance reasonably satisfactory to the Banks and that all of the documents, matters and things referred to in clause 5 below shall have been performed on or prior to the Completion Date;

1.1.3. **"Restated Facility Agreement"** – means the Facility Agreement, as amended and restated by this Amending Agreement, the terms of which are set out in **Exhibit 1** hereto and initialled, for the purposes of identification, by the parties hereto.

1.2. Terms and expressions defined in the Facility Agreement shall have the same meanings when used in this Amending Agreement and all provisions of the Facility Agreement concerning matters of construction and interpretation shall apply to this Amending Agreement.

1.3. All references in this Amending Agreement to clauses and paragraphs of the Facility Agreement are references to clauses and paragraphs in the Facility Agreement in its form prior to this Amending Agreement.

2. AMENDMENT AND RESTATEMENT OF THE FACILITY AGREEMENT

With effect from the Amendment Closing Date and upon all activities to be performed on or before the Completion Date being completed (or waived, the Banks being under no obligation whatsoever to grant any waiver), the Facility Agreement (including the Schedules attached thereto) shall automatically be amended and restated so that it shall be read and construed for all purposes as set forth in Exhibit 1 hereto and, thereupon, Exhibit 1 shall, for the avoidance of doubt, constitute the definitive and binding version of the Facility Agreement as amended by this Amending Agreement. For the avoidance of doubt, all Schedules to the Facility Agreement not amended, deleted or replaced under this Amending Agreement shall remain unamended.

3. CONDITIONS PRECEDENT

3.1. This Amending Agreement is subject to the conditions precedent that the Banks shall have received, by no later than September 25, 2008, all of the following documents, matters and things in form and substance satisfactory to the Banks:

3.1.1. a copy, certified a true copy by the external legal counsel of the Borrower, of the updated Certificate of Incorporation, Memorandum and Articles of Association of the Borrower;

3.1.2. copies of resolutions of the Board of Directors of the Borrower, its audit committee and shareholders, approving the execution, delivery and performance of this Amending Agreement and all agreements and acts to be performed by the Borrower as conditions precedent to, or otherwise in connection with, this Amending Agreement, including: (a) the issue of capital notes, and of the shares issuable upon

conversion thereof, of the Borrower to the Banks or their respective nominees as contemplated in clause 5.4 below; (b) the execution of amended and restated registration rights agreements, between the Borrower and each of the Banks or their respective nominees as referred to in clause 5.5 below; (c) the investment by TIC of US$20,000,000 (twenty million United States Dollars) in cash in capital notes of the Borrower as referred to in clause 5.2 below and the issue of capital notes of the Borrower to TIC as contemplated in clauses 5.1 and 5.2 below; (d) the execution by the Borrower and TIC of the conversion agreement referred to in clause 5.6 below; and (e) the execution by TIC and the Borrower of the "TIC Safety Net Undertaking" referred to in clause 5.7 below, as well as a resolution of the Board of Directors of the Borrower authorising a named officer of the Borrower to execute, deliver and perform this Agreement and such other agreements and acts, and to give all notices and take all such other action required to be given or taken by the Borrower under this Amending Agreement or in connection therewith;

3.1.3. Amending Agreement fee letters with each of the Banks, both executed as of the date hereof by the Borrower;

3.1.4. an opinion of Yigal Arnon & Co., Advocates, the Borrower's external legal counsel, addressed to the Banks;

3.1.4A. an opinion of Gornitzky & Co., TIC's external legal counsel, addressed to the Banks;

3.1.5. an opinion of reputable U.S. legal counsel, to the effect that, based upon their review of United States federal or New York State statutes, rules and regulations which, in their opinion, based on their experience, are normally applicable to transactions of the types contemplated by this Amending Agreement (**"United States Applicable Laws"**): (a) subject to the effectiveness of an appropriate registration statement to be filed by the Borrower, no consent, approval, authorization, order, registration or qualification of or with any United States federal or New York State court or governmental agency or body is required for the sale in the United States (including through the Nasdaq Stock Market) by the Banks of the ordinary shares issuable upon conversion of the capital notes (**"the New Capital Notes"**) to be issuedto the Banks (or their respective nominees) pursuant to clause 5.4 below in the United States (**"New Shares"**), provided that no opinion need be expressed with respect to state securities or Blue Sky laws; (b) the acquisition and indefinite holding of the New Capital Notes and/or New Shares and the indefinite holding of all Capital Notes currently held by the Banks and of any shares issuable upon conversion of any such current capital notes by the Banks is permissible under United States Applicable Laws, including under the Bank Holding Company Act of 1956, as amended; and (c) the acquisition and holding of the New Capital Notes and/or New Shares will not be subject to the notification and filing requirements under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Such opinion may be based upon and subject to reasonable assumptions and limitations;

3.1.6. all of the Borrower's representations and warranties given pursuant to this Amending Agreement shall be accurate in all material respects as of the Amendment Closing Date, as if made on the Amendment Closing Date;

3.1.7. an updated report of the Insurance Adviser;

3.1.8. the Borrower shall have received and provided to the Banks, written confirmations of the receipt of all corporate and third party approvals, including Israeli and foreign Governmental Body, and relevant stock exchange, approvals with respect to the transactions contemplated by this Amending Agreement and all transactions referred to herein including, for the removal of doubt, with respect to TIC, such written confirmations to be in form and substance satisfactory to the Banks;

3.1.9. without derogating from clause 3.1.8 above, the consent of the Investment Centre to the issue of the New Capital Notes, and of the New Shares issuable upon conversion of the capital notes, to the Banks (or their respective nominees) as contemplated under clause 5.4 below;

3.1.10. without derogating from clause 3.1.8 above, the approval of the ILA under the Existing ILA Leases to the issue of the New Capital Notes, and of the New Shares issuable upon conversion of the capital notes, to the Banks (or their respective nominees) as contemplated under clause 5.4 below;

3.1.11. an updated Schedule 1.1.101 to the Facility Agreement, listing all Material Contracts which are still in effect;

3.1.12. confirmation that all Material Contracts shall be in full force and effect and shall not have been breached by the Borrower (save for any breach which: (a) is not material; and (b) cannot constitute (including with the passage of time or the giving of notice) a cause of action permitting termination of any such Material Contract or any variation thereof adverse to the Borrower);

3.1.13. a Supplement to the Debenture shall be executed relating to all shares of the Borrower in Jazz, all equipment, Material Contracts, registered Intellectual Property Assets and other assets and rights required under the Debenture to be pledged by way of first-ranking fixed charge in favour of the Banks, but not as yet specifically included in the Debenture and such Supplement shall be perfected and duly registered with the Registrar of Companies and the Registrar of Pledges and the Borrower shall deliver all documents as referred to in clause 3.2 of the Debenture *(mutatis mutandis)* and shall sign all other documents and forms required for the purposes of the aforegoing;

3.1.14. a list (and copies (save with respect to Permitted Financial Indebtedness of Jazz or its Subsidiaries), certified by the Borrower's external legal counsel) of all the trust deeds, indentures and prospectuses relating to Permitted Subordinated Debt issued by the Borrower and Permitted Financial Indebtedness of any Subsidiary of the Borrower (including Jazz) and outstanding;

3.1.15. the updated Schedules set forth in **Annex A** to this Amending Agreement;

3.1.16. a certificate of the Chief Financial Officer of the Borrower certifying that, as of the last day of the calendar month prior to the Amendment Closing Date, the Borrower has no Indebtedness, save for Permitted Financial Indebtedness;

3.1.17. notices of assignment by way of charge of all Material Contracts (other than those referred to in clauses 1.1.36(c)(i) and (ii) of the Facility Agreement) entered into since September 28, 2006; and

3.1.18. the Borrower or a wholly-owned Subsidiary of the Borrower shall have acquired all of the shares of Jazz, such that Jazz shall have become a wholly-owned Subsidiary of the Borrower and the Borrower shall have: (a) delivered a certificate of the Chief Executive Officer of the Borrower certifying that the merger pursuant to which Jazz was acquired has occurred and that all conditions precedent and other actions required in order to effectuate said merger have been fulfilled or taken, as the case may be; and (b) executed in favour of the Banks and there shall have been registered, both in the USA and in Israel, a first-ranking fixed pledge and charge over all shares to be acquired by the Borrower in Jazz and the Banks shall have received legal opinions, in form and substance satisfactory to the Banks, addressed to them by the Borrower's external Israeli and US legal counsel regarding such acquisition and pledge.

3.2. In the event that the aforegoing conditions precedent are not all fulfilled by the Completion Date, or in the event that they shall have been fulfilled, but the closing of this Amending Agreement shall not be fully performed in accordance with clause 5 below by the Completion Date, then, save for clauses 7, 8 and 9 below, this Amending Agreement shall no longer be of any force or effect and the Facility Agreement shall remain unaltered and in full force and effect and, save as aforesaid, no party shall have any claim arising out of or in connection with this Amending Agreement. The Banks undertake that promptly following the fulfilment to the satisfaction of the Banks of all the conditions precedent referred to in clause 3.1 above, the Banks shall confirm to the Borrower in writing that the conditions precedent have been fulfilled and the conditions for closing shall have been fulfilled as at the Completion Date.

4. **REPRESENTATIONS AND WARRANTIES**

4.1. The Borrower acknowledges that the Banks have agreed to this Amending Agreement in full reliance on all of the representations and warranties set forth in the Restated Facility Agreement, all of which representations and warranties are deemed to have been made on the date hereof and repeated on the Amendment Closing Date.

4.2. For the removal of doubt, the term "Finance Documents" when referred to in the representations and warranties set out in clause 15 of the Restated Facility Agreement, includes also references to this Amending Agreement and to the Restated Facility Agreement.

5. **AMENDMENT CLOSING**

Subject to the fulfilment of the conditions precedent set out in clause 3 above, all of the acts, including all of the following documents, matters and things, in form and substance satisfactory to the Banks, set out in this clause 5 (or in the case of clauses 5.3, 5.4, 5.5 and 5.9 below, in form and substance satisfactory to the Bank entering into such amendment or agreement) below shall be performed, on or prior to the Completion Date, each such act to be deemed to have been performed immediately after the other. In the event that any of such acts are not so performed, all of the acts which were performed shall be of no force and effect, and this Amending Agreement shall not have been closed:

5.1. the Borrower and TIC shall enter into a securities purchase agreement, relating to the investment referred to in clause 5.2 below (for the removal of doubt, in form and substance satisfactory to the Banks, as aforesaid);

5.2. the Borrower shall present to the Banks a certificate by the Auditors, *mutatis mutandis*, in the form of Schedule 16.1.1(v)B to the Facility Agreement, confirming that TIC has, on, or immediately prior to, the Completion Date, invested in cash (new funds) an amount of at least US $20,000,000 (twenty million United States Dollars), in capital notes of the Borrower (in form and substance satisfactory to the Banks) convertible into 28,169,014 (twenty-eight million one hundred and sixty-nine thousand and fourteen) ordinary shares of the Borrower;

5.3. the Borrower and each Bank (or each Bank's nominees) shall enter into a conversion agreement (for the removal of doubt, each in form and substance satisfactory to such Bank, as aforesaid), relating to the capital notes (and shares issuable thereunder) to be issued to such Bank (or such Bank's nominees) pursuant to clause 5.4 below, the conversions thereunder to be effected as of the Amendment Closing Date;

5.4. the Borrower shall issue to each of the Banks (or their respective nominees) convertible capital notes (for the removal of doubt, in form and substance satisfactory to the Banks, as aforesaid) against the delivery by each such Bank to the Borrower of confirmation that the amounts of: (a) US $85,000,000 (eighty-five million United States Dollars) less the amount of US$220,390 (two hundred and twenty thousand three hundred and ninety United States Dollars) constituting interest accrued on such Bank's Equipment Facility Loan from June 30, 2008 until the Amendment Closing Date **("the Accrued Unpaid Equipment Facility Loan Interest")** of the principal of the Loans owed to such Bank; and (b) US $15,220,390 (fifteen million two hundred and twenty thousand three hundred and ninety United States Dollars) constituting the amount of the principal of the Equipment Facility Loan by such Bank plus the Accrued Unpaid Equipment Facility Loan Interest, shall, as of the Amendment Closing Date, be converted into such capital notes, which capital notes for each Bank are convertible into 70,422,535 (seventy million four hundred and twenty-two thousand five hundred and thirty-five) shares (subject to adjustments to changes in capital structure, stock splits, *etc.*) of the Borrower, such capital notes being fully convertible, at any time, in whole or in part and freely transferable, at any time, in whole or in part. For the avoidance of doubt, the conversion of the Loans and the Equipment Facility Loans described in this clause 5.4 shall not take place, or be deemed to have taken place, prior to the effectiveness of the Restated Facility Agreement on the Amendment Closing Date pursuant to clause 2 above;

5.5. the Borrower shall have entered into an amended and restated registration rights agreement with each of the Banks with respect to all shares underlying the current capital notes, warrants (including, in the case of Bank Hapoalim, B.M., warrants held by an Affiliate of Bank Hapoalim B.M.) and the New Capital Notes of such Bank;

5.6. the Borrower and TIC shall enter into a conversion agreement (for the removal of doubt, in form and substance satisfactory to such Bank, as aforesaid) pursuant to which TIC shall have converted the Borrower's Indebtedness to TIC of: (a) US $30,000,000 (thirty million United States Dollars) of equipment facility loans pursuant to the Equipment Facility Agreement dated September 10, 2007 between the Borrower and TIC, and interest thereon accrued and not yet paid (such interest to be added to principal owing to TIC under the Equipment Facility Agreement and converted as aforesaid); and (b) US $20,000,000 (twenty million United States Dollars), comprising: (i) such part of the principal of the convertible debentures of the Borrower held by TIC that together with the accrued interest thereon as of the date of the Debt Conversion

aggregates US $20,000,000 (twenty million United States Dollars); and (ii) such accrued interest, into capital notes of the Borrower, in form and substance satisfactory to the Banks, the Borrower and TIC which shall, in the aggregate, be convertible into, a maximum of 35,211,271 (thirty-five million two hundred and eleven thousand two hundred and seventy-one) ordinary shares of the Borrower. The conversion of the Indebtedness referred to in paragraph (b) above shall be implemented by the Borrower acquiring from TIC the relevant convertible debentures (against issue of the capital notes referred to in paragraph (b) above). The Borrower hereby undertakes to the Banks that such convertible debentures as aforesaid shall at all times be held by the Borrower or shall be cancelled by the Borrower and shall not be reissued, such that the Borrower shall at no time have any Indebtedness in respect of such convertible debentures;

5.7. TIC shall have executed and delivered to the Banks a TIC Safety Net Undertaking in favour of the Borrower (in the form of Schedule 1.1.139A to the Restated Facility Agreement);

5.8. TIC shall have entered into amendments to the Tag Along Agreements, dated September 28, 2006, between TIC and each of the Banks so as to include the New Capital Notes and the shares issuable upon conversion thereof within the tag-along right granted to each Bank by TIC;

5.9. the Borrower shall deliver to the Banks a capitalisation table reflecting all shareholdings and holdings of securities (including capital notes, warrants, options and convertible debentures) in the Borrower, as at the Amendment Closing Date, certified as correct by the Chief Financial Officer of the Borrower; and

5.10. the Borrower shall pay all fees payable on or before the Amendment Closing Date in accordance with the Amending Agreement fee letters referred to in clause 3.1.3 above.

6. **DISCLOSURE**

The Borrower hereby undertakes to make full, complete and correct disclosure as to the letter of intent dated August 19, 2008 between the Borrower and the Banks and as to this Amending Agreement to all relevant authorities (including the SEC) and in any disclosures made or to be made by the Borrower pursuant to the Securities Act of 1933 or the Securities Exchange Act of 1934 (all such disclosures not to contain any untrue statement of material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading)

7. **GOVERNING LAW AND JURISDICTION**

This Amending Agreement shall be governed by and shall be construed in accordance with Israeli law and the competent court of Tel-Aviv-Jaffa shall have exclusive jurisdiction to hear any matters, provided that the Banks shall be entitled to sue the Borrower in any jurisdiction in which it has an office or holds assets.

8. **GENERAL**

8.1. Clauses 26, 27 and 29 of the Facility Agreement shall apply to this Amending Agreement, provided that clause 27.2.1 shall be amended as set forth in Exhibit 1 hereto. Nothing in this Amending Agreement, Exhibit 1 hereto, or the Restated Facility Agreement shall constitute or be construed as a revocation, withdrawal or cancellation of each waiver, approval or consent given to the Borrower by the Banks prior to the date hereof, but only to the extent as such waiver, approval or consent shall be set forth in **Exhibit 2** to be attached hereto on the Amendment Closing Date (provided that such exhibit is in form and substance satisfactory to the Banks) and each such waiver, approval or consent shall continue to be in effect following the date hereof in accordance with the respective terms thereof.

8.2. For the avoidance of doubt, this Amending Agreement shall constitute a Finance Document.

IN WITNESS WHEREOF, the parties have signed this Amending Agreement effective as of the date first mentioned above.

the BORROWER:

for **TOWER SEMICONDUCTOR LTD.**

By: _____

Title: _____

the BANKS:

for **BANK HAPOALIM B.M.**

By: _____

Title: _____

for **BANK LEUMI LE-ISRAEL B.M.**

By: _____

Title: _____

A N N E X A

List of Updated Schedules to be attached on the Amendment Closing Date

SCHEDULES 1.1.2(A)-(B)	Accounts of the Borrower
SCHEDULE 1.1.16	Business Plan (solo and consolidated)
SCHEDULE 1.1.79	List of Intellectual Property Assets
SCHEDULE 1.1.101	List of Material Contracts
SCHEDULE 1.1.105	List of Named Officers and Directors
SCHEDULE 1.1.115(C)	Description of certain exempt Financial Indebtedness of the Group
SCHEDULE 1.1.115(l)	Other Permitted Financial Indebtedness
SCHEDULE 1.1.139A	Form of TIC Safety Net Undertaking
SCHEDULE 1.1.147	List of Warrants issued by the Borrower to the Banks
SCHEDULE 15.4	Non-conflict
SCHEDULE 15.6	Consents required to be obtained from any person or Governmental Body
SCHEDULE 15.10	Exceptions to representations as to good and marketable title to assets and rights
SCHEDULE 15.13	Listed details and copies of all trust deeds, indentures and other instruments reflecting the terms and conditions of all existing Permitted Subordinated Debt and all Permitted Financial Indebtedness of the Subsidiaries of the Borrower existing as at the Amendment Closing Date
SCHEDULE 15.17.1	Exceptions to compliance with law representation
SCHEDULE 15.17.2	Exceptions to Governmental Authorizations
SCHEDULE 15.18	Description of Proceedings pending against the Borrower or any Subsidiary
SCHEDULE 16.1.1(IV)	Form of report setting out a comparison of actual results with projected results of the Borrower
SCHEDULE 16.1.1(V)B	Form of certificate of the Auditors setting out the amounts invested in the relevant Quarter by way of Paid-in Equity, capital notes and Permitted Subordinated Debt
SCHEDULE 16.29	Financial Undertakings

Exhibit 4.86

RESTATED FACILITY AGREEMENT

Originally made on 18 January 2001

Between

TOWER SEMICONDUCTOR LTD.

as the Borrower

and

BANK HAPOALIM B.M.

BANK LEUMI LE–ISRAEL B.M.

as the Banks

(as amended and restated by the parties through September 29, 2008)

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SCHEDULES	DESCRIPTION
SCHEDULES 1.1.2(A)-(B)	Accounts of the Borrower
SCHEDULE 1.1.16	Business Plan
SCHEDULE 1.1.36	Form of Debenture
SCHEDULE 1.1.53	Floating Charge securing Grants made by the Investment Centre in respect of Fab 1
SCHEDULE 1.1.64	*Deleted*
SCHEDULE 1.1.79	List of Intellectual Property Assets
SCHEDULE 1.1.101	List of Material Contracts
SCHEDULE 1.1.104	*Deleted*
SCHEDULE 1.1.105	List of Named Directors and Officers
SCHEDULE 1.1.114	Details of equipment and other assets subject to certain Permitted Encumbrances
SCHEDULE 1.1.115(C)	Description of certain exempt Financial Indebtedness of the Group
SCHEDULE 1.1.115(l)	Other Permitted Financial Indebtedness
SCHEDULE 1.1.118	June 6, 2007 Consent
SCHEDULE 1.1.139A	Form of TIC Safety Net Undertaking
SCHEDULE 1.1.147	List of Warrants issued by the Borrower to the Banks
SCHEDULE 15.2	*Deleted*
SCHEDULE 15.4	Non-conflict
SCHEDULE 15.6	Consents required to be obtained from any person or Governmental Body
SCHEDULE 15.7	*Deleted*
SCHEDULE 15.10	Exceptions to representations as to good and marketable title to assets and rights
SCHEDULE 15.11	*Deleted*
SCHEDULE 15.12	*Deleted*
SCHEDULE 15.13	Listed details and copies of all trust deeds, indentures and other instruments reflecting the terms and conditions of all existing Permitted Subordinated Debt and all Permitted Financial Indebtedness of the Subsidiaries of the Borrower existing as at the Amendment Closing Date
SCHEDULE 15.15.1	*Deleted*
SCHEDULE 15.17	Exceptions to compliance with law representation

SCHEDULE 15.18	Description of Proceedings pending against the Borrower or any Subsidiary
SCHEDULE 15.19	*Deleted*
SCHEDULE 15.20	*Deleted*
SCHEDULE 15.22	*Deleted*
SCHEDULE 15.23.2	*Deleted*
SCHEDULE 15.23.3	*Deleted*
SCHEDULE 15.23.5	*Deleted*
SCHEDULE 15.24	*Deleted*
SCHEDULE 15.26	*Deleted*
SCHEDULE 15.29	*Deleted*
SCHEDULE 16.1.1(iv)	Form of report setting out a comparison of actual results with projected results of the Borrower
SCHEDULE 16.1.1(v)A	*Deleted*
SCHEDULE 16.1.1(v)B	Form of certificate of the Auditors setting out the amounts invested in the relevant Quarter by way of Paid-in Equity, capital notes and Permitted Subordinated Debt
SCHEDULE 16.1.1(v)C	Form of certificate of the Auditors setting out amounts received under the Investment Centre Fab 2 Grants in the relevant Quarter
SCHEDULE 16.1.1(v)D	Form of certificate of the Auditors confirming that there has been no breach of the financial covenants
SCHEDULE 16.10.6(a)	Form of endorsement clause to be inserted into each Insurance Policy taken out by the Borrower
SCHEDULE 16.10.6(d)	Types of Insurance Policies taken out by the Borrower which need not be assigned by way of charge
SCHEDULE 16.27	*Deleted*
SCHEDULE 16.29	Financial Undertakings
SCHEDULE 16.35.1	Form of Outside Investment Undertaking

THIS AGREEMENT was made on the 18th day of January, 2001 and amended and restated by the parties through September 29, 2008,

BETWEEN:

(1) **TOWER SEMICONDUCTOR LTD.**, a company incorporated under the laws of Israel (company no. 52–004199–7), whose registered office is at P.O. Box 619, Industrial Area, Migdal Haemek 23105, Israel

(**"the Borrower"**);

AND

(2) **BANK HAPOALIM B.M.** and **BANK LEUMI LE–ISRAEL B.M.**

IT IS HEREBY AGREED AS FOLLOWS:

1. **INTERPRETATION**

1.1. **Definitions**

In this Restated Facility Agreement (**"this Agreement"**), the following terms have the meanings given to them in this clause 1.1:

1.1.1. **"Accounting Period"** - means any period of one Quarter or a Fiscal Year for which Accounts are prepared;

1.1.2. **"Accounts"** - means, at any time and from time to time:

(a) the audited non-consolidated annual financial statements of the Borrower (including, for the removal of doubt: (i) a profit and loss statement which reflects the operating profit or loss; (ii) cash flow statement; (iii) sources and uses statement; and (iv) a balance sheet reflecting current assets, current liabilities and fixed assets);

(b) the reviewed non-consolidated quarterly financial statements of the Borrower (including, for the removal of doubt: (i) a profit and loss statement which reflects the operating profit or loss; (ii) cash flow statement; (iii) sources and uses statement; and (iv) a balance sheet reflecting current assets, current liabilities and fixed assets);

(c) the audited consolidated annual financial statements of the Borrower; and

(d) the reviewed consolidated quarterly financial statements of the Borrower,

(e) [*Intentionally Deleted*]

all of the Accounts referred to in paragraphs (a) and (c) (inclusive) above to be in the format set out in **Schedule 1.1.2(A)** hereto (being the December 31, 2007 financial statements of the Borrower) and all of the Accounts referred to in paragraphs (b) and (d) above to be in the format set out in **Schedule 1.1.2(B)** hereto (being the June 30, 2008 financial statements of the Borrower).

For the removal of doubt, should any of the statements referred to in paragraphs (a) and (b) of this clause 1.1.2 above not be required by GAAP, any reference in this Agreement to the delivery of such Accounts shall also include the supplemental delivery of such statements;

1.1.3. **"Acquisition"** - means the acquisition, directly or indirectly (whether by one transaction or by a series of related transactions) of any interest whatsoever in the share capital (or equivalent) or the business or undertaking or assets constituting a separate business or undertaking of any company or other person;

1.1.3A. [*Intentionally Deleted*]

1.1.3B. [*Intentionally Deleted*]

1.1.3C. [*Intentionally Deleted*]

1.1.3D. [*Intentionally Deleted*]

1.1.4. [*Intentionally Deleted*]

1.1.5.	**"Alliance"**	-	means Alliance Semiconductor Corporation, a corporation incorporated under the laws of Delaware, USA;
1.1.6.	**"Amendment Closing Date"**	-	means September 29, 2008;
1.1.7.	**"Auditors"**	-	means Brightman–Almagor & Co., or another leading firm of independent Israeli auditors affiliated to one of the big four internationally recognised firms of auditors;
1.1.8.	[*Intentionally Deleted*]		
1.1.9.	[*Intentionally Deleted*]		
1.1.9A.	**"Bank Adviser"**	-	shall bear the meaning assigned to such term in clause 16.16.3 below;
1.1.10.	**"Bank Hapoalim"**	-	means Bank Hapoalim B.M.;
1.1.11.	**"Bank Leumi"**	-	means Bank Leumi Le–Israel B.M.;
1.1.12.	**"Bank" or "Banks"**	-	means Bank Hapoalim, Bank Leumi, either of such Banks and any other bank or financial institution, if any, which becomes a party to this Agreement pursuant to clause 25.3 below;
1.1.13.	**"Borrower"**	-	means Tower Semiconductor Ltd.;
1.1.13A.	[*Intentionally Deleted*]		
1.1.14.	**"Business"**	-	means the business of an independent "foundry" manufacturer of semiconductor integrated circuits and a provider of related design services, as well as other activities ancillary to such business;
1.1.15.	**"Business Day"**	-	means:

(a) with respect to payment, purchase or any other transaction in, or determination of LIBOR for, or performance of, calculations in, sums denominated in US Dollars, a day on which: (i) the Banks are open for trading in Israel in US Dollars; and (ii) banks generally are open for trading in US Dollars in London and New York; and

(b) [*Intentionally Deleted*]

(c) [*Intentionally Deleted*]

(d) [*Intentionally Deleted*]

(e) in all other cases, as a reference to a day (other than Saturday) on which banks generally are open for business in Israel;

1.1.16. **"Business Plan"** - means the business plan of the Borrower which has been approved by the Board of Directors of the Borrower on September 16, 2008 and provided to the Banks, as such business plan may be updated from time to time, a copy of which business plan is attached hereto as **Schedule 1.1.16**;

1.1.17. [*Intentionally Deleted*]

1.1.18. **"a Change of Ownership"** - shall occur in the event that at any time during the period commencing on the Amendment Closing Date and ending prior to the date that all amounts payable by the Borrower under the Finance Documents shall have been paid in full, any of the following occurs:

(a) the Lead Investors shall, directly or indirectly through Subsidiaries, cease to nominate, in aggregate, more than 50% (fifty percent) of the Board of Directors of the Borrower (excluding, for this purpose, external directors (*Dahaz*), 1 (one) independent director under Nasdaq Marketplace Rules, officers of the Borrower who are ex-officio directors of the Borrower and any directors appointed by a purchaser of the Banks' shares), it being recorded that the chief executive officer (or one of the co-chief executive officers, as the case may be) may at all times be a director; or

(b) TIC shall cease to hold (directly or indirectly through Subsidiaries) in the aggregate at least 48,164,483 (forty-eight million one hundred and sixty-four thousand four hundred and eighty-three) ordinary shares (and/or capital notes convertible into such ordinary shares), which represents on the Amendment Closing Date 10% (ten percent) of the issued and outstanding ordinary share capital of the Borrower (assuming conversion, of all capital notes of the Borrower).

For the purposes of this clause 1.1.18, adjustments shall be made to the number of shares referred to in paragraph (b) above to reflect all stock dividends or distributions (including issues of bonus shares), subdivisions of shares, combinations of shares into a smaller number of shares, reclassification of shares or other change in the share capital of the Borrower, such that each number of shares specified as aforesaid shall equal that number of shares which a shareholder holding only the relevant number of shares of the Borrower specified in the aforesaid paragraph (b) would have held after any such stock dividends or distributions (including issues of bonus shares), subdivisions of shares, combinations of shares into a smaller number of shares, reclassification of shares or other change in the share capital of the Borrower, assuming that such shareholder had exercised all rights issued to it pursuant to any of the aforegoing and had not, save by way of exercise of such rights, sold or acquired any shares of the Borrower. For the avoidance of doubt, this paragraph shall not apply to rights offerings conducted by the Borrower not in connection with any of the aforegoing;

1.1.19. **“Charged Accounts”** - means:

(a) (i) account number 545454__ at Bank Hapoalim, Migdal Haemek Branch No. 728, in the name of the Borrower, into which account: (1) all repayments and prepayments of Loans to Bank Hapoalim will be made; (2) all other payments to Bank Hapoalim under this Agreement are to be made pursuant to this Agreement; (3) gross revenues from the Project (or other sources of revenue) are to be paid pursuant to this Agreement; (4) Grants from the Investment Centre shall be paid or transferred pursuant to this Agreement; (5) subject to (b) below, the proceeds of all Paid-in Equity and Permitted Subordinated Debt are to be paid pursuant to this Agreement; and (6) proceeds of insurance, nationalisation, expropriation, or requisition for title or use, all amounts (including liquidated damages) paid to the Borrower arising out of or in connection with any Contracts entered into by the Borrower and all proceeds of any sale, transfer or licence of assets (including Intellectual Property Assets) used in connection with the Project, are to be paid pursuant to this Agreement (**“the Hapoalim Project Account”**); and

(ii) account number13030062 at Bank Leumi, Haifa Branch, in the name of the Borrower into which account: (1) all repayments and prepayments of Loans to Bank Leumi will be made; (2) all other payments to Bank Leumi under this Agreement are to be made pursuant to this Agreement; (3) gross revenues from the Project (or other sources of revenue) are to be paid pursuant to this Agreement; (4) Grants from the Investment Centre shall be paid or transferred pursuant to this Agreement; (5) subject to (b) below, the proceeds of all Paid-in Equity and Permitted Subordinated Debt are to be paid pursuant to this Agreement; and (6) proceeds of insurance, nationalisation, expropriation, or requisition for title or use, all amounts (including liquidated damages) paid to the Borrower arising out of or in connection with any Contracts entered into by the Borrower and all proceeds of any sale, transfer or licence of assets (including Intellectual Property Assets) used in connection with the Project, are to be paid pursuant to this Agreement (**“the BLL Project Account”**) (the Hapoalim Project Account and the BLL Project Account shall mean the **“Project Accounts”**) and the Borrower shall be entitled to determine the allocation as between each of the Project Accounts of the funds described in each of (i) and (ii)(3)–(6) above;

(b) an account or accounts to be opened at a branch or Subsidiary of Bank Leumi and/or Bank Hapoalim outside of Israel into which (if the Borrower so elects by written notice to the Banks), any Paid-in Equity or amount on account of Permitted Subordinated Debt received by the Borrower from non-Israeli investors shall be deposited, provided, for the removal of doubt, that such account or accounts are first duly pledged in favour of the Banks by way of a first-ranking fixed pledge and charge, in a manner satisfactory to the Banks, as security for the Borrower's obligations under the Finance Documents (such account or accounts, **"the Foreign Paid-in Equity Account"**);

(c) in the event that there shall be a New Bank (as referred to in clause 20.1 below), an account to be opened at Bank Leumi or Bank Hapoalim for the purposes of payments to and from such New Bank pursuant to this Agreement, all as referred to in clause 20.1 below; and

(d) accounts opened and/or to be opened at Bank Hapoalim and Bank Leumi in accordance with clause 1.1.118(e) below (**"the Reserve Accounts"**);

1.1.20.	[*Intentionally Deleted*]		
1.1.21.	[*Intentionally Deleted*]		
1.1.22.	[*Intentionally Deleted*]		
1.1.23.	**"Consent"**	-	means any approval, consent, permit, ratification, waiver, licence, exemption, filing, registration or authorisation (including any Governmental Authorisation);
1.1.24.	[*Intentionally Deleted*]		
1.1.25.	[*Intentionally Deleted*]		
1.1.26.	[*Intentionally Deleted*]		
1.1.27.	[*Intentionally Deleted*]		
1.1.28.	[*Intentionally Deleted*]		
1.1.29.	[*Intentionally Deleted*]		
1.1.30.	[*Intentionally Deleted*]		
1.1.31.	[*Intentionally Deleted*]		
1.1.32.	**"Contracts"**	-	means any agreement, contract, obligation, promise or undertaking, whether oral or written, that is legally binding;
1.1.33.	**"Contribution"**	-	means, in relation to a Bank at any time, that amount of the Total Outstandings at the time that is owing to such Bank;
1.1.34.	[*Intentionally Deleted*]		
1.1.35.	**"Currency Hedging Transaction"**	-	includes any foreign exchange transaction, currency swap transaction, cross currency rate swap transaction, currency option, collar transaction or other similar transaction (including any option with respect thereto and any combination in respect thereof);

1.1.36. **"Debenture"** - means the debenture in the form of **Schedule 1.1.36** hereto between the Borrower and the Banks, pursuant to which, subject to the terms and conditions thereof, the Borrower shall grant to the Banks:

(a) a first-ranking floating charge over all of the Borrower's undertaking, rights, assets and property whatsoever and wheresoever located, both present and future, not otherwise effectively pledged, charged or assigned as a first-ranking fixed pledge and charge;

(b) a first-ranking fixed pledge and charge over, *inter alia*, the following assets, from time to time, of the Borrower: all immovable property, all rights of the Borrower under development agreements and/or lease agreements with the ILA relating to immovable property; all machinery and equipment; all moneys; all bank accounts (including the Charged Accounts), including the investments therein and the debts represented thereby; accounts receivable; goodwill; uncalled share capital; subject to clause 16.15.2, shares and securities (including all shares, rights and securities of the Borrower (with respect to securities held as of January 18, 2001, to the extent the pledge thereof is not expressly prohibited by the terms pursuant to which Borrower acquired shares in such companies) in Azalea Microelectronics Corporation and Tower USA, Inc., subject to the right of the Borrower to sell shares in Azalea Microelectronics Corporation as contemplated by clause 16.24 below); all Intellectual Property Assets and other rights of the Borrower. For the avoidance of doubt, the pledge referred to in this paragraph (b) shall not apply to reserves for employee social benefits which have been reserved for at third party funds, which may not be pledged under law and/or contract;

(c) a first-ranking fixed pledge and charge (assignment by way of charge) over all rights and interest of the Borrower under all Material Contracts, from time to time, as well as under all ancillary documentation relating thereto, including under all performance bonds, sureties, collateral and other securities to the obligations of the counterparties to any of the aforegoing Material Contracts, as well as an assignment by way of charge of all sums to be paid to the Borrower pursuant to any of the above, but excluding only:

(i) those Material Contracts in force as of January 18, 2001 which under the express terms of the Material Contract as interpreted by the law governing such Material Contract prohibit the pledging of such Material Contract, provided that this paragraph (i) shall not apply to those Material Contracts which were required to be pledged pursuant to clause 4 of the original Facility Agreement as a condition precedent to the closing of the original Facility Agreement; and

(ii) those Material Contracts to be entered into after January 18, 2001 which, by the express terms of the Material Contract as interpreted by the law governing such Material Contract prohibit the pledging of such Material Contract despite the best efforts of the Borrower to have such agreement provide otherwise, provided that this paragraph (ii) shall not apply to any lease agreement to be signed between the Borrower and ILA which shall be pledged for the benefit of the Banks; and

(d) a first-ranking fixed pledge and charge (assignment by way of charge) over all rights, title and interest of the Borrower under all Insurance Policies (including in respect of all sums payable to the Borrower pursuant thereto) (other than Insurance Policies in respect of the liability of the Borrower to third parties or of liability of the Borrower for the damage to property of third parties);

1.1.37. [*Intentionally Deleted*]

1.1.38. [*Intentionally Deleted*]

1.1.39. **"Default"** - means any Event of Default or any event which with the giving of notice or lapse of time, or the making of any determination hereunder, or the satisfaction of any other condition (or any combination thereof) would constitute an Event of Default;

1.1.40. **"Distribution"** - means the declaration or payment of any dividend or distribution on or in respect of any shares of any class of capital stock; the purchase, redemption or other retirement, or the giving of any financing for the purchase, redemption or retirement, of any shares of any class of capital stock (including redeemable shares) or of Permitted Subordinated Debt (save to the extent permitted under the approved terms thereof in accordance with clause 1.1.118 below), directly or indirectly through a Subsidiary or otherwise; the return of equity capital by any person to its shareholders; or any other distribution (within the meaning of such term as defined in Section 1 of the Companies Law, 1999) on or in respect of any shares of any class of capital stock; or any undertaking to do any of the aforegoing;

1.1.41. [*Intentionally Deleted*]

1.1.42. [*Intentionally Deleted*]

1.1.42A. **"EBITDA (Borrower only)"** - means:

(1) for any Quarter commencing from the fourth Quarter of 2009 and for any Fiscal Year thereafter, the following in respect of the period of 4 (four) consecutive Quarters ending on the last day of such Quarter or Fiscal Year (**"the Four-Quarter Period"**):

(a) the sum of the following, in respect of such Four-Quarter Period:

(i) the operating profit of the Borrower, plus Employee and Other Option Costs. **"Employee and Other Option Costs"** shall mean costs and expenses already deducted in determining operating profit, (as determined in accordance with GAAP), resulting from the grant or issuance to employees, officers, service providers, suppliers (including the Banks) or directors of the Borrower or its Subsidiaries, of options or warrants to purchase shares of the Borrower, all as reflected in the Accounts and which, prior to 2006, were not required to be deducted in accordance with GAAP; and

(ii) any amortisation and depreciation reflected in the Accounts.

All items referred to above shall be taken from the Borrower's relevant non-consolidated Accounts, being:

(A) in the event that such Four-Quarter Period constitutes a Fiscal Year, the Borrower's non-consolidated annual Accounts for such Fiscal Year; and

(B) in the event that such Four-Quarter Period shall not constitute a Fiscal Year, the non-consolidated quarterly Accounts of the Borrower for each Quarter falling within such Four-Quarter Period;

(2) for the first Quarter of 2009, the items referred to in paragraphs (i) and (ii) above in respect of such Quarter only, multiplied by 4 (four);

(3) for the second Quarter of 2009: (x) the items referred to in paragraphs (i) and (ii) above in respect of the first Quarter of 2009; plus (y) the items referred to in paragraphs (i) and (ii) above in respect of the second Quarter of 2009, multiplied by 3 (three); and

(4) for the third Quarter of 2009: (x) the items referred to in (paragraphs (i) and (ii) above in respect of the first 2 (two) Quarters of 2009; plus (y) the items referred to in paragraphs (i) and (ii) above in respect of the third Quarter of 2009, multiplied by 2 (two);

1.1.43. **"EBITDA (Consolidated)"** - means:

(1) for any Quarter commencing from the fourth Quarter of 2009 and for any Fiscal Year after 2009, the following in respect of the period of 4 (four) consecutive Quarters ending on the last day of such Quarter or Fiscal Year (**"the Four-Quarter Period"**):

(a) the sum of the following, in respect of such Four-Quarter Period:

(i) the operating profit of the Borrower, plus Employee and Other Option Costs. **"Employee and Other Option Costs"** shall mean costs and expenses already deducted in determining operating profit, (as determined in accordance with GAAP), resulting from the grant or issuance to employees, officers, service providers, suppliers (including the Banks) or directors of the Borrower or its Subsidiaries, of options or warrants to purchase shares of the Borrower, all as reflected in the Accounts and which, prior to 2006, were not required to be deducted in accordance with GAAP; and

(ii) any amortisation and depreciation reflected in the Accounts.

All items referred to above shall be taken from the Borrower's relevant consolidated Accounts, being:

(A) in the event that such Four-Quarter Period constitutes a Fiscal Year, the Borrower's consolidated annual Accounts for such Fiscal Year; and

(B) in the event that such Four-Quarter Period shall not constitute a Fiscal Year, the consolidated quarterly Accounts of the Borrower for each Quarter falling within such Four-Quarter Period;

(2) for the first Quarter of 2009, the items referred to in paragraphs (i) and (ii) above in respect of such Quarter only, multiplied by 4 (four);

(3) for the second Quarter of 2009: (x) the items referred to in paragraphs (i) and (ii) above in respect of the first Quarter of 2009; plus (y) the items referred to in paragraphs (i) and (ii) above in respect of the second Quarter of 2009, multiplied by 3 (three); and

(4) for the third Quarter of 2009: (x) the items referred to in (paragraphs (i) and (ii) above in respect of the first 2 (two) Quarters of 2009; plus (y) the items referred to in paragraphs (i) and (ii) above in respect of the third Quarter of 2009, multiplied by 2 (two);

1.1.44. [*Intentionally Deleted*]

1.1.45. **"Encumbrance"** - means:

(a) any mortgage, charge (whether fixed or floating), pledge, lien, assignment, security interest, title retention or other encumbrance of any kind securing, or any right conferring a priority of payment in respect of, any obligation of any person;

(b) any arrangement under which moneys or claims to, or the benefit of, a bank or other account may be set-off or made subject to a combination of accounts so as to effect payments of sums owed or payable to any person; or

(c) any other type of preferential arrangement having similar effect;

1.1.46. **"Environment"** - means the environment, including ambient air, ground water, surface water, land (surface and sub-surface strata);

1.1.47.	**"Environmental Claim"**	-	means any claim, action, cause of action, administrative proceeding, investigation, notice or other Proceeding by any person or Governmental Body alleging potential liability (including potential liability for investigative costs, cleanup costs, governmental response costs, natural resources damages, property damages, personal injuries, or penalties) arising out of, based on or resulting from: (a) the presence, or Release, of any Materials of Environmental Concern at any location, whether or not owned, leased, controlled or occupied by the Borrower or its Subsidiaries; or (b) circumstances or conditions forming the basis of any violation, or alleged violation, of any Environmental Law. For the purpose of the aforegoing, **"Release"** means any spilling, leaking, pumping, pouring, emitting, discharging, injecting, escaping, leaching, dumping or disposing into the Environment, including the abandonment or discarding of barrels, containers and other closed receptacles containing Materials of Environmental Concern;
1.1.48.	**"Environmental Laws"**	-	means all laws (including regulations, ordinances, codes, rules, Orders, decrees, directives and standards) relating to pollution or protection of human health or the Environment (including relating to the manufacture, processing, distribution, use, treatment, storage, transport, planning and building or handling of Materials of Environmental Concern);
1.1.49.	**"Environmental Permits"**	-	means any permits, licences, authorisations, Consents, approvals and registrations required pursuant to the Environmental Laws;
1.1.49A	[*Intentionally Deleted*]		
1.1.50.	[*Intentionally Deleted*]		
1.1.51.	**"Event of Default"**	-	means any of the events or circumstances described in clauses 17.2–17.20C (inclusive) below;
1.1.52.	**"Excess Cash Flow**"	-	for any Fiscal Year, means the cash flow from operating activities for such Fiscal Year, as reflected in the Borrower's Accounts for such Fiscal Year, or Quarter, as the case may be, determined in accordance with GAAP and expressed in US Dollars;
1.1.53.	**"Existing Encumbrance"**	-	means that floating charge, ranked subordinate to the charge under the Debenture, in favour of the State of Israel and securing Grants made by the Investment Centre in respect of Fab 1, a copy of which is attached hereto as **Schedule 1.1.53**;

1.1.54.	**"Existing ILA Leases"**	-	means the long-term lease agreements between the Borrower and the ILA: (a) dated September 10, 1990 (the rights under which were assigned to the Borrower on February 28, 1992) with regard to the land on which Fab 1 is situated (being parts of plots 19–27 (inclusive), 32–35 (inclusive) and 63 in Block 17453, Migdal Haemek), the area of which is approximately 54,766 square meters; and (b) dated June 24, 2003 with regard to the land on which Fab 2 is situated (being certain parts of plots 19–35 (inclusive) and plot 63, all in Block 17453 not already included in the lease described in paragraph (a) above and parts of plot 12 of Block 17454, all in Migdal Haemek, the area of which is approximately 27,037 square metres;
1.1.55.	**"Fab 1"**	-	means the Borrower's Fab facility which was already operating as at January 18, 2001, located in Migdal Haemek;
1.1.56.	**"Fab 2"**	-	means the Borrower's Fab facility which began operating in 2003, located in Migdal Haemek;
1.1.57.	[*Intentionally Deleted*]		
1.1.58.	**"Facility"**	-	means the credit facility which was granted to the Borrower by the Banks pursuant to this Agreement;
1.1.59.	[*Intentionally Deleted*]		
1.1.60.	**"Final Maturity Date"**	-	means June 30, 2012;
1.1.61.	**"Finance Documents"**	-	means this Agreement, the Debenture, the Jazz Share Pledge, any other Security Documents, any L/Cs (as defined in clause 1.1.115(j) below) issued by any Bank on account of the Borrower, any other agreement between the Borrower and any Bank in respect of any other Permitted Financial Indebtedness, if any, made available by such Bank to the Borrower and any other agreement or document executed pursuant to any of the aforegoing to which the Borrower is a party, and designated by the Banks as a Finance Document;

1.1.62. **“Financial Indebtedness”** - means any Indebtedness in respect of or pursuant to:

(a) moneys borrowed;

(b) any amount raised by acceptance under any credit facility;

(c) any amount raised pursuant to any note, purchase facility or the issue of bonds, notes, debentures, bills, loan stock or any similar instrument (including any debt security convertible, but not at the relevant time converted, into share capital) having the commercial effect of borrowing (including, moneys raised by the sale of invoices, bills or notes or other financial assets on terms that recourse may be had to the vendor in the event of non-payment of such invoices, bills or financial assets when due);

(d) the amount of any liability in respect of any lease contract (including any sale and lease back, sale and repurchase and similar agreements and instruments) which would, in accordance with GAAP, be treated as a financial or capital lease;

(e) receivables sold or discounted;

(f) any amount raised under any other transaction having the commercial effect of borrowing (other than transactions specifically referred to in the other paragraphs of this clause 1.1.62);

(g) the acquisition cost of assets or services to the extent payable on deferred payment terms;

(h) moneys received in consideration for the supply of goods and/or services to the extent received before the due date for such supply where the receipt as aforesaid is arranged primarily as a method of raising finance;

(i) any Hedging Transaction or any other derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price;

(j) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution;

(k) the amount of any liability in respect of any guarantee, indemnity or other legally binding instrument to assure payment of, or against loss in respect of non-payment of, any of the items referred to in paragraphs (a)–(j) above;

1.1.63. **"Fiscal Year"** - means a calendar year;

1.1.64. [*Intentionally Deleted*]

1.1.65. **"GAAP"** - means generally accepted accounting principles, in force from time to time, and applicable to Israeli companies the shares of which are listed for trading on the Tel-Aviv Stock Exchange and NASDAQ (being, for purposes of this Agreement, United States generally accepted accounting principles);

1.1.66. **"Governmental Authorisation"** - means any approval, exemption, notification, licence, permit, waiver, other authorisation issued, granted, given or otherwise made available by or under the authority of any Governmental Body or pursuant to any law;

1.1.67. **"Governmental Body"** - means any Israeli (and, for purposes of clauses 1.1.109, 1.1.119, 9.4.6, 16.1.3(ii), 25.4 and 32.3 only, foreign) governmental, national, state, local, municipal or other government, governmental or quasi-governmental authority of any nature (including any governmental agency, branch, ministry, department, official or entity and any court or other tribunal), or body exercising or entitled to exercise any administrative, executive, judicial, legislative, police, regulatory or taxing authority or power of any nature. Notwithstanding the aforegoing, **"Governmental Body"** when used in this Agreement in connection with Jazz or any of its Subsidiaries (including with reference to Governmental Authorisations), shall bear the meaning set out in this clause 1.1.67 above, save that "Israeli" shall be replaced by "United States";

1.1.68.	**"Grants"**	-	means all pending and outstanding grants from each Governmental Body of the State of Israel, or from any other Governmental Body, to the Borrower or any Subsidiary;
1.1.69.	**"Group"**	-	means the Borrower, any Subsidiary and any other entity the accounts of which are in accordance with GAAP to be consolidated with the consolidated Accounts of the Borrower;
1.1.70.	**"Hedging Transaction"**	-	means any Interest Rate Hedging Transaction and any Currency Hedging Transaction;
1.1.71.	**"ILA"**	-	means the Israel Lands Authority;
1.1.72.	**"Indebtedness"**	-	means any obligation (whether incurred as principal or surety or guarantor) for the payment or repayment of money, whether actual or contingent;
1.1.73.	[*Intentionally Deleted*]		
1.1.74.	[*Intentionally Deleted*]		
1.1.75.	**"Insurance Adviser"**	-	means M.M.I. Risk Management Consultants Ltd., who is retained by the Borrower as insurance adviser to the Banks and the Borrower for the purposes of this Agreement, as such person may, on the request of the Banks, be replaced by another firm acceptable to the Banks and the Borrower, the Borrower's consent not to be unreasonably withheld;
1.1.76.	**"Insurance Policies"**	-	means all insurance policies to be maintained or effected, from time to time, by the Borrower in accordance with clause 16.10 below;
1.1.77.	**"Insurance Report"**	-	means the insurance report dated September 2008 prepared by the Insurance Adviser and addressed to the Banks and the Borrower, including all revisions thereto in the form to be prepared by the Insurance Adviser and addressed to the Banks and the Borrower;

1.1.78. [*Intentionally Deleted*]

1.1.79. **"Intellectual Property Assets"** - means all such rights set forth in paragraphs (a)–(e) below and all know-how, trade secrets, confidential information, customer lists, software, technical information, data, process technology, plans, drawings and blue prints (collectively, **"Trade Secrets"**); owned, used or licensed by the Borrower as licensee or licensor which are, in each case, used in or are necessary for the conduct of the Business as now conducted and as approved by its Board of Directors to be conducted, including for the design, construction and operation of Fab 2 in accordance with the Business Plan. **Schedule 1.1.79** hereto sets forth a list of the Intellectual Property Assets, other than Trade Secrets and unregistered Copyrights:

(a) trade names, registered and unregistered trademarks, service marks and applications (collectively, **"Marks"**);

(b) all patents, patent applications and inventions and discoveries that may be patentable (collectively, **"Patents"**);

(c) all copyrights, registered and unregistered in both published works and unpublished works (collectively, **"Copyrights"**);

(d) all domain names; and

(e) all mask works, including rights in the topography of integrated circuits;

1.1.80. **"Intercreditor Agreement"** - means the intercreditor agreement entered into between the Banks;

1.1.81. **"Interest"** - means:

(a) interest and amounts in the nature of interest (including the interest element of finance leases, linkage differentials with respect to such interest and any similar payment in respect of indexation with respect to such interest);

(b) prepayment penalties or premiums incurred in repaying or prepaying any Financial Indebtedness (including, for the avoidance of doubt, amounts payable pursuant to clause 19 below); and

(c) discount fees and acceptance fees payable or deducted in respect of any Financial Indebtedness (including all commissions payable in connection with any letter of credit);

1.1.82. **"Interest Determination Date"** - in relation to any Interest Period, means the Business Day falling 2 (two) Business Days prior to the first day of such Interest Period;

1.1.83. **"Interest Payment Date"** - means the last Business Day of each Quarter;

1.1.83A. [*Intentionally Deleted*]

1.1.83B. [*Intentionally Deleted*]

1.1.84. **"Interest Periods"** - means consecutive periods of 1 (one) Quarter; provided that, notwithstanding the aforegoing:

(a) if any Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the immediately preceding Business Day;

(b) each Interest Period (other than the first Interest Period) shall commence on the expiry of the Interest Period preceding such Interest Period and, for the removal of doubt, shall, subject to (a) above, end on the last day of the Quarter following such preceding Interest Period;

(c) [*Intentionally Deleted*]

(d) no Interest Period may extend later than the Final Maturity Date; and

(e) with respect to Unpaid Sums, **"Interest Period"** shall bear the meaning assigned to such term in clause 18.1 below;

1.1.85. **"Interest Rate Hedging Transaction"** - includes any rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, Interest rate option, knock-out transaction, cap transaction, floor transaction, collar transaction or other similar transaction (including any option with respect thereto and any combination in respect thereof);

1.1.86. **"Investment Centre"** - means the Investment Centre established under the Encouragement of Capital Investments Law, 1959;

1.1.87.	**"Investment Centre Fab 2 Grants"**	-	means those grants made and to be made under the Encouragement of Capital Investments Law, 1959, in respect of Fab 2;
1.1.87A.	**"Investments (Borrower only)"**	-	means actual investments in property and equipment and in other assets and intangible assets, as appearing in the non-consolidated financial statements of the Borrower for the relevant Fiscal Year;
1.1.87B.	**"Investments (Consolidated)"**	-	means actual investments in property and equipment and in other assets and intangible assets, as appearing in the consolidated financial statements of the Borrower for the relevant Fiscal Year;
1.1.88.	[*Intentionally Deleted*]		
1.1.89.	[*Intentionally Deleted*]		
1.1.89A	**"Jazz"**	-	means Jazz Technologies, Inc., a Delaware corporation;
1.1.90.	**"Knowledge"**	-	the Borrower will be deemed to have "Knowledge" of a particular fact or other matter if any individual who is serving as a Named Director and Officer has, or at any time had, knowledge of such fact or matter;
1.1.91.	[*Intentionally Deleted*]		
1.1.92.	[*Intentionally Deleted*]		
1.1.93.	**"Lead Investors"**	-	means TIC, Sandisk, Alliance and Macronix;
1.1.94.	**"LIBOR"**	-	means, with respect to each Interest Period, the rate per annum rounded upward, if necessary, to the nearest whole multiple of 1/16% (one-sixteenth of a percent) for Euro–Dollar deposits for a period of 3 (three) months (or if such Interest Period is less than a Quarter, then for the number of weeks of such Interest Period, rounded-up for part of a week), offered in the London Interbank market, as quoted at or about 11:00 a.m. (London time) on the Interest Determination Date for such Interest Period on the composite display designated as LIBOR 01 áFrasettñ (in the case of Euro–Dollars) to subscribers of the REUTERS service (**"Reuters"**) or, in the absence of such page or pages, or if Reuters shall, for any reason whatsoever, amend, change or otherwise alter the data basis or the reference banks used by it on the Amendment Closing Date, for quotations under said composite display, the rate of Interest as quoted at or about 11:00 a.m. London time on the relevant Interest Determination Date on such other page or pages of Reuters as shall be determined by the Banks for a period of 3 (three) months or, as the case may be, that number of weeks comprising such Interest Period, rounded-up, as aforesaid (rounded upward, if necessary, to the nearest whole multiple of 1/16% (one-sixteenth of a percent)). In the event that the Reuters service ceases to be available, the Banks may specify another service (and the relevant page thereof) displaying the appropriate LIBOR rate;

1.1.95.	[*Intentionally Deleted*]		
1.1.96.	**"Loans"**	-	means, at any time, the loans which were granted under this Agreement or, as the case may be, the aggregate principal amount of any such loan outstanding at such time, it being recorded that, as at the Amendment Closing Date, the aggregate principal amount (excluding, for the removal of doubt, accrued Interest and any other amounts owing under the Finance Documents) of the loans is US $202,779,814 (two hundred and two million seven hundred and seventy-nine thousand eight hundred and fourteen United States Dollars), of which US $101,391,517 (one hundred one million three hundred and ninety-one thousand five hundred and seventeen United States Dollars) is owed to Bank Hapoalim and US $101,388,297 (one hundred and one million three hundred and eighty-eight thousand two hundred and ninety-seven United States Dollars) is owed to Bank Leumi; **"Loans"** shall be construed to mean each of them respectively;
1.1.97.	[*Intentionally Deleted*]		
1.1.98.	**"Macronix"**	-	means Macronix International Co. Ltd., a company incorporated under the laws of Taiwan;
1.1.99.	[*Intentionally Deleted*]		

1.1.100.	**"Material Adverse Effect"**	-	means any effect which is or is likely to be materially adverse to: (a) the business or financial condition of the Borrower; (b) the successful implementation of the Project in accordance with the Business Plan; or (c) the ability of the Borrower to perform its obligations under any of the Finance Documents;
1.1.101.	**"Material Contracts"**	-	means all of the Contracts currently in existence as specified in **Schedule 1.1.101** hereto or types of Contracts to be entered into in the future, as specified in Schedule 1.1.101 hereto;
1.1.102.	**"Materials of Environmental Concern"**	-	means any hazardous chemicals, pollutants, contaminants, hazardous wastes, radioactive or electromagnetic waste, toxic substances, hazardous substances (as "hazardous substances" is defined under applicable Environmental Laws) or any other substance defined or regulated pursuant to Environmental Laws, including fluoride, asbestos, PCBs, petroleum or petroleum derived substances;
1.1.103.	[*Intentionally Deleted*]		
1.1.103A.	[*Intentionally Deleted*]		
1.1.103B.	[*Intentionally Deleted*]		
1.1.103C.	[*Intentionally Deleted*]		
1.1.104.	[*Intentionally Deleted*]		
1.1.105.	**"Named Directors and Officers"**	-	means those persons from time to time holding the offices in the Borrower listed in **Schedule 1.1.105** hereto;
1.1.106.	[*Intentionally Deleted*]		
1.1.107.	**"Net Proceeds"**	-	means the aggregate consideration received by the Borrower in respect of a sale, transfer, loan or other disposal (**"disposal"**) of assets (including shares) as referred to in clause 8.1.5 below by the Borrower to any third party after deduction of: (a) all amounts paid or provided for or on account of Taxes applicable to, or to any gain resulting from, the disposal as aforesaid or the discharge of any liability secured on the relevant assets (including VAT); and (b) all costs, fees, expenses and the like properly incurred by the Borrower in arranging and effecting such disposal;

1.1.107A. [*Intentionally Deleted*]

1.1.107B. [*Intentionally Deleted*]

1.1.107C. [*Intentionally Deleted*]

1.1.108. **"OCS"** - means the Office of the Chief Scientist in the Ministry of Industry, Commerce and Labour;

1.1.109. **"Order"** - means any award, decision, injunction, judgment, order, ruling, subpoena or verdict entered, issued, made or rendered by any court, administrative agency or other Governmental Body or by any arbitrator;

1.1.110. **"Ordinary Course of Business"** - an action taken by a person will be deemed to have been taken in the "Ordinary Course of Business" only if:

(a) such action is consistent with the past practices of such person and is taken in the ordinary course of the normal day-to-day operations of such person; and

(b) such action is similar in nature and magnitude to activities customarily taken in the ordinary course of the normal day-to-day operations of other persons that are in the same line of business as such person;

1.1.111. **"Organisational Documents"** - means the certificate of incorporation, Memorandum of Association, Articles of Association, by-laws or other documents of incorporation of any person being a corporation;

1.1.111A. **"Outside Investment Undertaking"** - shall bear the meaning assigned to such term in clause 16.35.1 below;

1.1.112. **"Paid-in Equity"** - means the aggregate amount paid-up in cash in respect of irredeemable ordinary share capital of the Borrower or in respect of the sale of warrants by the Borrower where the purchase price of such warrants is registered as owners' equity and is non-refundable and the purchaser or holder of such warrants shall not be entitled to claim refund of such purchase price (or any part thereof) under any circumstances whatsoever. For the removal of doubt: (i) for the purposes of this Agreement, any credit, prepayment or other entitlement granted to any person in respect of any amount paid-up in cash in respect of the irredeemable share capital of the Borrower or in respect of the sale of any warrant pursuant to agreements with such person shall not be regarded as Paid-in Equity and shall be deducted from the amount of such equity; (ii) the subsequent application of the debt of the Borrower represented by such credit, prepayment or other entitlement on account of the purchase price for shares of the Borrower shall not be considered Paid-in Equity at the time of such application; and (iii) the net amount credited in the books of the Borrower as irredeemable share capital as a consequence of the conversion of convertible debentures or any other securities of the Borrower issued or which may be issued by the Borrower shall not be considered Paid-in Equity at the time of such conversion;

1.1.113. [*Intentionally Deleted*]

1.1.114. **"Permitted Encumbrances"** - means:

(a) any Encumbrance constituted or evidenced by the Security Documents;

(b) the Existing Encumbrance;

(c) a second-ranking floating charge in favour of the State of Israel (Investment Centre) or in favour of a bank through which the Investment Centre Fab 2 Grant is made, such floating charge securing obligations in respect of such Investment Centre Fab 2 Grants as aforesaid and to be subordinated to the Encumbrances referred to in paragraph (a) above, such floating charge to be in the customary, standard form required by the Investment Centre;

(d) those first-ranking fixed charges over certain equipment and other assets granted by the Borrower in favour of each of:

(i) Matsushita Electronic Industrial Co. Ltd. (**"MEI"**), pursuant to a pledge dated October 31, 2002, entered into in connection with the Joint Development and Cross-License Agreement between the Borrower and MEI, dated May 28, 2002 (as such charge remains in effect pursuant to that Termination Agreement between the Borrower and MEI entered into as of April 5, 2005);

(ii) Siliconix Technology C.V., pursuant to a pledge dated August 5, 2004, entered into in connection with that Foundry Agreement dated May 12, 2004 by and among the Borrower, Siliconix Incorporated, and Siliconix Technology C.V.; and

(iii) Sandisk, pursuant to that consent dated August 7, 2006 by and between the Borrower and the Banks,

full details of the equipment and other assets respectively pledged under each such pledge being set out in **Schedule 1.1.114** hereto; and

(e) Encumbrances granted by Jazz and its Subsidiaries;

1.1.115. **"Permitted Financial Indebtedness"** - means:

(a) Financial Indebtedness arising pursuant to this Agreement;

(b) Permitted Subordinated Debt;

(c) Financial Indebtedness in respect of a credit facility obtained from a bank or other financial institution to be applied with respect to Fab 1 and which, together with all other Financial Indebtedness of the Group (other than the Borrower), other than those matters described in **Schedule 1.1.115(c)** hereto shall at no time exceed, in aggregate, US $22,500,000 (twenty-two million five hundred thousand United States Dollars) or its equivalent. For the removal of doubt, the Banks shall be under no obligation whatsoever to provide such financing or to continue to provide such financing if they shall at any time do so;

(d) Financial Indebtedness in respect of operating leases of up to US $10,000,000 (ten million United States Dollars) in aggregate relating to Fab 2. In addition, such additional Financial Indebtedness in respect of operating leases relating to the purchase of equipment for use in Fab 2 to the extent the Banks shall (on a case-by-case basis), give their prior consent to such operating leases (the Banks, for the removal of doubt, being entitled to withhold such consent in their sole discretion or, if they shall give same, being entitled to impose such conditions in respect thereof as they shall see fit);

(e) Financial Indebtedness comprising guarantees or other contingent Indebtedness in respect of any obligations of a person, other than the Borrower, incurred in the Ordinary Course of Business in an aggregate amount not exceeding at any time US $5,000,000 (five million United States Dollars) or its equivalent. For the removal of doubt: (i) nothing in this clause 1.1.115(e) shall derogate from the provisions of clause 16.37 below; and (ii) for the purposes of this clause 1.1.115(e), “guarantees” shall not include “independent” guarantees by the Borrower for its own obligations;

(f) the acquisition cost of assets or services to the extent payable on deferred payment terms, provided that the aggregate Interest actually paid by the Borrower to the supplier or provider of such assets or services in respect of all such assets or services shall not exceed US $2,000,000 (two million United States Dollars) in any calendar year;

(g) moneys received in consideration for the supply of goods and/or services to the extent received before the due date for such supply provided to the extent such sums bear interest, they shall not exceed the borrowing costs of the Loan made hereunder;

(h) receivables sold or discounted; provided that: (i) the maximum recourse to the Borrower under each invoice representing receivables sold or discounted shall not exceed 15% (fifteen percent) of the amount of such invoice; and (ii) the consideration for such sale or discounting shall be received on the date of such sale or discounting in cash;

(i) Indebtedness under Hedging Transactions entered into by the Borrower (if any), in each case, with the Banks, without derogating from clause 16.21 below;

(j) Indebtedness under standby or documentary letters of credit or bank guarantees (collectively, **"L/Cs"**) issued for the account of the Borrower, provided that the aggregate Indebtedness in respect of all such L/Cs shall at no time exceed US $10,000,000 (ten million United States Dollars). For the removal of doubt, no Bank shall be obligated to issue any L/C for the account of the Borrower;

(k) Financial Indebtedness of Jazz and its Subsidiaries; and

(l) Financial Indebtedness otherwise as permitted pursuant to paragraphs (a)–(k) (inclusive) above created or subsisting as set forth in **Schedule 1.1.115(l)** hereto or as set forth on Schedule 1.1.115(c) hereto or otherwise with the prior written consent of the Banks;

1.1.116. [*Intentionally Deleted*]

1.1.116A. [*Intentionally Deleted*]

1.1.117. [*Intentionally Deleted*]

1.1.118. **"Permitted Subordinated Debt"** - means:

Indebtedness of the Borrower in respect of convertible debentures (bonds) issued by the Borrower for the purposes only of additional financing for Fab 2, subject to all of the following conditions:

(a) the principal amount of Indebtedness in respect of such convertible debentures shall at no time exceed US $150,000,000 (one hundred and fifty million United States Dollars) in aggregate; provided that the net amount that is actually received by the Borrower in respect of such convertible debentures (after deducting all discounts, costs, commissions, fees, expenses and other issuance costs) shall be no less than 85% (eighty-five percent) of the principal amount of the convertible debentures;

(b) the Indebtedness in respect of such convertible debentures is subordinated to the rights of the Banks under this Agreement and under all other Finance Documents in all respects, including with respect to payments of principal and Interest and all other amounts payable to the Banks under this Agreement and under all other Finance Documents and shall not be secured by any collateral whatsoever and, save in accordance with the provisions of this clause 1.1.118 below, no amount, whether in respect of principal, Interest or any other amount, shall be payable by the Borrower on account of such Indebtedness, prior to the date on which: (i) all amounts payable by the Borrower under the Finance Documents shall have been paid in full; and (ii) no Bank shall be under any obligation under any Finance Document to provide any Financial Indebtedness to the Borrower;

(c) the terms and conditions (including financial covenants, if any) of such convertible debentures and of all instruments governing such convertible debentures (other than those terms expressly set out in paragraphs (d)-(i) below) shall be subject to the prior written approval of the Banks, provided that the approval of the Banks shall not be required with respect to those convertible debentures that meet the conditions set forth in paragraph (g)(ii) and paragraph (g)(iii) below;

(d) the terms and conditions of such convertible debentures (and all instruments governing such convertible debentures) shall:

(i) provide that an event of default under such convertible debentures shall occur only in the event that:

(1) there shall occur in respect of the Borrower an Event of Default as referred to in clause 17.8 below; or

(2) the Borrower shall fail to pay an amount of principal or Interest in respect of the convertible debentures within 14 (fourteen) Business Days of due date therefor; or

(3) such other events of default, if any, as the Banks may consent to, in their sole discretion;

provided that, notwithstanding the aforegoing, the holders of the convertible debentures and anybody acting on their behalf (including any trustee) shall not be entitled to take any action against the Borrower in the event of any event of default as aforesaid, unless the Borrower shall not have remedied such event of default within a period of not less than 39 (thirty-nine) days after the date of receipt by the Borrower of a demand to cure such default, a copy of which demand shall have been served on the Banks on the same day as service of same on the Borrower as aforesaid; and

(ii) provide that, in the event of any event of default under the convertible debentures, no amount of whatsoever nature shall be payable by the Borrower in respect of the convertible debentures (whether in respect of principal, Interest or any other amount), until all amounts owing by the Borrower under the Finance Documents shall have been paid in full;

(e) the Borrower shall procure that, at all times, an amount equal to 20% (twenty percent) of the outstanding principal amount of all convertible debentures, or, with respect to convertible debentures listed in Part B of Schedule 15.13), an amount equal to 20% (twenty percent) of the outstanding principal amount (net of discounts) of such convertible debentures (as may be increased from time to time through the issuance of additional convertible debentures and as may be decreased from time to time through repayment by the Borrower of outstanding principal of some or all of the convertible debentures) is deposited in the Reserve Accounts (50% (fifty percent) in each Reserve Account) which accounts are duly pledged in favour of the Banks, by way of a first-ranking fixed charge under the Debenture, as security for the payment of all amounts by the Borrower under the Finance Documents; provided that, if the amounts so deposited in the Reserve Accounts as aforesaid shall exceed the amount of the aggregate Interest payable in respect of all such convertible debentures during the 2 (two) year period following December 28, 2005, then the amount of such excess over the aggregate Interest for such 2 (two) year period as aforesaid shall be released; provided that, subject to there at all times being on deposit in the Reserve Accounts, duly pledged, as aforesaid, an amount equal at least to the sum of 20% (twenty percent) of the outstanding principal of the convertible debentures (other than the convertible debentures, listed in Part B of Schedule 15.13) and 20% (twenty percent) of the outstanding principal (net of discounts) of the convertible debentures, listed in Part B of Schedule 15.13, the following amounts may be released in the aggregate from the Reserve Accounts: (1) on the dates for payment of Interest in respect of the convertible debentures, an amount equal to the aggregate Interest payable on such date in respect of the convertible debentures shall be released from the Reserve Accounts and applied in respect of such Interest only, and (2) an amount equal to amounts converted into equity upon conversion of the convertible debentures;

(f) the rate of Interest to be paid on such convertible debentures shall be no higher than the rate of Interest payable as at the date of issue of the convertible debentures on bonds issued by the State of Israel, which bonds are denominated in the same currency and have the same linkage conditions (if any) as the convertible debentures and the period of which State of Israel bonds is the same as, or closest to, the average duration (taking into account repayments) of the convertible debentures;

(g) no amount shall be payable on account of the principal of any convertible debentures at any time on or prior to the Final Maturity Date, save only for: (i) amounts not to exceed the amounts of principal repayable on account of those convertible debentures existing as at the Amendment Closing Date (which amounts and the times for repayment of which are set out in Schedule 15.13 hereto); (ii) an amount in respect of convertible debentures issued after September 28, 2006 and to be subject to identical (save for the later issuance of such convertible debentures) terms and conditions to those applicable to the convertible debentures issued by the Borrower pursuant to the prospectus dated June 21, 2006 (as set out in Part A of Schedule 15.13 hereto), which shall not exceed NIS 39,000,000 (thirty-nine million New Israel Sheqels) linked to the Israeli consumer price index which may be issued upon the exercise of options to purchase convertible debentures, which options were issued by the Borrower pursuant to the prospectus dated June 21, 2006, as set out in Part A of Schedule 15.13 hereto, and which shall be paid not earlier than December 2011; and (iii) an amount (principal, interest and all other amounts) in respect of convertible debentures which may be issued by the Borrower (in its discretion) after September 28, 2006 and to be subject to identical (save for adjustments to reflect the later issuance of such convertible debentures) terms and conditions to those applicable to the convertible debentures issued by the Borrower pursuant to the prospectus dated June 21, 2006 not to exceed US $40,000,000 (forty million United States Dollars) and which, shall be paid not earlier than December 2011;

(h) any variation of the terms of the Finance Documents, including increase (if any) of the amount of the Facility or the provision of any other credit facilities by the Banks or any of them to the Borrower shall not require the consent of the holders of the convertible debentures or anyone acting on their behalf, nor shall it constitute a default under the terms of the convertible debentures;

(i) no payment of principal or Interest shall be made in respect of the convertible debentures unless, as at the date of any such payment: (i) all amounts due and payable under the Finance Documents as of such date have been paid in full; and (ii) no Default exists and is continuing under any of the Finance Documents;

(j) with respect to those convertible debentures referred to in paragraph (g)(i)-(iii) above (including convertible debentures existing as at September 28, 2006) (**"the Equity Convertible Debentures"**), the provisions of this clause 1.1.118 above (other than paragraph (i) above) shall apply in all respects, subject only to the express provisions set out in this paragraph (j) below:

(i) each payment of Interest in respect of the Equity Convertible Debentures (to the extent permitted under this clause 1.1.118) may be made only on 1 (one) Business Day falling in the month immediately following a day which is a day for payment of Interest under this Agreement and each payment of principal in respect of the Equity Convertible Debentures (to the extent permitted under this clause 1.1.118) shall be made only on 1 (one) Business Day falling in the month immediately following a day which is a day for repayment of principal under this Agreement (any date for payment of Interest or for repayment of principal to the Banks under this Agreement, hereinafter **"a Bank Payment Date"**);

(ii) in the event of the existence on any Bank Payment Date (**"a Default Bank Payment Date"**) of a Default under any of the Finance Documents, then no payment of principal or Interest shall be made in respect of the Equity Convertible Debentures and the holders of the Equity Convertible Debentures and anybody acting on their behalf (including any trustee) shall not be entitled to take any action against the Borrower in the event of any non-payment as aforesaid, unless such non-payment shall continue for a period of more than 6 (six) months commencing from the Bank Payment Date falling immediately prior to the date of the first scheduled payment in respect of the Equity Convertible Debentures due immediately after the Default Bank Payment Date; provided that:

(1) in the event that during any such 6 (six) month period (**"the Relevant Six-Month Period"**), the Borrower shall make any payment to the Banks on account of Interest or principal under the Finance Documents, then the Borrower shall be entitled on or after the date of such payment to the Banks (**"the Payment Date"**) to make a payment on account of Interest or principal (as the case may be) then outstanding in respect of the Equity Convertible Debentures, such payment to comprise the same percentage of the Interest or principal (as the case may be) due and payable under the Equity Convertible Debentures as of the date scheduled for payment on the Equity Convertible Debentures which falls during the Relevant Six-Month Period as the payment to the Banks as aforesaid comprises of the Interest or principal (as the case may be) due and payable under the Finance Documents as of the Payment Date; and

(2) in the event that the Borrower and the Banks shall during the Relevant Six-Month Period reach an agreement (the Banks being under no obligation whatsoever to negotiate or reach any such agreement):

(A) regarding a rescheduling of payments by the Borrower to the Banks under the Finance Documents, such rescheduling (whether of principal or Interest) shall apply pro rata also to payments of principal and/or Interest, as the case may be, in respect of the Equity Convertible Debentures, *mutatis mutandis*, and the holders of the Equity Convertible Debentures shall be bound by such rescheduling agreement; provided that, any such rescheduling agreement shall apply only to payments (of principal and Interest) scheduled to be made under the Equity Convertible Debentures and under this Agreement during the period of 12 (twelve) months from the Default Bank Payment Date and shall postpone each such scheduled payment under the Equity Convertible Debentures to a date falling not more than 12 (twelve) months after the scheduled date for such payment pursuant to the terms of the Equity Convertible Debentures (all payments, whether of Interest or principal, in respect of the Equity Convertible Debentures rescheduled under any such rescheduling agreement, hereinafter **"the Rescheduled ECD Payments"** and all payments, whether of Interest or principal under this Agreement, rescheduled under such rescheduling agreement, hereinafter **"the Rescheduled Facility Payments"**). Pursuant to any such rescheduling agreement, the Borrower shall be entitled, on any date for payment of any Rescheduled ECD Payment (**"Rescheduled ECD Payment Date"**), to pay, in respect of the Rescheduled ECD Payments, an aggregate amount (of principal and/or Interest) which, together with the aggregate of all payments (of principal and/or Interest) actually made prior to such Rescheduled ECD Payment Date in respect of the Rescheduled ECD Payments under such rescheduling agreement, comprises the same percentage of the aggregate Rescheduled ECD Payments rescheduled under such rescheduling agreement as the aggregate Rescheduled Facility Payments under such rescheduling agreement actually made prior to such Rescheduled ECD Payment Date comprise of the aggregate Rescheduled Facility Payments rescheduled under such rescheduling agreement; or

(B) pursuant to which, to the extent relating to the Equity Convertible Debentures, payments of principal and Interest on account of the Equity Convertible Debentures shall, with effect from the termination of the Relevant Six-Month Period be made to the holders of the Equity Convertible Debentures in accordance with the original schedule under the terms of the Equity Convertible Debentures, provided that amounts not paid during the Relevant Six-Month Period, or prior thereto, as the case may be, shall be postponed to be paid pro rata to those payments not made to the Banks during the Relevant Six-Month Period or prior thereto, *mutatis mutandis*, in accordance with the provisions of paragraph (ii)(2)(A) of this clause 1.1.118(j)above and the holders of the Equity Convertible Debentures shall be bound by such an agreement.

For the removal of doubt, in the event of the existence of a Default under any of the Finance Documents during or after any Rescheduling Period (including non-payment on due date of any amount of principal or Interest, whether pursuant to any rescheduling agreement or otherwise), the provisions of this paragraph (ii) shall again apply, *mutatis mutandis* (all without derogating from paragraph (iii) below);

(iii) for the removal of doubt, notwithstanding anything to the contrary in this paragraph (j):

(1) in the event that:

(A) the holders of the Equity Convertible Debentures (or anybody acting on their behalf, including the trustee) shall institute any Proceedings against the Borrower, save only for Excluded Proceedings. **"Excluded Proceedings"** shall mean any of the following:

(I) Proceedings where the sole claim of the holders of the Equity Convertible Debentures is in respect of failure by the Borrower to make a payment permitted to be paid by the Borrower to the holders of the Equity Convertible Debentures in accordance with paragraph (ii)(1) above (in the event of a payment to the Banks pursuant to paragraph (ii)(1) above) or failure by the Borrower to make a payment under a rescheduling agreement which payment is permitted to be paid by the Borrower to the holders of the Equity Convertible Debentures in accordance with paragraph (ii)(2) above, subject, in either case above, to the holders of the Equity Convertible Debentures not being entitled to receive under any such claim any amount in excess of the relevant permitted payment not made as aforesaid;

(II) Proceedings where the sole claim of the holders of the Equity Convertible Debentures is in respect of failure by the Borrower to make a scheduled payment to the holders of the Equity Convertible Debentures due to the operation of the opening paragraph of (ii) above and the Relevant Six-Month Period referred to in such opening paragraph has expired without such scheduled amount being either paid in full pursuant to subparagraph (1) above or made subject to rescheduling under paragraph (ii)(A) or (B) above, subject to the holders of the Equity Convertible Debentures not being entitled to receive under any such claim any amount in excess of such scheduled payment not made as aforesaid); or

(III) Proceedings instituted which relate only to a material misleading fact ("*Prat Mateh*") in such prospectus;

In the case of subparagraph (I) or (II) above, for the further removal of doubt, subject to the Banks receiving 39 (thirty-nine) days' prior notice as required pursuant to clause 1.1.118(d) above before institution of any such Proceedings; or

(B) a Default occurs pursuant to clause 17.7 (save for a Default referred to therein comprising only the commencement of negotiations by the Borrower with individual suppliers of the Borrower to make an adjustment or rescheduling of its Indebtedness to such suppliers), 17.8 or 17.9 (save for a Default referred to therein where the amount being the subject of the relevant execution, attachment, sequestration or other process does not exceed US $2,500,000 (two million five hundred thousand United States Dollars)) below (including the granting of an order of receivership, winding-up or any similar order against or in respect of the Borrower or any of its assets); or

(C) the Banks shall have declared the Loans to be due and payable pursuant to clause 17.21 or 17.22 below (for the further removal of doubt, including where any such declaration is made following an Event of Default constituted by Proceedings as referred to in subparagraph (A)(I), (II) or (III) of this paragraph (iii) above,

then no amount of whatsoever nature shall be payable by the Borrower in respect of the Equity Convertible Debentures (whether in respect of principal, Interest or any other amount) until all amounts owing by the Borrower under the Finance Documents shall have been paid in full and in the event that, contrary to the above, the holders of the Equity Convertible Debentures (or, as applicable, any person acting on their behalf, including a trustee) shall receive any payment, distribution or benefit, the recipient thereof shall be deemed to hold same on trust for the Banks and shall forthwith pay or transfer to the Banks any payment, distribution or benefit so received;

(2) the Borrower shall not be entitled at any time after the expiry of any Relevant Six-Month Period as referred to in paragraph (ii) (1) above (including in the event of any Proceedings as referred to in subparagraph (1)(A)(II) of this paragraph (iii) above) to make any payment in respect of any scheduled payment to the holders of the Equity Convertible Debentures not made during such Relevant Six-Month Period due to the operation of the opening paragraph of (ii) above unless all amounts then due and payable under the Finance Documents shall have been paid in full or a final judgment shall have been given in favour of the holders of the Equity Convertible Debentures in respect of such scheduled payment; and

(3) nothing contained in this paragraph (j) shall be construed as in any way obliging the Banks to refrain from exercising, or to delay exercising, any right or remedy which the Banks may have against the Borrower, as a consequence of the occurrence of a Default.

All references in this clause 1.1.118 to **"convertible debentures"** and **"Equity Convertible Debentures"** shall be deemed to apply to those non-convertible debentures issued by the Borrower in accordance with the consent, dated June 6, 2007, given by the Banks, a copy of which is attached as **Schedule 1.1.118** hereto;

1.1.119.	**"Proceeding"**	-	means any action, arbitration, audit, hearing, investigation, litigation or suit (whether civil, criminal, administrative, investigative or informal) commenced, brought, conducted or heard by or before or otherwise involving, any Governmental Body, arbitrator or mediator;
1.1.120.	**"Project"**	-	means the project for the design, construction and operation of Fab 2 and the operation of Fab 1 and all activities necessary for, or ancillary to, any of the aforegoing, all as contemplated by the Business Plan;
1.1.121.	**"Proportion"**	-	means, in relation to a Bank at any time, the proportion borne by its Contribution at such time to the aggregate Contributions at such time;
1.1.122.	[*Intentionally Deleted*]		
1.1.123.	**"Quarter Day"**	-	means 31 March, 30 June, 30 September and 31 December in any year and **"Quarter Day"** means any of them;
1.1.124.	**"Quarters"**	-	means each period commencing on the day after a Quarter Day and ending on the next following Quarter Day;
1.1.125.	**"QuickLogic"**	-	means QuickLogic Corporation, a corporation incorporated under the laws of Delaware, USA;
1.1.126.	[*Intentionally Deleted*]		
1.1.127.	**"Representative Rate"**	-	means, with respect to any currency other than NIS, the representative rate of exchange of the NIS and such currency, last published by the Bank of Israel immediately prior to the relevant date of payment or calculation (as the case may be) and, if the Bank of Israel shall cease to publish a representative rate, then any other rate of exchange of the NIS and such currency, officially published, which comes in place of such representative rate, last published immediately prior to the relevant date of payment or calculation (as the case may be) and, in the absence of any such official rate, then the average of the selling and buying rates of exchange of such currency, for NIS (for cheques and remittances) prevailing at Bank Hapoalim and Bank Leumi at the end of the last Business Day prior to the relevant date of payment or calculation (as the case may be);

1.1.127A. [*Intentionally Deleted*]

1.1.127B. [*Intentionally Deleted*]

1.1.127C. [*Intentionally Deleted*]

1.1.127D. [*Intentionally Deleted*]

1.1.127E. [*Intentionally Deleted*]

1.1.127F. [*Intentionally Deleted*]

1.1.127G. [*Intentionally Deleted*]

1.1.128. [*Intentionally Deleted*]

1.1.129. [*Intentionally Deleted*]

1.1.130. **"Sandisk"** - means Sandisk Corporation, a corporation incorporated under the laws of Delaware, USA;

1.1.131. [*Intentionally Deleted*]

1.1.132. [*Intentionally Deleted*]

1.1.133. **"Security Documents"** - means:

(a) the Debenture;

(b) each mortgage, pledge or assignment by way of charge to be executed by the Borrower in favour of the Banks in accordance with the provisions of the Debenture;

(c) each security agreement entered into pursuant to the provisions of the Debenture;

(d) all acknowledgments and consents required to be delivered pursuant to the documents referred to above;

(e) a first-ranking fixed pledge and charge under New York law over all shares or other securities in Jazz held by the Borrower or any Subsidiaries of the Borrower, from time to time (**"the Jazz Share Pledge"**);

(f) the TIC Safety Net Undertaking;

(g) the Outside Investment Undertakings; and

(h) any other agreement or deed from time to time entered into by the Borrower in favour of the Banks for the purposes of securing any obligations and liabilities of the Borrower under the Finance Documents and in respect of any other Permitted Financial Indebtedness, if any, made available by the Banks to the Borrower;

1.1.133A. [*Intentionally Deleted*]

1.1.133B. [*Intentionally Deleted*]

1.1.134. [*Intentionally Deleted*]

1.1.135. **"Tax on Overall Net Income"** - means an income tax or capital gains tax including income tax on interest;

1.1.136. **"Taxes"** - means all income and other taxes, including, taxes or charges on capital gains, profits, value-added taxes and all other taxes of whatsoever nature and levies, imposts, duties (including stamp duty), charges, deductions and withholdings in the nature of or on account of tax, together with Interest thereon and penalties and fees with respect thereto, if any, and any payments made on or in respect thereof and **"Tax"** and **"Taxation"** shall be construed accordingly;

1.1.137. [*Intentionally Deleted*]

1.1.138. **"Threatened"** - a claim, Proceeding, dispute, action or other matter will be deemed to have been "Threatened" if either:

(a) any demand or statement has been made in writing or any notice has been given in writing or any other event has occurred or any other circumstance exists, that leads any Named Officer and Director actually to believe that such a claim will be filed or otherwise pursued in the future; or

(b) any demand or statement has been made in writing or orally or any notice has been given in writing or orally to the effect that such a claim, Proceeding, dispute, action or other matter will be asserted, commenced, taken or otherwise pursued in the future;

1.1.139. **"TIC"** - means Israel Corporation Ltd., a company incorporated under the laws of Israel;

1.1.139A. **"TIC Safety Net Undertaking"** - means the undertaking in the form of **Schedule 1.1.139A** hereto given by TIC in favour of the Borrower;

1.1.140. **"Toshiba"** - means Toshiba Corporation, a company incorporated under the laws of Japan;

1.1.141. **"Toshiba Licence Agreement"** - means the Technology Licence Agreement effective as at April 7, 2000 between the Borrower and Toshiba;

1.1.142. **"Total Debt (Borrower only)"** - means, for any Quarter, the sum of:

(a) the Total Outstandings, as at the last day of such Quarter;

(b) the balance on the last day of such Quarter of all Permitted Financial Indebtedness of the Borrower under clauses 1.1.115(b), (c) and (d) above, and under clause 1.1.115(f) above (with respect to (f), for periods of over 180 (one hundred and eighty) days, but including all Interest payable on Permitted Financial Indebtedness referred to in clause 1.1.115(f) (including in respect of periods of 180 (one hundred and eighty) days or less) and any Interest or other amounts payable on account of such Permitted Financial Indebtedness, all of the above amounts as determined and certified as correct by: (i) the CFO of the Borrower, if with respect to any of the first 3 (three) Quarters of each Fiscal Year; and (ii) the Auditors, with respect to the last Quarter of any Fiscal Year (that is the Quarter ending December 31st);

1.1.142A. **"Total Debt (Consolidated)"** - means, for any Quarter, the sum of:

(a) the Total Outstandings, as at the last day of such Quarter;

(b) the balance on the last day of such Quarter of all Permitted Financial Indebtedness of the Group under clauses 1.1.115(b), (c) and (d) above, and under clause 1.1.115(f) and clause 1.1.115(k) above (with respect to (f), for periods of over 180 (one hundred and eighty) days, but including all Interest payable on Permitted Financial Indebtedness referred to in clause 1.1.115(f) (including in respect of periods of 180 (one hundred and eighty) days or less) and any Interest or other amounts payable on account of such Permitted Financial Indebtedness,

all of the above amounts as determined and certified as correct by: (i) the CFO of the Borrower, if with respect to any of the first 3 (three) Quarters of each Fiscal Year; and (ii) the Auditors, with respect to the last Quarter of any Fiscal Year (that is the Quarter ending December 31st);

1.1.143. [*Intentionally Deleted*]

1.1.144. **"Total Outstandings"** - means, at any time, the sum in Dollars of the Loans at such time;

1.1.145. **"Unpaid Sum"** - shall bear the meaning assigned to such term in clause 18.1 below;

1.1.146. [*Intentionally Deleted*]

1.1.147. **"Warrants"** - means those warrants to acquire shares of the Borrower issued by the Borrower to the Banks (or their respective nominees or Affiliates) as listed in **Schedule 1.1.147** hereto as well as any other warrants to acquire shares of the Borrower issued by the Borrower to the Banks (or their respective nominees or Affiliates) from time to time.

1.1.148. [*Intentionally Deleted*]

1.2. **Clause Headings/Table of Contents**

Clause headings and the table of contents are inserted for convenience of reference only and shall be ignored in the interpretation of this Agreement.

1.3. **Interpretation**

In this Agreement, unless the context otherwise requires:

1.3.1. references to clauses and Schedules are to be construed as references to the clauses of, and Schedules to, this Agreement and references to this Agreement include its Schedules. For the removal of doubt, Schedules to this Agreement which have not been deleted and which are not attached (whether on the date hereof or on the Amendment Closing Date) to this Agreement shall remain effective in their respective forms as applicable immediately prior to the Amendment Closing Date;

1.3.2. references to (or to any specified provision of) this Agreement or any other document shall be construed as references to this Agreement, that provision or that document as in force for the time being and as amended in accordance with the terms thereof, or, as the case may be, with the agreement of the relevant parties;

1.3.3. words importing the plural shall include the singular and *vice versa*;

1.3.4. **"Affiliate"** means, with respect to any person, mean any company which controls, is controlled by, or under common control with, such person; **"control"** shall in this clause 1.3.4 and in clause 1.3.10 below bear the meaning assigned to such term in Section 1 of the Securities Law, 1968;

1.3.5. **"Banks"** shall be construed so as to include any subsequent permitted successors, transferees and permitted assigns of a Bank in accordance with their respective interests pursuant to clause 25 below;

1.3.6. the **"equivalent"** on any given date in one currency (the **"first currency"**) of an amount denominated in another currency (the **"second currency"**) means the amount of the first currency which could be purchased with the amount of the second currency at: (i) in the case that one of the two relevant currencies is NIS, the Representative Rate for the other currency; or (ii) in the case that neither of the relevant currencies is NIS, the rate equal to a fraction, the numerator of which is the Representative Rate of the second currency and the denominator of which is the Representative Rate of the first currency;

1.3.7. **“including”** and **“includes”** means including, without limiting the generality of any description preceding such terms;

1.3.8. a **“law”** includes any Israeli statute, law, regulation, treaty, rule, official directive, request or guideline of any governmental, fiscal, monetary or regulatory body, agency, department or regulatory, self-regulatory or other authority or organisation, including, the position (guidelines) of the Examiner of Banks with respect to proper conduct of bank affairs (*“Hora’ot Nihul Bankai Takin”*) or any interpretation of any of the aforegoing by the Examiner of Banks (all the above whether or not having the force of law, but if not having the force of law, being one with which it is the practice of banks to comply). Notwithstanding the aforegoing, **“law”** when used in this Agreement in connection with Jazz or any of its Subsidiaries (including in the definition of “Environmental Laws”), shall bear the meaning set out in this clause 1.3.8 above, save that “Israeli” shall be replaced by “United States federal, state, county, municipal or other local”;

1.3.9. a **“person”** shall be construed as a reference to any person, firm, company, corporation, government, state or agency of a state or any association or partnership (whether or not having separate legal personality) or two or more of the aforegoing;

1.3.10. **“Subsidiary”** of a person means any company which is directly or indirectly controlled by such person;

1.3.11. **“US $”**, **“United States Dollars”**, **“US Dollars”** and **“Dollars”** denote the lawful currency of the United States of America; and **“NIS”** and **“New Israel Sheqels”** denote the lawful currency of Israel;

1.3.12. **“VAT”** shall be construed as a reference to Israeli value added tax, including any similar Israeli Tax which may be imposed in place thereof from time to time;

1.3.13. the **“winding-up”**, **“dissolution”** or **“administration”** of a company or corporation shall be construed so as to include any equivalent or analogous Proceedings under the law of the jurisdiction in which such company or corporation is incorporated or any jurisdiction in which such company or corporation carries on business, including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief of debtors;

1.3.14. all accounting expressions which are not otherwise defined herein shall be construed in accordance with GAAP. Save as expressly stated otherwise, each of "EBITDA (Consolidated)", "Excess Cash Flow", "Total Debt (Consolidated)" and "Investments (Consolidated), for any period, shall be determined from the consolidated Accounts and "EBITDA (Borrower only)", "Total Debt (Borrower only)" and "Investments (Borrower only)", for any period, shall be determined from the Borrower's non-consolidated Accounts, in each case, for the relevant period or for the periods comprising such period, or, if not included in the relevant Accounts, shall be determined from a certificate signed by the Auditors delivered to the Banks together with the relevant Accounts;

1.3.15. any reference in this Agreement to a law shall be construed as a reference to such law as the same may have been, or may from time to time be, amended or re-enacted.

2. **THE LOANS**

2.1. **Loans to the Borrower**

The principal amount of the Loans outstanding immediately prior to the conversions referred to below taking place on the Amendment Closing Date was US $368,693,001 (three hundred and sixty-eight million six hundred and ninety-three thousand and one United States Dollars). The principal amount of the Loans outstanding and owing by the Borrower to the Banks as at the Amendment Closing Date (after conversion by each Bank of US $84,779,610 (eighty-four million seven hundred and seventy-nine thousand six hundred and ten United States Dollars) (amount being US $85,000,000 (eighty-five million United States Dollars) less the accrued unpaid Interest on the Equipment Facility Loan made to the Borrower by each Bank as referred to below (**"the Accrued Unpaid Equipment Facility Interest"**) of its Loans to the Borrower and the amount of US $15,220,390 (fifteen million two hundred and twenty thousand three hundred and ninety United States Dollars) (*i.e.,* US $15,000,000 (fifteen million United States Dollars) plus the Accrued Unpaid Equipment Facility Loan Interest, being the full amount owed under the Equipment Facility Loan Agreements respectively entered into by the Banks with the Borrower on September 10, 2007)) into US $100,000,000 (one hundred million United States Dollars) of capital notes convertible into 70,422,535 (seventy million four hundred and twenty-two thousand five hundred and thirty-five) shares) (subject to the adjustments set forth in the capital notes) is US $202,779,814 (two hundred and two million seven hundred and seventy-nine thousand eight hundred and fourteen United States Dollars) of which US $101,391,517 (one hundred and one million three hundred and ninety-one thousand five hundred and seventeen United States Dollars) is owed to Bank Hapoalim and US $101,388,297 (one hundred and one million three hundred and eighty-eight thousand two hundred and ninety-seven United States Dollars) is owed to Bank Leumi.

A Bank may, in technically implementing the foregoing on the Amendment Closing Date, elect to record in its books that it has granted a "new loan" in the amount of the Loan outstanding on the Amendment Closing Date (that is, the amount of US $101,391,517 (one hundred and one million three hundred and ninety-one thousand five hundred and seventeen United States Dollars), in the case of Bank Hapoalim, or the amount of US $101,388,297 (one hundred and one million three hundred eighty-eight thousand two hundred and ninety-seven United States Dollars), in the case Bank Leumi), which "new loan" will be applied automatically on the Amendment Closing Date in repayment of the Loan outstanding on the Amendment Closing Date, such new loan, for the avoidance of doubt, to constitute the Loan of such Bank hereunder and to be subject to all the terms and conditions of this Agreement, including as to the Interest and repayment, as in effect from the Amendment Closing Date. The Borrower hereby authorises and instructs either of the Banks making an election as aforesaid to debit the Borrower's relevant Charged Account with the amount of such "new loan" and to apply same in immediate repayment of the Loan on the Amendment Closing Date. For the avoidance of doubt, the foregoing in this paragraph does not in fact create a new loan, but is simply a technical method for implementing the changes with respect to the terms and conditions of the Loans which are to be effective from the Amendment Closing Date.

2.2. **Banks'Obligations Several**

The obligations of each of the Banks under this Agreement shall be several; accordingly, the failure of a Bank to perform its obligations under this Agreement shall not result in: (1) the obligations of any other Bank being increased; nor (2) the Borrower being discharged (in whole or in part) from its obligations under this Agreement towards a Bank (without derogating from rights and remedies the Borrower may have against the Bank in breach) and in no circumstances shall a Bank have any responsibility for a failure of another Bank to perform its obligations under this Agreement.

2.3. **Limits on Yen, Euro and Pound Sterling Credits**

[*Intentionally Deleted*]

2.4. **Banks' Rights Separate**

The rights of each Bank under or in connection with the Finance Documents are separate and independent rights and any debt arising under the Finance Documents to a Bank from the Borrower shall be a separate and independent debt.

2.5. **Separate Enforcement by Banks**

A Bank may, except as otherwise stated in the Finance Documents, separately enforce its rights under the Finance Documents.

3. **PURPOSE – *Intentionally Deleted***

3.1. **Purpose of Advances and Loans**

[*Intentionally Deleted*]

3.2. **Purpose of L/Cs**

[*Intentionally Deleted*]

3.3. **Purpose of Permitted Hedging Transactions**

[*Intentionally Deleted*]

3.4. **No Obligation to Monitor**

[*Intentionally Deleted*]

4. **CONDITIONS PRECEDENT – *Intentionally Deleted***

[*Intentionally Deleted*]

5. **AVAILABILITY OF CREDITS – *Intentionally Deleted***

5.1. **Availability**

[*Intentionally Deleted*]

5.2. **Advances**

[*Intentionally Deleted*]

5.3. **Letters of Credit**

[*Intentionally Deleted*]

5.4. **Hedging**

[*Intentionally Deleted*]

5.5. **Applications to All Banks**

[*Intentionally Deleted*]

6. **REPAYMENT**

6.1. **Repayment of Loans**

The Borrower shall repay to each Bank its Proportion of the Loans (together with all Interest accrued thereon and added to principal in accordance with clause 9.3(i) below) by way of 8 (eight) equal consecutive quarterly instalments, payable on the last Business Day of each Quarter, the first such instalment in respect of the Loans to be paid on September 30, 2010 and the last such instalment to be paid on the Final Maturity Date.

6.2. **Payment of all other Sums Due on the Final Maturity Date**

On the Final Maturity Date, the Borrower additionally shall pay to the Banks all other sums then outstanding under the Finance Documents.

6.3. **Repayment in US Dollars**

For the removal of doubt, each Loan, as well as all Interest thereon, shall be repaid in US Dollars.

6.4. **Repayments to Payments Accounts**

Subject to clause 20.1 below, all repayments as aforesaid shall be made by transfer to each Bank to their respective Project Accounts.

6.5. **No Reborrowing**

The Borrower shall not be entitled to reborrow any part of the Loan which is repaid.

6.6. **No Commitments**

For the removal of doubt, the Borrower has no rights to borrow any amount, nor to obtain any other form of credit or Indebtedness from the Banks (whether in respect of Hedging Transactions, letters of credit or in any other form) under this Agreement.

7. **VOLUNTARY PREPAYMENT**

7.1. **Voluntary Prepayment**

Subject to clause 7.9 below, the Borrower may, in the manner and subject to the terms and conditions set out in this clause 7 below, if it has given to the Banks not less than 25 (twenty-five) Business Days' advance written notice to such effect, make a prepayment to each Bank of its Proportion of the Loans, in each case on an Interest Payment Date, provided that, the aggregate amount of each such prepayment (principal) (for all Banks), shall not be less than US $10,000,000 (ten million United States Dollars).

7.2. **Notice of Prepayment**

Any notice of prepayment given by the Borrower pursuant to clause 7.1 above shall be irrevocable, shall specify the Interest Payment Date upon which such prepayment is to be made and the amount of such prepayment and shall oblige the Borrower to make such prepayment on such date. A prepayment of any Loan shall be made in the currency of the Loan.

7.3. **No Other Prepayments**

The Borrower shall not prepay any part of any Loan except in accordance with the aforegoing in this clause 7 or clause 8 below.

7.4. **No Reborrowing**

The Borrower shall not be entitled to reborrow any amount repaid or prepaid on account of any Loan.

7.5. **Prepayment Commissions**

The Borrower shall pay to the Banks, in their respective Proportions, on the date of prepayment in accordance with this clause 7 above, a commission of 0.25% (nought point two five percent) of the amount (principal) prepaid, unless the prepayment is of the entire Total Outstandings, in which event the commission shall be 0.125% (nought point one two five percent) of the amount (principal) prepaid.

7.6. **Prepayment to Payments Account**

Subject to clause 20.1 below, all prepayments as aforesaid shall be made by transfer to each Bank to their respective Project Accounts (Hapoalim Project Account or BLL Project Account) their respective Proportions of each such prepayment.

7.7. **Prepayments together with Interest and Other Sums Owed**

All prepayments shall be made together with all accrued Interest on the amount prepaid and all other sums due in respect of the amount prepaid.

7.8. **Cancellation**

[*Intentionally Deleted*]

7.9. **Limits on Prepayment**

[*Intentionally Deleted*]

7.10. **Currency for Prepayment**

A prepayment of a Loan shall be made in the currency of such Loan.

7.11. **Selection of Instalments for Voluntary Prepayment**

Any prepayment shall be applied to those repayment instalments in respect of the Loans as selected by the Borrower in the relevant prepayment notice given pursuant to clause 7.1 above; for the removal of doubt, the prepayments to each of the Banks shall be applied to the same instalments of the Loans for each Bank.

7.12. **Prepayment Pursuant to Clause 6.1.1**

[*Intentionally Deleted*]

8. **MANDATORY PREPAYMENT**

8.1. **Mandatory Prepayment**

Unless the Banks shall, in any particular case, otherwise direct in writing, subject to the last sentence of this clause 8.1, all the following amounts shall be deposited in a Project Account immediately on receipt thereof (such deposit not to be withdrawn) and shall be applied in mandatory prepayment to each Bank of its Proportion of the Loans on the first Interest Payment Date after receipt of such amounts by the Borrower:

8.1.1. all proceeds from time to time received under the Insurance Policies, in excess of US $5,000,000 (five million United States Dollars) in aggregate (other than under Insurance Policies in respect of liability of the Borrower to third parties or of liability of the Borrower for damage to property of third parties), unless such proceeds are received in respect of damage to Fab 1 or Fab 2 or any other equipment used in Fab 1 or Fab 2 and may be applied, through utilisation of such proceeds, to repair the Fab 1 or Fab 2 buildings, as applicable, or to repair or replace such equipment or otherwise purchase equipment or technology for Fab 1 or Fab 2 in accordance with the Business Plan, without resulting in a Material Adverse Effect.

8.1.2. [*Intentionally Deleted*]

8.1.3. all proceeds from time to time received by the Borrower in connection with the nationalisation, expropriation or requisition for title of Fab 2 or any other part of the Borrower's assets;

8.1.4. [*Intentionally Deleted*]

8.1.5. without derogating from clause 16.24 below, if the Borrower sells, transfers, lends, leases, licenses or otherwise disposes of any of its assets (including Intellectual Property Assets and/or securities the Borrower holds (directly or indirectly) in any Subsidiary (other than assets of Jazz or securities or assets of Jazz's Subsidiaries) or other corporation (for the removal of doubt, subject to any such disposal being permitted under the Finance Documents)), the Borrower shall prepay an amount equal to the Net Proceeds resulting from such sale, transfer, loan, lease, licence or disposal (provided such Net Proceeds are greater than US $5,000,000 (five million United States Dollars) or its equivalent and, when aggregated with any other Net Proceeds received during the Fiscal Year in which the relevant Net Proceeds are received, exceed an aggregate amount equal to US $10,000,000 (ten million United States Dollars) or its equivalent). The provisions of this clause 8.1.5 shall not apply in respect of amounts derived from the sale of worn-out, obsolete, un-utilized or out-of-service assets of the Borrower, which amounts the Borrower, when requesting release from the Debenture of such assets to be sold in accordance with clause 16.24 below, confirms in writing to the Banks, are to be applied in respect of the purchase of machinery, tools, spare parts or materials for the Project in accordance with the Business Plan (including in bringing forward the making of investments which, in accordance with the Business Plan, are to be made at future dates).

8.2. **No Reborrowing of Mandatory Prepayment**

The Borrower shall not be entitled to reborrow any amount mandatorily prepaid in accordance with this clause 8 above.

8.3. **Account of Mandatory Prepayment**

Subject to clause 20.1 below, all mandatory prepayments as aforesaid shall be made by transfer thereof to the respective Project Accounts (Hapoalim Project Account or BLL Project Account).

8.4. **Mandatory Prepayment together with Interest and Other Sums Owed**

Any mandatory prepayment shall be made together with all accrued Interest on the amount prepaid and all other sums due in respect of the amount prepaid.

8.5. **Currency for Mandatory Prepayment**

A mandatory prepayment on account of an instalment of a Loan shall be made in the currency of such Loan.

8.6. **Schedule for Mandatory Prepayment**

Any prepayment shall be applied to the repayment instalments in respect of the Loans in reverse order (that is, shall be deemed first to be made on account of the last repayment instalment, then the second last, and so on and so forth).

9. **INTEREST**

9.1. **Interest Rate**

The rate of Interest applicable to the Loans in respect of each Interest Period shall be the sum of: (a) the rate per annum determined by the Banks to be LIBOR on the Interest Determination Date for such Interest Period; and (b) 2.5% (two point five percent) per annum. Subject to the effectiveness of the amendment and restatement of this Agreement on the Amendment Closing Date the rate of Interest set forth in (b) above, as it applies to the principal amount of the Loans outstanding immediately prior to the conversions referred to in clause 2.1 (**"the Loan Conversion"**), shall take effect from the Amendment Closing Date.

9.2. **Accrual of Interest**

Interest as aforesaid in clause 9.1 above in respect of the Loans shall accrue from day to day and shall be calculated on the basis of the actual number of days elapsed and a 360 (three hundred and sixty) day year.

9.3. **Payment of Interest**

All Interest accrued as aforesaid in clause 9.2 above on the Loans: (a) with respect to the Interest Payment Date falling on September 29, 2008, has been added to and become part of the principal of the Loans, and is included in the amount of the Loans set forth in clause 2.1 above; (b) with respect to each of the Interest Payment Dates falling on December 31, 2008, March 31, 2009 and June 30, 2009, shall be added to and become part of the principal of the Loans, and such Interest shall be paid by the Borrower (together with Interest thereon) as part of the principal; and (c) with respect to each other Interest Payment Date, shall be paid on each such Interest Payment Date and on the Final Maturity Date. Subject to clause 20.1 below, the Borrower shall pay to each Bank all Interest payable as aforesaid into such Bank's Project Account.

9.4. **Certain Compensatory Payments**

The parties record that during the period from May 17, 2006 until the Amendment Closing Date, the rate of Interest applicable to the Loans (in the principal amount thereof as was applicable during said period) was reduced by 1.4% (one point four percent) (the difference between 2.5% (two point five percent) and 1.1% (one point one percent)). As compensation to the Banks for the said reduction in the rate of Interest the Borrower agrees as follows:

9.4.1. If every reported closing share price of the Borrower's shares on the Nasdaq Stock Market (or on such other stock exchange or quotation system in the United States on which the Borrower's shares are listed or admitted for quotation in the event the Borrower's shares are not listed on the Nasdaq Stock Market (**"a Sale Price"**)) on every trading day during the six month period commencing on July 1, 2010 and ending on December 31, 2010 (**"the Determination Period"**) exceeds US $3.49 (three United States Dollars and forty-nine cents), as such price shall be adjusted to take into account all subdivisions of shares (including stock splits) and combinations of shares into a smaller numbers of shares (including reverse stock splits) (**"the Minimum Price"**), the Borrower shall, within 30 (thirty) days of the end of the Determination Period, subject to clause 9.4.6 below: (a) issue and allot to the Banks (or their respective nominees), the aggregate number of shares of the Borrower that equals US $6,043,330 (six million forty-three thousand three hundred and thirty United States Dollars) (**"the Clause 9.4.1 Amount"**) divided by the average closing price of the Borrower's shares on the Nasdaq Stock Market (or on such other stock exchange or quotation system in the United States on which the Borrower's shares are listed or admitted for quotation in the event the Borrower's shares are not listed on the Nasdaq Stock Market) during the fourth Quarter of 2010 (**"the Average Closing Price"**) with each Bank (or its nominee) receiving its Proportion of such shares; or (b) at the election of any Bank not wishing to receive shares, issue to such Bank (or its nominee) equity equivalent convertible capital notes in a principal amount equal to such Bank's Proportion of the Clause 9.4.1 Amount and in the form, *mutatis mutandis*, of the capital note issued to such Bank or its nominee on or about September 28, 2006, which capital notes are convertible into such number of shares of the Borrower as shall be equal to such Bank's Proportion of the Clause 9.4.1 Amount divided by the Average Closing Price, subject to the adjustments set forth in the capital note, such capital notes being fully convertible, at any time, in whole or in part, and fully transferable, at any time, in whole or in part. Whenever the Minimum Price is required to be adjusted pursuant to this clause 9.4.1 or clause 9.4.2 below, the Borrower shall promptly prepare a certificate, in form and substance satisfactory to the Banks, signed by the Chief Financial Officer of the Borrower, setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated and the Minimum Price after giving effect to such adjustment.

9.4.2. Should any Sale Price during the Determination Period not exceed the Minimum Price, the Borrower shall, within 30 (thirty) days following the end of the Determination Period, subject to clause 9.4.6 below: (a) issue and allot to the Banks (or their respective nominees) the aggregate number of shares of the Borrower that equals US $12,086,670 (twelve million eighty-six thousand six hundred and seventy United States Dollars) (**"the Clause 9.4.2 Amount"**) divided by the Average Closing Price, with each Bank (or its nominee) receiving its Proportion of such shares; or (b) at the election of any Bank not wishing to receive shares, issue to such Bank (or its nominee) equity equivalent convertible capital notes in a principal amount equal to such Bank's Proportion of the Clause 9.4.2 amount in the form, *mutatis mutandis*, of the capital note issued to such Bank (or its nominee) on or about September 28, 2006 which capital notes are convertible into such number of shares of the Borrower as shall be equal to such Bank's Proportion of the Clause 9.4.2 Amount divided by the Average Closing Price, subject to the adjustments set forth in the capital note, such capital notes being fully convertible, at any time, in whole or in part, and fully transferable, at any time, in whole or in part.

9.4.3. If any Sale Price during the Determination Period shall not exceed the Minimum Price, the Borrower shall promptly, but not later than 3 (three) Business Days after the end of the Determination Period, give written notice thereof to the Banks.

9.4.4. If every Sale Price on every trading day during the Determination Period exceeds the Minimum Price, the Borrower shall provide

the Banks, by no later than 5 (five) days after the end of the Determination Period, a table setting forth the Sale Price of the Borrower's shares on every trading day during the Determination Period, certified as correct by the Chief Financial Officer of the Borrower, who shall further certify that the Sale Price on every trading day during the Determination Period exceeded the Minimum Price, all in form and substance satisfactory to the Banks.

9.4.5. No fractional shares will be issued in connection with any share issuance pursuant to clause 9.4.1 or 9.4.2 above, but in lieu of such fractional shares, the Borrower shall make a cash payment therefor on the basis of the Average Closing Price.

9.4.6. Notwithstanding anything to the contrary in this clause 9.4, it shall be a condition to the Borrower's issuance of shares (or, at the election of any Bank, capital notes) to the Banks pursuant to clause 9.4.1 or 9.4.2 above that: (a) no Default or Event of Default has occurred; (b) no law (including foreign laws or interpretations by foreign Governmental Bodies) prohibits any Bank from acquiring its Proportion of such shares or capital notes or restricts such Bank's ability to indefinitely hold such shares or capital notes; and (c) all of the Borrower's agreements with each of the Banks or their respective nominees with respect to such Bank's investment in the shares, or in securities convertible into or exercisable for shares, of the Borrower, including any investment and registration rights agreements (collectively, **"the Equity Documents"**), shall be in full force and effect and the Borrower shall not be in default of any of its obligations under any of the Equity Documents. In the event that any of the above conditions shall not be met, then, instead of issuing shares (or capital notes), the Borrower shall pay the Clause 9.4.1 Amount or the Clause 9.4.2 Amount, as applicable (as the same may be adjusted pursuant to clause 9.4.7 below, if applicable) in cash by paying each Bank's Proportion of such aggregate amount into such Bank's Project Account on the 30th (thirtieth) day following the end of the Determination Period.

9.4.7. Notwithstanding anything to the contrary in this clause 9.4, in the event that: (i) clause 9.4.2 shall apply; and (ii) at any time prior to the end of the Determination Period a Bank (or its nominee) shall sell shares of the Borrower issued to such Bank (or its nominee) pursuant to the Loan conversion which occurred on September 28, 2006 (**"the Conversion Shares"**) at a price per share that exceeds the Minimum Price (**"the Sold Shares"**), then the compensation payable to such Bank under this clause 9.4 shall be as follows: (a) with respect to the compensation payable to such Bank under clause 9.4.2 above, the Clause 9.4.2 Amount shall be deemed to be an amount equal to the Clause 9.4.2 Amount multiplied by a percentage equal to 100 (one hundred) minus the Percentage Sold; and (b) notwithstanding that clause 9.4.2 is applicable, the Bank shall also be entitled to compensation under clause 9.4.1, provided that the Clause 9.4.1 Amount shall be deemed to be an amount equal to the Clause 9.4.1 Amount multiplied by the Percentage Sold. As used in this clause 9.4.7 the term **"Percentage Sold"** means the Sold Shares expressed as a percentage of the Conversion Shares, as the Sold Shares and the Conversion Shares shall be adjusted to reflect any subdivisions or combinations of shares occurring between September 28, 2006 and the end of the Determination Period. For the avoidance of doubt, sales by a Bank of shares that are not Conversion Shares, including shares issuable upon the exercise of any Warrants granted or to be granted to any Bank or its nominee or shares issuable upon conversion of any capital notes issued on or about the Amendment Closing Date, shall not be taken into account for the purposes of this clause 9.4.7.

9.4.8. All issuances of shares or capital notes, as the case may be, in accordance with this clause 9.4 above, shall be made in accordance with the terms of the respective Equity Documents and, without limiting the generality of the foregoing, all Governmental Authorisations, third party consents, certificates and legal opinions to be delivered and all such other actions to be taken by the Borrower under the Equity Documents in connection with the issue of such shares or capital notes, as the case may be, shall be so delivered and taken by the Borrower by not later than 30 (thirty) days after the end of the Determination Period.

10. SUBSTITUTE INTEREST RATES

If and whenever, at any time prior to the commencement of any Interest Period:

10.1. by reason of changes affecting the Eurodollar Interbank market, the Banks shall have determined that, due to circumstances beyond their control, adequate means do not exist for ascertaining LIBOR during such Interest Period; or

10.2. deposits in US Dollars are not available to any of the Banks in the London Interbank market in the Ordinary Course of Business in sufficient amounts to fund the Loans for such Interest Period or there shall be no objective possibility for the Banks to fund the then outstanding balance of the Loans or any of them in US Dollars,

the Banks shall forthwith give notice (**"a Determination Notice"**) of such event to the Borrower (a Determination Notice to contain particulars of the relevant circumstances giving rise to its issue) and, notwithstanding the provisions of clause 9 above, the Banks shall offer the Borrower an alternative basis (**"the Substitute Basis"**) for the determination of the relevant Interest rate for such Interest Period, the Substitute Basis to be binding upon the Borrower and to take effect in accordance with its terms from the commencement of the relevant Interest Period. If the Borrower determines that it does not wish to continue the relevant Loans under the Substitute Basis, it shall so notify the Banks within 90 (ninety) days of receipt of the Banks' notice specifying such Substitute Basis, whereupon the outstanding balance of the principal amount of the relevant Loans, together with all accrued Interest thereon, as well as all other amounts in respect thereof, shall become immediately due and payable.

11. COMMISSIONS, FEES AND EXPENSES

11.1. Front End Fee

[*Intentionally Deleted*]

11.2. **Commitment Commission**

[*Intentionally Deleted*]

11.3. **Legal and Other Costs**

The Borrower shall pay to the Banks on demand:

11.3.1. all costs and expenses (including legal fees for external counsel and out-of-pocket expenses) incurred by the Banks in connection with: (i) the performance of all legal due diligence inquiries as the Banks have required or shall require with respect to the Project and the proposed transactions in connection therewith; (ii) the negotiation, preparation and execution of this Agreement and the other Finance Documents and the completion of the transactions herein contemplated; and (iii) assignment or participation pursuant to clause 25 below; all subject, with respect to legal fees, to such limits and/or tariffs as have been or may be agreed, from time to time, between the Banks and the Borrower in writing;

11.3.2. all expenses (including legal fees and out-of-pocket expenses) incurred by the Banks (or any of them) in contemplation of, or otherwise in connection with, the enforcement of, or preservation of any rights under, this Agreement or any of the other Finance Documents or otherwise in respect of the moneys owing under this Agreement, together with Interest at the rate referred to in clause 18 below from the date on which the payment of such expenses was demanded by the Banks until the date of payment (after as well as before judgment).

11.4. **Consultants**

The Borrower shall, in accordance with the letters of engagement with each of the Insurance Adviser and Bank Adviser, retain the following experts: the Insurance Adviser and the Bank Adviser, to advise and act on behalf of the Banks and the Borrower in respect of the Project, including to perform on behalf of the Banks such financial, insurance and technical due diligence inquiries, review, analysis and monitoring as the Banks may require in connection with the Project, as well as, in the case of the Insurance Adviser, to provide the Insurance Report and, in the case of the Bank Adviser, to monitor, review and analyse the financial information received by the Banks from the Borrower pursuant to this Agreement and any of the Finance Documents. The Borrower shall pay all fees of such experts, such fees to be payable in accordance with the tariffs agreed to between the Borrower and such experts.

11.5. **Stamp Duties and Like Taxes**

The Borrower shall pay all stamp, documentary, registration or other like duties or Taxes (including any such duties or Taxes payable by the Banks) imposed on or in connection with this Agreement, the Facility and any of the Finance Documents.

11.6. **Other Commissions, Fees and Expenses**

Nothing in this clause 11 shall be construed as derogating from the obligations of the Borrower to pay the Banks other commissions, fees and reasonable expenses usually payable to banks in connection with regular, day-to-day banking transactions performed in connection with the Facility and which are not specifically provided for herein.

11.7. **Currency for Payment**

All sums payable by the Borrower under this clause 11 shall be payable in the currency in which such sums were incurred by the relevant Bank.

11.8. **VAT**

All fees and expenses referred to in this clause 11 are exclusive of any VAT or any other Taxes which might be charged in connection with such fees and expenses. If any VAT or other such Tax is so chargeable, it shall be paid by the Borrower at the same time as it pays the relevant fees and expenses.

12. **TAXES**

12.1. **Taxes**

All payments to be made by the Borrower to the Banks shall be made free and clear of and without deduction for or on account of Tax, unless the Borrower is required by law to make such payment subject to the deduction or withholding of Tax, in which case (save where such deduction or withholding is in respect of Tax on Overall Net Income of a Bank and the Borrower shall have delivered to such Bank a receipt as referred to in clause 12.3 below, simultaneously with the making of the payment from which such Tax deduction has been made) the sum payable by the Borrower in respect of which such deduction or withholding is required to be made shall be increased, to the extent necessary, to ensure that after the making of the required deduction or withholding, such Bank receives and retains (free from any liability in respect of any such deduction or withholding), a net sum equal to the sum which it would have received and so retained had no such deduction or withholding been made or required to be made, provided that the aforesaid shall not apply with respect to any Taxes (including, for the removal of doubt, Tax on Overall Net Income) of the Banks in connection with the issuance of any shares, Warrants or capital notes of the Borrower or the exercise or conversion thereof.

12.2. **Notification of Taxes**

If, at any time, the Borrower is required by law to make any deduction or withholding from any sum payable by it hereunder, the Borrower shall, as soon as reasonably practicable, notify the relevant Bank.

12.3. **Payment and Submission of Receipt**

If the Borrower makes any payment hereunder in respect of which it is required to make any deduction or withholding, it shall pay the full amount required to be deducted or withheld to the relevant taxation or other authority within the time allowed for such payment under applicable law and shall deliver to the relevant Bank, as soon as reasonably practicable after it has made such payment to the applicable authority, an original receipt (or a certified copy thereof) issued by such authority evidencing the payment to such authority of all amounts so required to be deducted or withheld in respect of such payment.

12.4. **Tax Saving**

12.4.1. In the event that following the imposition of any Tax on any payment by the Borrower in consequence of which the Borrower is required, under clause 12.1, to pay any additional amount in respect thereof, any Bank shall, in its sole opinion and based on its own interpretation of any relevant laws or regulations (but acting in good faith), receive or be granted a repayment of Tax, or a credit against, or remission for, or deduction from, or in respect of, any Tax payable by it (any of the aforegoing, to the extent so reasonably identifiable and quantifiable, being referred to as **"a saving"**), such Bank shall, to the extent that it can do so without prejudice to the retention of the relevant saving and subject to the Borrower's obligation to repay the amount to such Bank, if the relevant saving is subsequently disallowed or cancelled (which repayment shall be made promptly on receipt of notice by the Borrower from such person of such disallowance or cancellation), reimburse the Borrower promptly after receipt of such saving by such Bank with such amount equal to the lower of: (i) the additional amount paid by the Borrower in respect of such Tax under clause 12.1 as aforesaid; and (ii) such amount as such Bank shall, in its sole opinion but in good faith, have concluded to be the finally determined amount or value of the relevant saving.

12.4.2. Nothing contained in this Agreement shall interfere with the right of any Bank to arrange its Tax and other affairs in whatever manner it thinks fit and, in particular, no Bank shall be under any obligation to claim relief from Tax on its corporate profits, or from any similar Tax liability, in respect of the Tax, or to claim relief in priority to any other claims, reliefs, credits or deductions available to it or to disclose details of its Tax affairs. No Bank shall be required to disclose any confidential information relating to the organisation of its affairs.

12.4.3. Each Bank will notify the Borrower promptly of the receipt by such Bank of any saving and of such Bank's opinion as to the amount or value of that saving.

12.5. **VAT**

The Borrower shall pay to the Banks all VAT, if any, payable in respect of any payment to be made by the Borrower to the Banks under this Agreement or under any other Finance Document.

13. **INCREASED COSTS**

13.1. **Increased Costs**

Subject to clause 13.2 below, if by reason of any change in, or the introduction of, or any change in the interpretation, administration or application by any Governmental Body of any law or by reason of the interpretation, administration or application adopted or declared by any Governmental Body in respect of any law (including of any official directive or official request from, or the rules of, any governmental, fiscal, monetary or regulatory (including self-regulatory) authority, organisation or agency (whether or not having the force of law but, if not having the force of law, being a regulation, treaty, official directive, official request or rule which it is the practice of banks in Israel to comply with)) after the date of this Agreement which affects the Banks or compliance by any of the Banks with any such change, introduction, adoption or declaration, including, in each case, those relating to Taxation, reserves, special deposits, cash ratio, liquidity, limits on provision of credit to single borrowers or groups of borrowers or capital adequacy requirements or other forms of banking, fiscal, monetary or regulatory controls:

13.1.1. any of the Banks incurs a cost as a result of it having entered into and/or performing and/or assuming and/or maintaining and/or funding its obligations or commitments under, any Finance Document and/or maintaining the outstanding balance of the Loans; or

13.1.2. any Bank is unable to obtain the rate of return on its overall capital which it would have been able to obtain but for it having entered into and/or performing its obligations under any of the Finance Documents (including maintaining the outstanding balance of the Loans); or

13.1.3. any amount receivable by any of the Banks under any Finance Document is reduced (save to the extent matched by a reduction in the cost of providing the Loans or maintaining the outstanding balance of the Loans); or

13.1.4. any of the Banks makes any payment or forgoes any Interest or other return on, or calculated by reference to, any amount

received or receivable by it from the Borrower under any Finance Document; or

13.1.5. there is any increase in the cost of any Bank of funding or maintaining all or any other outstanding balances of the Loans

and such cost (or the relevant proportion thereof), reduction, payment, forgone Interest or other return is not compensated for by any other provision of this Agreement, then and in each such case:

(i) such Bank shall notify the Borrower of that event promptly upon it becoming aware of the event, including, in reasonable detail, particulars of the event; and

(ii) within 30 (thirty) Business Days after receipt by the Borrower of a demand from time to time by such Bank accompanied by a certificate of such Bank specifying the amount of compensation claimed and setting out the calculation of the amount in reasonable detail, the Borrower shall pay to such Bank such amount as shall compensate such Bank for such increased cost, reduction, payment or forgone Interest or other return. Nothing in this clause 13 shall oblige such Bank to disclose any confidential information relating to the organisation of its affairs.

The Borrower may, after receipt of a demand as aforesaid in (ii) above, notify the Banks that it will prepay, on the next following Interest Payment Date, the whole (but not part only) of the Total Outstandings. Such notice shall be irrevocable and the Borrower shall on such Interest Payment Date as aforesaid pay to the Banks, each in respect of its participation in the Total Outstandings, together with all accrued Interest thereon and all other amounts owing to the Banks under the Finance Documents (including pursuant to clause 19 below). In the event of prepayment under this clause 13.1, the provisions of clause 7.5 above requiring the payment of a prepayment commission in respect of prepayments, shall not be applicable.

13.2. **Exceptions**

Clause 13.1 shall not apply so as to oblige the Borrower to compensate such Bank for any increased cost, reduction, payment or forgone Interest or other return resulting only from any change in, or the introduction of, or any change in the interpretation or application of, any law relating to, or any change in the rate of, Tax on Overall Income of such Bank or change in the rate of VAT. For the purposes only of this clause 13, the term **"Finance Documents"** shall be deemed not to include Warrants or capital notes issued by the Borrower to the Banks.

14. ILLEGALITY

If any change in or the introduction of any law, or any change in the interpretation, administration or application of laws by a final decision of a competent court or the relevant authority or agency or compliance by any of the Banks with any such change or introduction of laws or change in interpretation, administration or application of laws or by reason of the interpretation, administration or application adopted or declared by any Governmental Body in respect of any law, shall make it unlawful or a breach of laws or impracticable for such Bank to maintain the Loans under this Agreement or to give effect to its obligations and exercise its rights as contemplated by this Agreement or any Bank is requested to reduce the volume of its loans or credit to the Borrower, such Bank may, by notice to the Borrower, declare that to the extent necessary to avoid any such illegality or breach of laws or impracticability or to comply with such reduction, its obligations to the Borrower under the Finance Documents shall be to the extent necessary as aforesaid, terminated forthwith or, if later, on the latest date to which the obligations may remain in effect without causing such Bank to be in breach of laws, whereupon the Borrower will, by the earlier of: (i) the date on which the illegality or breach or impracticability in question takes effect; and (ii) the Interest Payment Date next following such notice from the Banks, prepay the Loans, to the extent necessary as aforesaid. All such prepayments shall be made together with all Interest and other charges accrued on all the aforegoing to the date of the prepayment (as well as all amounts payable under clause 19 below and all other amounts payable to such Bank under the Finance Documents). In the event of prepayment under this clause 14, the provisions of clause 7.5 above requiring the payment of a prepayment commission in respect of prepayments, shall not be applicable.

15. REPRESENTATIONS AND WARRANTIES

15.1. **General**

The Borrower hereby makes the representations and warranties set out in this clause 15 to the Banks. The Borrower acknowledges that the Banks have entered into this Agreement in full reliance on the representations and warranties set out in this clause 15 below. To the extent that representations and warranties set out below apply to Jazz and its Subsidiaries (and only to Jazz and its Subsidiaries), such representations and warranties are made by the Borrower: (a) on the basis of representations and warranties given by Jazz to the Borrower as of May 19, 2008, being the date of signature of the Agreement and Plan of Merger and Reorganization between the Borrower, Armstrong Acquisition Corp. and Jazz ("the Merger Agreement") and repeated as being accurate in all respects on the closing of such merger agreement on September 19, 2008 (**"the Merger Closing Date"**) other than the Company Excluded Representations (as defined in the Merger Agreement), which were to be accurate in all material respects as of the Merger Closing Date (except that any inaccuracies in such representations and warranties (other than the Company Excluded Representations) were disregarded if such inaccuracies (considered collectively) did not have a Material Adverse Effect (as defined in the Merger Agreement) on Jazz as of the Merger Closing Date); and (b) subject to the Borrower giving a further representation and warranty that it has no Knowledge that any of such representations or warranties are inaccurate.

15.2. **Status**

The Borrower is a corporation duly organised and validly existing under the laws of Israel, with full corporate power and authority to conduct its business as it is now being conducted and as currently approved by the Borrower's Board of Directors to be conducted in the future and to own or use its properties and assets. No event exists with respect to it which would constitute an Event of Default under clause 17.7 below.

15.3. **Legal Validity**

The Borrower has the absolute and unrestricted right, power, authority and capacity to execute and deliver the Finance Documents and to perform its obligations under the Finance Documents and has taken all corporate action necessary to consummate the transactions contemplated hereby and thereby and to perform its obligations hereunder and thereunder. Each Finance Document (including this Agreement and the Debenture) has been duly authorised, executed and delivered by the Borrower and constitutes the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms.

15.4. **Non-Conflict**

Neither the execution and delivery of this Agreement or the Finance Documents nor the consummation or performance of any of the aforegoing is or will, directly or indirectly (with or without notice of lapse of time):

15.4.1. contravene, conflict with, or result in a violation of (a) any provision of the Organisational Documents of the Borrower or any Subsidiary, or (b) any resolution adopted by the board of directors or the shareholders of the Borrower or any Subsidiary; or

15.4.2. contravene, conflict with, or result in a violation of, or give any Governmental Body or other person the right to challenge or to exercise any remedy or obtain any relief under, any law to which the Borrower or any of the assets owned or used by the Borrower may be subject; or

15.4.3. contravene, conflict with, or result in a violation of any of the terms or requirements of, or give any Governmental Body the right to revoke, withdraw, suspend, cancel, terminate or modify, any Governmental Authorisation that is held by the Borrower or that otherwise relates to the business of, or any of the assets owned or used by, the Borrower; or

15.4.4. contravene, conflict with, or result in a violation or breach of any provision of, or give any person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate, or modify, any Contract or instrument to which the Borrower or any Subsidiary is a party; or

15.4.5. result in the imposition or creation of any Encumbrance (other than an Encumbrance under the Security Documents) upon or with respect to any of the assets owned or used by the Borrower or any Subsidiary.

Without limiting the generality of the aforegoing, except as set forth in **Schedule 15.4** hereto, there is no restriction or prevention, legal or otherwise, on the creation of the Encumbrances to be created pursuant to the Security Documents or on the realisation, sale or assignment of any collateral continuing under any such Security Document in the case of an Event of Default or on the application by the Banks of any proceeds of any such realisation or sale.

15.5. **No Default**

No Default is continuing which has not been waived.

15.6. **Consents**

Except as set forth in **Schedule 15.6** hereto, no notice to, filing with or Consent from any person or Governmental Body is or will be required to be made or obtained in connection with the execution, delivery and validity of any of the Finance Documents, or the consummation or performance of any of the transactions contemplated hereby or thereby (save for registrations with the Registrar of Pledges and the Registrar of Companies and, with respect to the Jazz Share Pledge, under the UCC). As at the Amendment Closing Date, the Borrower shall have received all the Consents (including Governmental Authorisations) listed in Schedule 15.6 hereto. All such Consents are, or shall, on or prior to the date on which such Consents are required to have been obtained, be in full force and effect, the Borrower is in compliance in all material respects with all provisions thereof and such Consents (including Governmental Authorisations) are not the subject of any pending, or, to the best of the Borrower's Knowledge, threatened attack or revocation by any competent authority.

15.7. **Share Capital**

The authorised share capital of the Borrower consists of 1,100,000,000 (one billion one hundred million) ordinary shares. The Borrower's most recently filed Annual Report on Form 20-F (**"the Annual Report"**), as filed with the United States Securities and Exchange Commission (**"the SEC"**), sets forth, as of the month ended immediately prior to the filing of the Annual Report, the number of shares issued and outstanding, the approximate aggregate number of shares reserved for issuance upon exercise of all outstanding warrants and options and conversion of all convertible securities (without being required to take into account options, warrants or convertible securities that are substantially "out of the money") and sets forth the list of all those persons which, to the Knowledge of the Borrower, as of the month ended immediately prior to the filing of the Annual Report, are the beneficial holders of 5% (five percent) or more of the issued and outstanding shares of the Borrower. All of the outstanding ordinary shares have been duly authorised and validly issued.

15.8. **SEC Documents; Financial Statements**

15.8.1. The Borrower has furnished to the Banks copies of the Borrower's most recent Annual Report as filed with the SEC. The Borrower represents and warrants that: (a) the Annual Report has been duly filed with the SEC and when filed was in compliance in all material respects with the requirements of the Exchange Act and the rules and regulations of the SEC applicable to such Annual Report; and (b) the Annual Report was complete and correct in all material respects as of its date and, as of its date, did not contain any untrue statement of material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The Borrower has provided the Banks with a copy of each document submitted to the SEC on Form 6-K since January 1, 2008 (**"the 6K Reports"**). The Borrower represents and warrants to the Banks that: (i) the 6K Reports have been duly submitted to the SEC and when submitted were in compliance in all material respects with the requirements of law relating to the 6K Reports; and (ii) the 6K Reports were complete and correct in all material respects as of their respective dates and, as of such dates, did not contain any untrue statement of material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

15.8.2. The Borrower has delivered to the Banks: (a) audited consolidated Accounts of the Borrower as at December 31 in each of the 2 (two) years ended with the last Fiscal Year included in the Annual Report (inclusive) (including the audited consolidated balance sheets, consolidated statements of income, changes in shareholders' equity and cash flow for each of the Fiscal Years then ended, together with the report thereon of the Auditors); and (b) unaudited reviewed consolidated Accounts of the Borrower as at the Quarter included in the most recently filed Report on Form 6-K containing quarterly financial information (including the consolidated balance sheets, consolidated statements of income, changes in shareholders' equity and cash flow for the period then ended, including in each case the notes thereto). Such Accounts and notes truly and fairly present the financial condition and the results of operations, changes in shareholders' equity and cash flow of the Borrower as at the respective dates of and for the periods referred to in such Accounts, all in accordance with GAAP, subject, in the case of interim Accounts, to normal recurring year-end adjustments (the effect of which will not, individually or in the aggregate, be materially adverse); the Accounts referred to in this clause 15.8.2 reflect the consistent application of such accounting principles throughout the periods involved, except as stated in the Accounts and in the explanation provided pursuant to clause 16.2.6 below.

15.8.3. The Borrower has furnished to the Banks copies of the Borrower's registration statement on Form F-4 with respect to its acquisition of Jazz. The Borrower represents and warrants that: (a) such registration statement has been duly filed with the SEC and when filed was in compliance in all material respects with the requirements of the Securities Act of 1933 and the rules and regulations of the SEC applicable to such registration statement; and (b) the registration statement was complete and correct in all material respects as of its effective date and, as of its effective date, did not contain any untrue statement of material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

15.9. **Business Plan**

The Borrower believes that the opinions, assumptions and timetables contained in the Business Plan (including both the alternate case assumptions and the base assumptions, as defined therein) are reasonable. The financial, business and other projections set out in the Business Plan (including both the alternate case assumptions and the base assumptions, as defined therein) have been prepared with due diligence, care and consideration.

15.10. **Title to Properties; Encumbrances**

Except for under the Security Documents, for the Existing Encumbrance and except as set forth in **Schedule 15.10** hereto, the Borrower and its Subsidiaries have good and marketable title, free and clear of all Encumbrances (other than Encumbrances for current Taxes not yet due) to all of the assets, real property, interests in real property, rights, franchises, Intellectual Property Assets, licences and properties, tangible or intangible, real or personal, wherever located which are used in the conduct of the business conducted and as currently approved by the Borrower's Board of Directors to be conducted in the future by the Borrower, other than property that is leased or licensed. Except as set forth in Schedule 15.10 hereto, the Borrower has valid and enforceable leases or licences, as the case may be, with respect to assets consisting of property that is leased or licensed, under which there exists no default, event of default or event which, with notice or lapse of time or both, would constitute a default, except for such defaults which could not have a Material Adverse Effect.

15.11. **Condition and Sufficiency of Assets**

[*Intentionally Deleted*]

15.12. **Customers and Suppliers**

[*Intentionally Deleted*]

15.13. **Permitted Financial Indebtedness**

A complete and accurate list of, details of, and copies of all trust deeds, indentures and other instruments reflecting the terms and conditions of, all Permitted Subordinated Debt and all Permitted Financial Indebtedness of the Subsidiaries of the Borrower existing as at the Amendment Closing Date are attached as **Schedule 15.13** hereto.

15.14. **Financial Indebtedness**

[*Intentionally Deleted*]

15.15. **Taxes**

[*Intentionally Deleted*]

15.16. **No Material Adverse Change**

[*Intentionally Deleted*]

15.17. **Compliance with Laws; Governmental Authorisations**

15.17.1. Except as set forth in **Schedule 15.17.1** hereto, the Borrower and its Subsidiaries are and at all times since December 31, 2004 have been, in full compliance with each law that is or was applicable to them or to the conduct or operation of their respective businesses or the ownership or use of any of their respective assets, except for such non-compliance which would not have a Material Adverse Effect.

15.17.2. Except as set forth in **Schedule 15.17.2** hereto, The Borrower and each Subsidiary has all Governmental Authorisations necessary to permit the Borrower and its Subsidiaries to lawfully conduct and operate the Business, as currently conducted and as approved by the respective Boards of Directors of the Borrower and its Subsidiaries to be conducted in the future, except for such authorisations, the failure to possess which would not have a Material Adverse Effect. The Borrower and its Subsidiaries are and have been in full compliance with all of the terms and requirements of each Governmental Authorisation that is held by the Borrower and its Subsidiaries or that otherwise relates to the Business as presently conducted and as approved by the Borrower's Board of Directors to be conducted in the future, or to any of the assets owned or used by the Borrower and its Subsidiaries, except for such non-compliance which would not have a Material Adverse Effect.

15.17A **Jazz Closing**

The merger ("Merger") between the Borrower, Armstrong Acquisition Corp. and Jazz, contemplated by the Merger Agreement, was closed on September 19, 2008. All conditions precedent and other actions required in order to effectuate the Merger were fulfilled or taken, as the case may be.

15.18. **Legal Proceedings; Orders**

15.18.1. Except as set forth in **Schedule 15.18** hereto, there is no pending Proceeding or Proceeding Threatened in writing: (i) that has been commenced by or against the Borrower or that otherwise relates to or may affect the business of, or any of the assets owned or used by, the Borrower or any Subsidiary which, if decided against the Borrower, would have a Material Adverse Effect; or (ii) that challenges, or that may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the transactions contemplated under this Agreement or under any other Finance Documents or with the implementation of the Business Plan.

15.18.2. [*Intentionally Deleted*]

15.18.3. [*Intentionally Deleted*]

15.18.4. [*Intentionally Deleted*]

15.19. **Absence of Certain Changes and Events**

[*Intentionally Deleted*]

15.20. **Contracts; No Defaults**

[*Intentionally Deleted*]

15.21. **Insurance**

15.21.1. [*Intentionally Deleted*]

15.21.2. All factual information furnished by the Borrower or its respective advisors to the Insurance Adviser and contained or referred to in the Insurance Report was true in all material respects.

15.21.3. [*Intentionally Deleted*]

15.22. **Environmental Matters**

[*Intentionally Deleted*]

15.23. **Intellectual Property**

[*Intentionally Deleted*]

15.24. **Grants, Incentives and Subsidies**

[*Intentionally Deleted*]

15.25. **Disclosure**

[*Intentionally Deleted*]

15.26. **Relationships with Related Persons**

[*Intentionally Deleted*]

15.27. **Documents**

[*Intentionally Deleted*]

15.28. **Ranking of Securities**

The security conferred by the Security Documents constitutes a priority security interest of the type therein described (subject to statutory preferences which may rank ahead of the security created thereunder and subject to those Permitted Encumbrances as referred to in clause 1.1.114(d) above) over the security assets therein referred to, which are not subject to any prior or other Encumbrances and is not liable to be set aside on insolvency of the Borrower.

15.29. **Shareholdings**

[*Intentionally Deleted*]

15.30. **Repetition**

The representations and warranties set out in this clause 15 shall be deemed to be repeated on the Amendment Closing Date.

16. **UNDERTAKINGS**

The Borrower undertakes to the Banks that so long as any sum remains payable by the Borrower under any Finance Document or any Bank shall be under any obligation under any Finance Document to provide any Financial Indebtedness to the Borrower:

16.1. **Financial Information**

16.1.1. The Borrower shall furnish the Banks:

(i) as soon as practicable (and, in any event, within 90 (ninety) days after the end of each Fiscal Year, the audited Accounts (consolidated and non-consolidated) of the Borrower for that Fiscal Year;

(ii) as soon as practicable (and, in any event, within 60 (sixty) days after the end of each Quarter of each Fiscal Year, the reviewed Accounts (consolidated and non-consolidated) of the Borrower for that Quarter (or with respect to the second Quarter, for the relevant half-year;

(iii) [*Intentionally Deleted*]

(iv) at the same time as the Accounts are delivered pursuant to paragraphs (i) and (ii) above, a report, in the form and substance attached hereto as **Schedule 16.1.1(iv**) comparing actual results with projected results of the Borrower (including separately for Fab 2);

(v) at the same time as the Accounts are delivered pursuant to paragraphs (i) and (ii) above, a certificate of the Chief Financial Officer of the Borrower which shall be certified as accurate by the Auditors in a form reasonably satisfactory to the Banks: (a) setting out in reasonable detail, with respect to Accounts referred to in paragraph (i) above, computations establishing the Excess Cash Flow (if any) for that Fiscal Year; (b) setting out in reasonable detail computations establishing, as at the date of such Accounts, the following financial ratios for such Quarter or Fiscal Year (as the case

may be): EBITDA (Consolidated), EBITDA (Borrower only), Investments (Consolidated), Investments (Borrower only), Total Debt (Consolidated) divided by EBITDA (Consolidated), Total Debt (Borrower only) divided by EBITDA (Borrower only), EBITDA (Consolidated) less Investments (Consolidated) and EBITDA (Borrower only) less Investments (Borrower only); (c) [*Intentionally Deleted*]; (d) a certificate of the Auditors in the form of **Schedule 16.1.1(v)B** hereto setting out the amounts invested in such Quarter by way of Paid-in Equity, capital notes and by way of Permitted Subordinated Debt; (e) a certificate of the Auditors in the form of **Schedule 16.1.1(v)C** hereto setting out the amounts received under the Investment Centre Fab 2 Grants during such Quarter; (f) for each Quarter, a statement regarding ageing of accounts receivable; and (g) a certificate of the Auditors in the form of **Schedule 16.1.1(v)D** hereto confirming that the Auditors did not in the course of their audit of the Accounts come across any breach of the financial covenants set forth herein;

(vi) at the same time as the Accounts are delivered pursuant to paragraphs (i) and (ii) above, a certificate signed by the Chief Executive Officer (or one of the co-Chief Executive Officers) of the Borrower on its behalf setting out:

(1) in reasonable detail computations establishing as at the date of such Accounts, whether each of the financial ratios set out in clause 16.29 below were complied with and certifying that:

(a) the relevant Accounts fairly present (in relation to the relevant Accounting Period) the financial position of the Borrower;

(b) the relevant Accounts were prepared in accordance with GAAP, consistently applied; and

(c) no Default has occurred or, if it has occurred, specifying the Default and the steps, if any, being taken to remedy it;

(2) the number of shares in the Borrower held by each of the Lead Investors and by each shareholder of the Borrower who, to the Knowledge of the Borrower, holds at least 5% (five percent) of the issued share capital of the Borrower as at the end of such Accounting Period; and

(3) a certificate of compliance by the Borrower with the provisions of clause 16.27 below, attaching documentation, confirming such compliance;

[(vii) [*Intentionally Deleted*]]

(viii) by not later than 7 (seven) days before the end of each Fiscal Year, a budget for the Borrower approved by the Board of Directors of the Borrower for each Quarter of the next Fiscal Year, in the format customary at the Borrower. The representations and warranties set forth in clause 15.9 above shall be deemed to have been repeated upon the furnishing of the budget to the Banks by the Borrower;

(ix) if in the course of any Fiscal Year, the Borrower wishes to update or revise any of the assumptions underlying the projections under the Business Plan pursuant to paragraph (vii) above in any material respect, the Borrower shall furnish to the Banks such updated assumptions. The representations and warranties set forth in clause 15.9 above shall be deemed to be repeated with respect to such updated assumptions upon the furnishing thereof to the Banks by the Borrower.

16.1.2. The Borrower will:

(i) [*Intentionally Deleted*]

(ii) notify the Banks immediately of details of any material default under any Material Contract or adverse claims against the Borrower by any party to any Material Contract or by any other person in connection with the Project or of any other material claim by a person against the Borrower, whether or not in connection with the Project;

(iii) notify the Banks of details of any shut-down of the Project, any force majeure event under a Material Contract and any event which might interrupt Project construction or performance;

(iv) notify the Banks of details of the occurrence of any Release or of any Environmental Claim.

16.1.3. The Borrower shall furnish to the Banks:

(i) promptly, all notices, reports or other documents required by law to be despatched by the Borrower to its shareholders generally (or any class of them) or to the holders of the Permitted Subordinated Debt and all notices, reports or other

documents relating to the financial difficulties or debt obligations of the Borrower despatched by or on behalf of the Borrower to its creditors generally or to any class of its creditors;

(ii) promptly, copies of notices or other filings made by the Borrower with the SEC or any other regulatory Governmental Body;

(iii) within 21 (twenty-one) days of the end of each calendar month, statements of cash flow (both on a consolidated basis for the Group and Borrower only) for such month in the format set out in the uses and sources statement included in the Business Plan;

(iv) [*Intentionally Deleted*]

(v) as soon as the same are instituted or, Threatened, details of any litigation, arbitration or other Proceedings involving it which, if adversely determined, would have a Material Adverse Effect; or which involves a liquidated claim or alleged liability which is likely to be in excess of US $2,500,000 (two million five hundred thousand United States Dollars) or its equivalent, or, together with any other claims or alleged liability, to be in excess of US $5,000,000 (five million United States Dollars) (or its equivalent) in aggregate;

(vi) promptly, such further information regarding the Project or the Borrower's financial condition, business and assets (including any requested amplification or explanation of any item in any Accounts, the Business Plan or other material provided by the Borrower hereunder) as the Banks may reasonably request from time to time;

(vii) without derogating from clause 16.32 below, promptly, upon being notified of the same, details of the occurrence of a Change of Ownership or details of any proposed Change of Ownership of which it is aware;

(viii) promptly, on request, certificates signed by the CEO (or one of the co-CEO's) of the Borrower as to compliance by the Borrower with the Finance Documents, including Security Documents, as to the absence of any Default;

(ix) promptly, notice of any Default and the steps being taken to remedy same;

(x) [*Intentionally Deleted*];

(xi) promptly after the execution thereof, any Contract which it reasonably considers may constitute a Material Contract and the Borrower shall promptly take all steps required by the Banks to duly pledge and assign by way of charge all rights and interest of the Borrower under such Material Contracts in accordance with the Debenture;

(xii) [*Intentionally Deleted*]

(xiii) [*Intentionally Deleted*]

(xiv) the amounts of all deposits at each Bank; and

(xv) [*Intentionally Deleted*].

16.1.4. As soon as practicable (and, in any event, within 45 (forty five) days after the end of each Quarter), the Borrower shall send to the Banks:

(a) a certificate signed by the Borrower's Chief Executive Officer (or one of the Co-Chief Executive Officers) and Chief Financial Officer certifying that the Borrower is in full compliance with all of the terms and conditions of the Finance Documents and if not so in compliance, specifying the relevant non-compliance and the steps, if any, being taken to remedy it;

(b) a report certified by the CEO (or one of the Co-chief Executive Officers) and Chief Financial Officer of the Borrower detailing any Acquisition made or resolved to be made by the Borrower in an aggregate amount equal to or in excess of US $1,000,000 (one million) United States Dollars) during the preceding Quarter;

(c) a resolution of any organ of the Borrower to make, or evidencing any intention to make, whether conditionally or unconditionally, preparations for the issuance of a prospectus and/or any offer to the public (whether or not any such offer requires the approval or publication of a prospectus), in any jurisdiction, relating to the sale or offer of any securities or debentures of the Borrower;

(d) details of any loans (other than loans to employees in the ordinary course of the Borrower's business) or guarantees made by the Borrower, exceeding in each case US $1,000,000 (one million United States Dollars) or loans or guarantees exceeding US $2,500,001 (two million five hundred thousand and one United States Dollars) in aggregate;

(e) any disposal as referred to in clause 16.24 below, the Dollar amount (or, if denominated in a currency other than US Dollars, the Dollar equivalent) of the Net Proceeds of which equals or exceeds US $5,000,000 (five million United

States Dollars) when aggregated with the Net Proceeds of all such other disposals in the Fiscal Year in which such Quarter occurs, equals or exceeds US $10,000,000 (ten million United States Dollars).

16.2. **Accounts and Auditors**

The Borrower will ensure that:

16.2.1. the annual Accounts (including the consolidated annual Accounts) to be delivered to the Banks pursuant to clause 16.1 above are audited by the Auditors and that the quarterly Accounts are, unless otherwise indicated herein, reviewed by the Auditors (including the consolidated Accounts);

16.2.2. the Borrower shall at all times have duly appointed Auditors;

16.2.3. the Borrower will not change its financial year-end without the prior written consent of the Banks;

16.2.4. all Accounts shall be prepared in accordance with GAAP (consistently applied) or shall indicate in notes to or accompanying such Accounts (including the consolidated financial statements) any material departures from GAAP or (without derogating from clause 16.2.5 below) changes in the accounting policy of the Borrower;

16.2.5. each set of Accounts delivered to the Banks is prepared in the respective formats attached as Schedules 1.1.2(A) and 1.1.2(B) hereto and is prepared on substantially the same basis as was used in the preparation of the Accounts previously delivered to the Banks, subject to changes required by GAAP;

16.2.6. in the event that any Accounts are delivered which are not prepared on a substantially consistent basis to Accounts previously delivered hereunder, such Accounts are accompanied by an explanation of any changes to the accounting basis used in respect of the Business Plan; and

16.2.7. all Accounts shall fairly present in all material respects (subject to adjustments which fall to be made at the end of the financial year in accordance with GAAP), the financial position and results of operations of its financial position and results of operations, as at the end of and for the Accounting Period to which they relate.

16.3. **Purpose**

[*Intentionally Deleted*]

16.4. **Negative Pledge**

The Borrower shall not create or permit to subsist any Encumbrance on the whole or any part of its, or any of its Subsidiaries' present or future assets, business or undertaking, save for the Encumbrances under the Security Documents and for the other Permitted Encumbrances.

16.5. **No Financial Indebtedness**

Save with the prior written consent of the Banks, the Borrower will not incur or have and will procure that the Group will not incur or have any Financial Indebtedness, save for Permitted Financial Indebtedness. Without limiting the generality of the aforegoing, the Borrower will not and will procure that its Subsidiaries (other than Jazz and its Subsidiaries) will not make any loans or give any guarantees or incur other contingent Indebtedness, other than as referred to (and subject to the limits set out) in clause 1.1.115(e). The Borrower will deliver to the Banks, within 60 (sixty) days of the end of each Quarter during this Agreement, a certificate from the chief financial officer of the Borrower confirming compliance by the Borrower with the provisions of this clause 16.5. In addition, the Borrower shall not give any credit, save for customary credits in the Ordinary Course of Business constituting credit to customers or loans to employees.

16.6. **Pari Passu Ranking**

The Borrower undertakes that its obligations under this Agreement rank and will at all times rank at least *pari passu* in right and priority of payment and in priority of security (save by reason of and to the extent of the security afforded thereto by the Security Documents) with all its other present and future unsecured and unsubordinated obligations, other than obligations which are mandatorily preferred by law applying to companies generally.

16.7. **Distributions**

The Borrower will not, prior to the date that all amounts payable by the Borrower under the Finance Documents shall have been paid in full:

16.7.1. make or resolve to make any Distribution (other than payments with respect to Permitted Subordinated Debt specifically permitted by clause 16.7.2 below);

16.7.2. make or resolve to make any repayment, prepayment or payment (in cash or in kind) of the principal of, or Interest (whether or not capitalised) or other amount on or in respect of the Permitted Subordinated Debt, save to the extent permitted under the

approved terms thereof in accordance with clause 1.1.118 above (including, for the removal of doubt, all Permitted Subordinated Debt set forth on Schedule 15.13 hereto). For the removal of doubt, the Borrower shall not make or resolve to make any other changes to or in respect of the Permitted Subordinated Debt without the prior written consent of the Banks;

16.7.3. without derogating from clause 16.22 below, make or resolve to make any other payment or transfer of assets to or acquisition from any shareholder of the Borrower or Affiliate of any shareholder, save for payments in the Ordinary Course of Business and on market conditions and prices and save for:

(a) payments in connection with the Borrower's indemnification obligation as contemplated by the undertaking from the Borrower to TIC dated November 11, 2003 with respect to what was known as the Safety Net Undertaking, to the extent that such indemnification obligation is still applicable; and

(b) payments to Sandisk in connection with the Loan Agreement between the Borrower and Sandisk, dated August 10, 2006,

For the avoidance of doubt, nothing herein contained shall be construed as prohibiting: (i) the conversion of debt by the Borrower to TIC to be made on or about the Amendment Closing Date; (ii) the payments by the Borrower to TIC of a fee aggregating US $300,000 (three hundred thousand United States Dollars) in connection with the agreements signed between the Borrower and TIC on or about the Amendment Closing Date; or (iii) payments or transfers to the Banks pursuant to: (1) the Finance Documents; or (2) any other Permitted Financial Indebtedness.

16.8. **Intellectual Property Assets**

The Borrower will:

16.8.1. make or procure to be made such registrations and pay such fees and similar amounts as are necessary to keep those registered Intellectual Property Assets over which the Banks have been granted fixed security pursuant to the Security Documents (if any), in force and to record its interest in those Intellectual Property Assets;

16.8.2. [*Intentionally Deleted*]

16.8.3. promptly upon being required to do so by the Banks, comply with all proper instructions of the Banks which the Banks are entitled to give under the Security Documents in respect of its Intellectual Property Assets referred to in clause 16.8.2 above.

16.8.4. [*Intentionally Deleted*]

16.8.5. [*Intentionally Deleted*]

16.9. **Environmental Matters**

The Borrower will, and will procure that each Subsidiary will:

16.9.1. (i) obtain all Environmental Permits required for the operation of the business of the Borrower as contemplated under the Business Plan by not later than the date when such Environmental Permit is required to be obtained; (ii) comply with the terms and conditions of all Environmental Permits applicable to it; (iii) comply with all applicable Environmental Laws; (iv) use its best endeavours to prevent any Release of Materials of an Environmental Concern; and (v) remedy all Environment damage caused in connection with the Project, in each case where failure to do so would have a Material Adverse Effect; and

16.9.2. promptly upon receipt of the same, notify the Banks of any claim, notice or other communication served on it in respect of any alleged breach of or corrective or remedial obligation or liability under any Environmental Law.

16.10. **Insurance**

16.10.1. Until the date upon which all amounts payable by the Borrower under the Finance Documents shall have been paid in full, the Borrower will insure and keep insured all such properties and assets of the Borrower, with reputable insurance companies or underwriters approved by the Banks, to such extent, at such times and against such risks, as described in the schedule to the Insurance Report (including with respect to deductibles, exclusions and exceptions) (the Insurance Report to be revised only at the recommendation of the Insurance Advisor and subject to the consent of the Borrower and the Banks) and the Borrower will procure that all the Insurance Policies required under the Insurance Report as aforesaid shall, for so long as so required in accordance with the Insurance Report, be in full force and effect and legal, valid, binding and enforceable in accordance with their respective terms. Without limiting the generality of the aforegoing, the Borrower shall ensure that at all times the proceeds of all Insurance Policies in force payable in the event of loss of Fab 2 or of the Project shall be equal to at least 110% (one hundred and ten percent) of the Total Outstandings at such time.

16.10.2. The Borrower will promptly after becoming aware of the relevant requirement, effect and maintain all insurances required by the terms of any applicable law or any Contract binding on it.

16.10.3. The Borrower will ensure that the Group has such insurance coverage in respect of any risks or liabilities other than those specified in the Insurance Report as would from time to time generally and customarily be insured by a company carrying on a business similar to the Business.

16.10.4. Subject as hereinafter provided, the Borrower may, at its discretion at any time, effect such other insurances in addition to or supplementing those referred to in this clause 16.10 as it may think fit; provided that, such supplementary insurance shall not adversely affect any insured party's rights or ability to recover under the insurance referred to in this clause 16.10 and the Borrower shall notify the Banks at least annually of any material insurances effected since the previous such notification pursuant to this clause 16.10.

16.10.5. The Borrower shall pay and, as applicable, procure that its Subsidiaries pay all premiums on all Insurance Policies when due and the Borrower shall maintain and comply with the provisions of the Insurance Policies and the Borrower shall ensure that the Insurance Policies do not become void or voidable. The Borrower will promptly supply to the Banks on request evidence reasonably satisfactory to the Banks of payment of all premiums and other amounts payable by it under and a certified copy of, each insurance policy taken out and maintained by it pursuant to this clause 16.10, together with such other information as to the Insurance Policies taken out pursuant hereto (including regarding renewals thereof) as the Banks may reasonably request.

16.10.6. The Borrower shall ensure that, in respect of each Insurance Policy taken out pursuant to clause 16.10.1 (except for third party insurances as referred to in the schedule to the Insurance Report):

(a) a clause is endorsed upon such policy in the form of **Schedule 16.10.6(a)** hereto;

(b) an undertaking is endorsed upon such policy by the insurer to notify the Banks promptly in writing if the premium or other moneys payable under such policy are not paid when due and to refrain from cancelling such policy by reason only of the non-payment of such moneys for a period of at least 120 (one hundred and twenty) days from the due date;

(c) a provision is endorsed upon such policy to the effect that the relevant insurance company waives any rights of contribution arising against any other insurance taken out by the Banks in respect of payments made by it and any rights of subrogation arising in respect of the rights of the Banks under the Finance Documents;

(d) a notice of assignment by way of charge in respect of all the Insurance Policies (other than under Insurance Policies in respect of liability of the Borrower to third parties or of liability of the Borrower for damage to property of third parties or of the type listed in **Schedule 16.10.6(d)** attached hereto) is duly given to the relevant insurers in accordance with the Debenture and such insurers shall have given acknowledgments thereof, pursuant to which, *inter alia*, all proceeds of the Insurance Policies are to be paid directly to the Banks by way of payment into the Project Account;

(e) the Banks are joined as an additional insured (named insured) thereunder and the interests of the Banks are duly noted and endorsed upon all slips, cover notes, policies or other instruments of insurance issued or to be issued in connection therewith;

(f) the insurers agree that the Banks are not liable for premiums or other policy obligations.

16.10.7. The Borrower will ensure that (other than third party liability insurance (as referred to in the schedule to the Insurance Report)) all of the Insurance Policies required to be taken out and maintained by it pursuant to clause 16.10.1 above shall be contain provisions providing for payment in the manner described in clause 16.10.6(d) above.

16.10.8. All moneys received or receivable under any insurances in respect of property or assets of the Borrower damaged or destroyed or otherwise shall be paid into the Project Account and may, unless required to be prepaid in accordance with clause 8.1.1 above, thereafter promptly be applied: (i) subject to (ii) below, in repairing, replacing, restoring or rebuilding the property or assets damaged or destroyed or applied in respect of the Project or (in the case of third party liability cover), in satisfaction of the third party liability in question; or (ii) on and after the occurrence of a Default and for so long as such Default is continuing, at the option of the Banks: (A) to prepay the Loans in accordance with clause 7 above; or (B) in repairing, replacing, restoring or rebuilding the property or assets damaged or destroyed or applied in respect of the Project as the Banks reasonably see fit as permitted pursuant to this Agreement or (in the case of third party liability cover) in satisfaction of the third party liability in question.

16.10.9. The Borrower shall promptly notify the Banks of any insurance claim where the amount of such claim exceeds US $2,500,000 (two million five hundred thousand United States Dollars) (or its equivalent, on the date on which the claim is made, in the currency in which such claim is made) and of any insurance claims which, in the aggregate, exceed US $5,000,000 (five million United States Dollars) (or their respective equivalents, as aforesaid).

16.11. **Mergers and Amalgamations**

The Borrower will not, and will procure that its Subsidiaries (other than Jazz and its Subsidiaries) will not, enter into or resolve to approve any merger, consolidation, amalgamation or scheme of reconstruction or in any way transfer its or their respective businesses or part thereof, save with the prior written consent of the Banks.

16.12. **Consents**

The Borrower will obtain every Consent required to perform its obligations under this Agreement, under any other Finance Document and ensure that: (a) none of the Consents is revoked, cancelled, suspended, withdrawn, terminated, expires or is not renewed or otherwise ceases to be in full force and effect; and (b) no Consent is modified and that it does not commit any breach of the terms or conditions of any Consent (save for a breach which cannot be a cause for revocation of such Consent or for variation thereof materially adverse to the Borrower). The Borrower will promptly furnish to the Banks certified copies of all Consents.

16.13. **Material Contracts**

16.13.1. The Borrower shall comply with the terms of each of the Material Contracts, save for any non-compliance which: (i) is not material; and (ii) cannot constitute (including with the passage of time or the giving of notice) a cause of action permitting cancellation of any such Material Contract or any variation thereof materially adverse to the Borrower).

16.13.2. [*Intentionally Deleted*]

16.13.3. [*Intentionally Deleted*]

16.13.4. [*Intentionally Deleted*]

16.13.5. The Borrower shall use its best efforts to procure that all Material Contracts entered into after the date hereof are duly pledged to the Banks by way of first-ranking fixed charge (assignment by way of charge) under the Debenture and otherwise perfected in accordance with its terms.

16.14. **Auditors**

16.14.1. If the Borrower wishes to change its Auditors it will notify the Banks as to the reasons for any such proposed change and if the Banks so request, will instruct the audit partner of each of the outgoing firm of Auditors and the replacement firm of Auditors to discuss the financial position of the Borrower with the Banks.

16.14.2. The Borrower will authorise the Auditors to discuss the Borrower's financial position with the Banks (and with the Bank Adviser) on the Banks' reasonable request and after notice is provided to the Borrower, at the expense of the Borrower.

16.15. **Acquisitions**

16.15.1. The Borrower shall not, without the prior written consent of the Banks, make any Acquisition (including any investment of any kind in any Subsidiary or other Affiliate), unless: (a) the aggregate amount of the investment by the Borrower in all Acquisitions during the period of this Agreement does not exceed US $5,000,000 (five million United States Dollars); and (b) the Borrower shall not incur any Indebtedness (contingent or otherwise) in connection with such Acquisition, save for the amount invested as permitted under paragraph (a) above.

16.15.2. The Borrower's ability to make any Acquisition pursuant to clause 16.15.1 above will be conditional upon the Borrower using its best efforts to provide that such Acquisition is first capable of being pledged in favour of the Banks by way of a first pledge and charge under the Debenture or any other charge, in a form satisfactory to the Banks.

16.16. **Access**

16.16.1. The Borrower shall, subject to prior coordination with the Borrower of the time, permit any professional adviser (including the Bank Adviser) to the Banks or representative of the Banks to have access to the Group's corporate, financial and operational books, records, accounts, documents, computer programmes, data or other information in the possession of or available to it, subject to such adviser executing a confidentiality undertaking in customary form reasonably acceptable to the Banks and the Borrower and to take such copies as may be considered appropriate by such representative or professional adviser and to discuss the affairs, finances and Accounts of the Borrower with the directors, officers and Auditors of the Borrower, all at such reasonable times after giving written notice and as often as the Banks may from time to time request. For the removal of doubt, the Bank Adviser and such other professional advisors shall be entitled to reveal to the Banks all confidential information regarding the Group to which it has access.

16.16.2. [*Intentionally Deleted*]

16.16.3. For the avoidance of doubt, no information or access provided to any of the Banks' professional advisors, including, the adviser to the Banks on financial and accounting matters (**"the Bank Adviser"**), pursuant to this Agreement shall release the Borrower from its obligations to make and provide, and to be fully responsible for, all reports and notices as shall be required under this Agreement, or in any way place any responsibility on the Banks with respect to the Borrower or to any third parties with respect to such information and access, including, any claim that any knowledge obtained by the Banks' professional advisors (including the Bank Advisor), constitutes any waiver of any nature or acceptance by the Banks of any such matter or matters as to which the Banks' professional advisors (including the Bank Advisor) obtain knowledge.

16.17. **Capital Expenditure**

16.17.1. [*Intentionally Deleted*]

16.17.2. [*Intentionally Deleted*]

16.18. **Organisational Documents**

The Borrower shall not amend its Articles of Association or other Organisational Documents in any respect materially adverse to the interests of the Banks under the Finance Documents, without the prior written consent of the Banks. For the purposes of this clause 16.18, the term **"Finance Documents"** shall be deemed not to include any shares, Warrants and capital notes issued by the Borrower to the Banks.

16.19. **Project**

16.19.1. [*Intentionally Deleted*]

16.19.2. [*Intentionally Deleted*]

16.20. **Business Plan**

16.20.1. [*Intentionally Deleted*]

16.20.2. [*Intentionally Deleted*]

16.21. **Hedging**

The Borrower shall not, and the Borrower shall procure that none of its Subsidiaries shall, enter into any Hedging Transaction, other than Permitted Hedging Transactions. **"Permitted Hedging Transactions"** shall mean: (i) forward transactions, swap transactions, future transactions or other similar types of transactions; or (ii) other Hedging Transactions in which the maximum financial exposure is reasonable and the exact amount thereof may be calculated pursuant to the Hedging Transaction agreement at the time such agreement is entered into, provided, in the case of both (i) and (ii), such Hedging Transaction is not made for any speculative purpose.

16.22. **Transactions with Related Persons**

Except with the prior written consent of the Banks, the Borrower will not, directly or indirectly, purchase, acquire or lease any property from, or sell, transfer or lease any property to, or otherwise have any dealings or enter into any transaction after the date of this Agreement with, any interested person (*Baal Inyan*), Affiliate or any Subsidiary of the Borrower or with any Lead Investor or Affiliate of a Lead Investor, except on terms no more favourable to such other person than would apply in the case of arm's length Contracts entered into in the Ordinary Course of Business, except for transactions which are not material.

16.23. **Sale and Leaseback**

The Borrower will not sell, transfer or otherwise dispose of any of its assets or any interest therein on terms whereby such asset is or may be leased to or re-acquired or acquired by the Borrower or any member of the Group in circumstances where the transaction is entered into primarily as a method of raising finance or of financing the acquisition of an asset.

16.24. **Disposals**

The Borrower will not, and will procure that none of its Subsidiaries (other than Jazz and its Subsidiaries) will, either in a single transaction or in a series of transactions whether related or not and whether voluntarily or involuntarily, sell, transfer, lease or otherwise dispose of all or any part of or interest in its respective assets or undertaking to any person, save for:

16.24.1. disposals in the Ordinary Course of Business;

16.24.2. disposals of assets in exchange for or for investment in other assets performing substantially the same function which are comparable or superior as to type, value and quality;

16.24.3. (i) disposals of shares of a Subsidiary on arm's length terms where the business of that Subsidiary is not required for the efficient operation of the Business and such business has been, or is in the process of being, terminated;

(ii) disposals of surplus, obsolete or redundant plant and equipment or other assets or of land or buildings in connection with the termination of any business or operation not required for the efficient operation of the Business, in each case on arm's length terms; or

16.24.4. any other disposal with the prior written consent of the Banks.

Nothing in this clause 16.24, however, will permit the disposal of and the Borrower shall not dispose of: (i) any assets which are, or are intended to be, the subject of fixed security created by any Security Document except in accordance with the relevant Security Document; or (ii) any assets (including rights under Material Contracts) which, in accordance with clause 1.1.36(c)(i) or (ii) above are not charged in favour of the Banks under the Debenture. In the event that the Borrower shall wish to dispose of assets as referred to in clause 16.24.2 or 16.24.3(ii) above, it shall request for the Banks to release such assets from any fixed security under the relevant Security Document and, provided no Default or Event of Default has occurred, the Banks shall consent to such release, provided further that, with respect to the assets referred to in clause 16.24.2 above, such replacement assets are all duly pledged by fixed charge under the relevant Security Document. Notwithstanding any other provision herein, the Borrower shall be entitled to dispose of any shares or other securities or other similar rights of the Borrower in or in connection with Azalea Microelectronics Corporation, without the prior written consent of the Banks provided that the proceeds of any such disposal are invested in the Project in accordance with the Business Plan.

16.25. **Notification of Default**

The Borrower shall notify the Banks of any Default or Event of Default of which it is aware (and the steps, if any, being taken to remedy such Default or Event of Default) promptly upon becoming aware thereof.

16.26. **Compliance with Laws**

The Borrower will, and will procure that each of its Subsidiaries will, comply in all respects material to the Banks with all applicable laws and Orders.

16.27. **Investments in the Borrower**

The Borrower shall procure the receipt by it by no later than December 31, 2009 of an amount of at least US $20,000,000 (twenty million United States Dollars) in: (a) Paid-in Equity; or (b) capital notes in form and substance the same as those issued to TIC on or about the Amendment Closing Date. For the purposes of the aforegoing, the Borrower's obligation as aforesaid is in addition to the investment of US $20,000,000 (twenty million United States Dollars) in capital notes made by TIC on or about the Amendment Closing Date which shall not be taken into account for this clause 16.27. For the avoidance of doubt, nothing contained in the TIC Safety Net Undertaking shall in any way derogate from the Borrower's obligations under this clause 16.27.

16.27.1. [*Intentionally Deleted*]

16.27.2. [*Intentionally Deleted*]

16.27.3. [*Intentionally Deleted*]

16.27.4. [*Intentionally Deleted*]

16.28. **Taxation**

[*Intentionally Deleted*]

16.29. **Financial Undertakings**

The Borrower will procure that with effect from March 31, 2009 (including for the Quarter ending on March 31, 2009), at all times during this Agreement, the Borrower and the Group shall comply with the Financial Undertakings set out below:

16.29.1. [*Intentionally Deleted*]

16.29.2. [*Intentionally Deleted*]

16.29.3. [*Intentionally Deleted*]

16.29.4. (a) for any Quarter, the ratio of: (i) Total Debt (Consolidated) to (ii) EBITDA (Consolidated) for such Quarter, shall not exceed the ratio for such Quarter as set out in Schedule 16.29 hereto;

(b) for any Quarter, the ratio of: (i) Total Debt (Borrower only) to (ii) EBITDA (Borrower only) for such Quarter, shall not exceed the ratio for such Quarter as set out in Schedule 16.29 hereto;

16.29.5. [*Intentionally Deleted*];

16.29.6. (a) for any Fiscal Year and for any Quarter, EBITDA (Consolidated) for such Fiscal Year or for such Quarter shall not be less than the amount for such Fiscal Year or such Quarter as set out in Schedule 16.29 hereto;

(b) for any Fiscal Year and for any Quarter, EBITDA (Borrower only) for such Fiscal Year or for such Quarter shall not be less than the amount for such Fiscal Year or such Quarter as set out in Schedule 16.29 hereto;

16.29.7. [*Intentionally Deleted*];

16.29.8. [*Intentionally Deleted*];

16.29.9. [*Intentionally Deleted*];

16.29.10. [*Intentionally Deleted*];

16.29.11. [*Intentionally Deleted*];

16.29.12. (a) for any Fiscal Year, Investments (Consolidated) shall not be greater than the amount for such Fiscal Year as set out in Schedule 16.29 hereto; and

(b) for any Fiscal Year, Investments (Borrower only) shall not be greater than the amount for such Fiscal Year as set out in Schedule 16.29 hereto;

and

16.29.13. (a) for any Fiscal Year, EBITDA (Consolidated) less Investments for such Fiscal Year, shall not be less than the amount for such Fiscal Year as set out in Schedule 16.29 hereto; and

(b) for any Fiscal Year, EBITDA (Borrower only) less Investments for such Fiscal Year, shall not be less than the amount for such Fiscal Year as set out in Schedule 16.29 hereto.

Schedule 16.29 attached hereto shall be binding unless the Banks and the Borrower agree in writing, prior to December 31, 2008, to modify Schedule 16.29. For the avoidance of doubt, the Banks shall be under no obligation to modify Schedule 16.29.

16.30. **Change of Business**

16.30.1. The Borrower will not make or threaten to make any substantial change in the nature of its business.

16.30.2. The Borrower will not and will procure that its Subsidiaries will not, carry on any business other than the Business.

16.31. **Bank Accounts**

16.31.1. So long as any Loans are outstanding, the Borrower shall maintain in its own name all the Charged Accounts. The Borrower will not maintain any bank account other than the Charged Accounts and other bank accounts duly charged in favour of the Banks by way of a first-ranking fixed pledge and charge under the Debenture. Notwithstanding the foregoing, the Borrower shall be entitled to continue to maintain and shall not be required to pledge as aforesaid for the benefit of the Banks the bank account maintained for the purpose only of employee option exercises and shall be entitled to open and maintain bank accounts with respect to Permitted Financial Indebtedness referred to in clauses 1.1.115(c) and 1.1.115(j) and shall not be required to pledge such accounts as aforesaid for the benefit of the Banks, provided that such accounts shall only be used by the Borrower for the purpose of receipt and payment of the particular Permitted Financial Indebtedness referred to in such clauses and for no other purpose.

16.31.2. The Borrower shall procure that all payments in connection with the Project, payments by the Borrower under the Finance Documents, investments of Paid-in Equity, investments by way of capital notes, proceeds of Permitted Subordinated Debt, proceeds from disposals and, subject to clause 16.31.3(i) below, Grants from the Investment Centre and all other payments directly or indirectly relating to the Project or Fab 2 shall be made, directly from the relevant payor, to the relevant Charged Accounts.

16.31.3. The Borrower shall procure that all revenues from the Project (including from proceeds from disposals and other Material Contracts) and from authorised investments, as well as all proceeds of all Paid-In Equity subscriptions, investments by way of capital notes, Investment Centre Fab 2 Grants and Permitted Subordinated Debt, are paid direct to one of the Project Accounts (or in the case only of amounts received from non-Israeli investors, the Foreign Paid-in Equity Account); provided that: (i) if so required by the Investment Centre, the proceeds of the Investment Centre Fab 2 Grants may be allocated by banks or financial institutions other than the Banks (but to be transferred directly to either of the Project Accounts); (ii) proceeds from a public offering made on an exchange outside Israel may be placed on deposit in foreign banks until such time as the Borrower uses such proceeds; provided further that, in both cases, the accounts at such other banks or financial institutions are duly pledged under the Debenture by way of a first-ranking fixed pledge and charge in favour of the Banks. Except as otherwise specified above, no other sums shall be paid into either of the Project Accounts or into the Foreign Paid-in Equity Account without the prior agreement of the Banks.

16.31.4. The Borrower shall at the request of the Banks furnish the Banks with copy invoices or other evidence acceptable to the Banks

with respect to any withdrawal of sums from the Project Account or into the Foreign Paid-in Equity Account.

16.31.5. The Borrower shall procure that: (a) the proceeds of all insurance claims under the Insurance Policies taken out by the Borrower with respect to Fab 1 and Fab 2 or any part of either, other than in respect of third party liabilities which are or are to be paid by the insurer or re-insurer direct to the third party claimant; (b) all proceeds of nationalisation, expropriation, or requisition for title or use; and (c) [*Intentionally Deleted*]; (d) all proceeds of any sale, transfer or licence of Intellectual Property Assets used in connection with the Project or other Net Proceeds, shall be paid directly to one of the Project Accounts.

16.31.6. Sums standing to the credit of any of the Charged Accounts shall be placed on deposit and shall earn Interest at such rates as may be agreed from time to time by the Borrower and the relevant Bank at which such Charged Account is held. All Interest earned on the balance thereof to the credit of a Charged Account shall be credited to such Charged Account.

16.31.7. The Borrower shall not create or permit to subsist any Encumbrance on all or any part of the Charged Accounts or any other account charged under the Debenture, other than any Encumbrance created by the Security Documents, nor assign, transfer or otherwise dispose of all or any part of its right or title to, or Interest in, the Charged Accounts or any other account charged under the Debenture.

16.31.8. (a) No amounts may be withdrawn or transferred from any of the Charged Accounts and the Borrower may not give any instructions in relation to any of the Charged Accounts, except in accordance with the express terms of this Agreement.

(b) The Borrower shall ensure that all moneys paid to it from a Charged Account in response to any instruction given by it are applied only in discharging the obligations in respect of which they were paid from the relevant Charged Account (or as otherwise permitted under this Agreement).

16.31.9. The Borrower agrees that each Bank may provide to any of the other Banks copies of bank statements for any of the Charged Accounts and other information relating to transactions effected or to be effected on the Charged Accounts save for information regarding financial terms such as interest rates, commissions, fees and terms of deposits.

16.31.10. The Borrower acknowledges that neither any insufficiency of funds in the Charged Accounts (or any of them), nor any inability to apply any fund in the Charged Accounts (or any of them) against any or all amounts owing under this Agreement, shall at any time limit, reduce or otherwise affect the Borrower's payment obligations under this Agreement.

16.31.11. Each Bank may transfer sums from one Charged Account to another Charged Account or to the Banks as required in order to meet payments and withdrawals from the Charged Accounts, but without liability or responsibility as a consequence of such application.

16.32. **Prohibition on Change of Ownership**

Save with the prior written consent of the Banks, there shall be no Change of Ownership.

16.33. **Utilisation of Excess Cash Flow**

All Excess Cash Flow shall be invested only in accordance with the Business Plan, unless otherwise agreed by the Banks in advance in writing or unless applied in prepayment (to the extent permitted) in accordance with clause 7 above.

16.34. **Safety Net Undertaking**

The Borrower shall procure that TIC provides the TIC Safety Net Undertaking.

16.35. **Outside Investment**

16.35.1. The Borrower shall procure that each of the Lead Investors provide an undertaking, in the form of **Schedule 16.35.1** hereto (**"the Outside Investment Undertakings"**), that obligates each such Lead Investor to cooperate with an Outside Investment Offer, all subject to the terms and conditions of Schedule 16.35.1. For purposes of this clause 16.35 **"an Outside Investment Offer"** means a binding offer by a person or persons (acceptable to the Banks in their sole discretion) having sufficient assets, or having available to it a binding financial commitment in an amount sufficient from one or more reputable financial institutions, to make the Outside Investment Offer (**"the Outside Offeror"**) to subscribe for shares from the Borrower at a price specified in such offer, which offer is: (a) made after the commencement and continuation for 60 (sixty) days after the institution thereof of bankruptcy or receivership proceedings against the Borrower which are ordered by a court of competent jurisdiction or the prior determination of an arbitrator, mutually appointed by the Banks and the Borrower, that a bankruptcy or receivership order would be issued by a court against the Borrower were a petition to be filed with a court of competent jurisdiction or, an order providing for creditor protection in favour of the Borrower pursuant to the request therefor by the Borrower is issued by a court of competent jurisdiction shall have occurred and be continuing (**"the Triggering Event"**); and (b) in an amount sufficient, at least, to enable the Borrower (after deduction of all attendant expenses) to cure and remedy the Triggering Event.

16.35.2. Upon the happening of a Triggering Event, the Borrower shall take all steps to cooperate with any Outside Offeror (or potential Outside Offerors), including, by permitting persons seeking to become an Outside Offeror (and their representatives) the opportunity to conduct a due diligence examination of the Borrower and of its assets, liabilities, business and prospects (provided that such persons enter into a confidentiality agreement in a reasonable and customary form with the Borrower). If the Outside Investment Offer is made and accompanied by an opinion of a reputable investment banking firm that the Outside Investment Offer is fair to the Borrower, the Borrower shall procure that a rights offering (**"the Rights Offering"**) be made to its shareholders to invest up to 60% (sixty percent) of the amount proposed to be invested by the Outside Offeror in the Borrower at the same price per share and the other terms and conditions set forth in the Outside Investment Offer. Notwithstanding the aforegoing, if the Outside Investment Offer is conditioned on the Outside Offeror acquiring at least 51% (fifty-one percent) of the shares of the Borrower, the maximum number of shares that may be purchased in the Rights Offering shall be limited to that number of offered shares which, together with the number of then outstanding shares not owned by the Outside Offeror, shall not exceed a maximum of 49% (forty-nine percent) of the shares of the Borrower, unless the Lead Investors agree to invest an amount at least equal to, and at a price per share no less than, the Outside Investment Offer (**"the Alternative Outside Offer"**) and further agree, in addition to exercising all rights offered to them in the Rights Offering, to exercise in a subsequent private placement all rights not exercised by the other shareholders of the Borrower in such rights offering, so as to ensure that the full amount of the Outside Investment Offer is invested in the Borrower; in such case, the Alternative Outside Offer shall be made the subject of the Rights Offering and the Lead Investors shall ensure that the full amount of the Alternative Outside Offer is invested in the Borrower and, to the extent required, used to cure and remedy the Triggering Event.

16.35.3. For the removal of doubt: (a) nothing in this clause 16.35 above (or in the Outside Investment Undertakings) shall prevent the Banks from enforcing any and all of their rights or remedies under this Agreement (including in the case of the occurrence of a Triggering Event) at any time, even if such enforcement does not permit, or in any way adversely affects the possibility of, an Outside Investment Offer, or an Alternative Outside Offer, as the case may be, to be made, or if made, to be completed and, for the further removal of doubt, even after an Outside Investment Offer has already been made; and (b) in the event an Outside Investment Offer is conditional on the Outside Offeror acquiring at least 51% (fifty-one percent) of the shares of the Borrower and, pursuant thereto, the Outside Offeror subscribes for shares from the Borrower as contemplated in clause 16.35.1 above and the shares subscribed, as aforesaid, confer on such Outside Offeror at least 51% (fifty-one percent) of the shares of the Borrower, then, with effect upon the occurrence of such event, clauses 16.1.3(vii) and 16.32 above shall cease to have any effect.

16.36. **Interest Payment Loans; Additional Investment Undertakings**

[*Intentionally Deleted*]

16.37. **Undertakings with Respect to Jazz**

Without derogating from the provisions of the letter, dated August 19, 2008, from the Borrower to the Banks requesting the consent of the Banks to the acquisition of Jazz by the Borrower, notwithstanding anything to the contrary in this Agreement, the Borrower will:

16.37.1. ensure that Jazz and its Subsidiaries (**"the Jazz Group"**) will remain entities separate from the Borrower and the Borrower shall adopt, and adhere to, an arm's length structure and mechanism (such adoption and adherence to be in accordance with legal advice of reputable external US counsel), so as to assure that the Borrower will continue to have no liability whatsoever (whether as principal, surety, guarantor or otherwise) for any of the current or future Indebtedness or other liabilities or obligations, in whole or in part, of any of the Jazz Group, whether actual or contingent (**"the Jazz Indebtedness and Obligations"**), whether before or after consummation of the acquisition by the Borrower of the shares of Jazz;

16.37.2. not assume, guarantee or otherwise undertake to be liable or obligated for, or grant any Encumbrances on any of the assets of the Borrower to secure, any Jazz Indebtedness and Obligations; and

16.37.3. not invest in, finance, loan or transfer any amounts to, any of the Jazz Group or otherwise expend any funds of the Borrower in the operation of the Jazz Group, save for payments to the Jazz Group for goods, services and rights received on an arm's length basis, provided that they are in accordance with the aforesaid legal advice.

17. **DEFAULT**

17.1. **Events of Default**

Each of the events set out in clause 17.2 to clause 17.20B is an Event of Default (whether or not caused by any reason outside the control of the Borrower or of any other person).

17.2. **Non-Payment**

The Borrower does not pay any amount payable by it under any Finance Document at the place and in the funds expressed to be payable, within the earlier of: (i) 7 (seven) Business Days; or (ii) 10 (ten) days, of the due date for payment.

17.3. **Breach of Obligations**

17.3.1. There is any breach of: (i) the provisions of any of clauses 16.4–16.7 (inclusive); clauses 16.9.1, 16.10, 16.11, 16.13.1, 16.15, 16.24 and clauses 16.31–16.33 (inclusive) and, if such default is capable of remedy within such period, within 7 (seven) days after receipt by the Borrower of written notice from the Banks requiring the failure to be remedied, the Borrower shall have failed to cure such default; or (ii) the provisions of any of clauses 16.25, 16.27, 16.29 or 16.37.

17.3.2. The Borrower fails to comply with any undertaking or obligation contained in any Finance Document (other than an undertaking referred to in clause 17.3.1 above) and, if such default is capable of remedy within such period, within 14 (fourteen) days after receipt by the Borrower of written notice from the Banks requiring the failure to be remedied, the Borrower shall have failed to cure such default. For the removal of doubt, this clause 17.3 shall not be construed as derogating from any other provision of this clause 17 and, without limiting the generality of the aforegoing, the respective cure periods specified in this clause 17.3 shall be applicable only with respect to Defaults specified in clause 17.3.1(i) or this clause 17.3.2 (as applicable) and not to any other provision of this clause 17.

17.3.3. No breach in respect only of Permitted Financial Indebtedness as referred to in clause 1.1.115(c) above shall constitute an Event of Default, provided the conditions set forth in clauses 17.6.6(a) and (b) below are met.

17.4. **Misrepresentation/Breach of Warranties**

Any representation or warranty made or repeated by or on behalf of the Borrower in any Finance Document, or in any certificate or statement delivered by or on behalf of the Borrower or under any Finance Document is incorrect or misleading in any material respect when made or deemed to be made or repeated.

17.5. **Invalidity**

Any of the Finance Documents shall cease to be in full force and effect in any respect or shall cease to constitute the legal, valid, binding and enforceable obligation of the Borrower or in the case of any Security Document, fail to provide effective perfected security in favour of the Banks over the assets over which security is intended to be given by that Security Document.

17.6. **Cross Acceleration**

17.6.1. Any amount in respect of Financial Indebtedness of the Borrower or any Subsidiary which aggregates US $20,000,000 (twenty million United States Dollars) or its equivalent, or more at any one time outstanding:

(a) becomes prematurely due and payable;

(b) becomes due for redemption before its normal maturity date;

(c) is placed on demand,

in each such case by reason of the occurrence of an event of default (howsoever characterised) or any event having the same effect resulting from a default by the Borrower.

17.6.2. Any amount in respect of such Financial Indebtedness which aggregates US $20,000,000 (twenty million United States Dollars) or its equivalent, or more, are not paid when due (whether falling due by demand, at scheduled maturity or otherwise) or within any applicable grace period provided for in the document evidencing or constitute such Financial Indebtedness.

17.6.3. Any Encumbrances over any assets of any one or more members of the Group (taken together, if more than one) securing an aggregate of US $20,000,000 (twenty million United States Dollars) or its equivalent, or more, become enforceable and steps are taken to enforce the same.

17.6.4. The Borrower or any Subsidiary fails to discharge in full any judgment debt entered against it in excess of an aggregate amount of US $20,000,000 (twenty million United States Dollars) or its equivalent, within 30 (thirty) days of the relevant judgment being entered against it, unless such judgment is being contested in good faith on reasonable grounds following external legal advice.

17.6.5. Any default under or breach of the terms and conditions of the Permitted Subordinated Debt shall have occurred. For the removal of doubt, the institution of Proceedings as referred to in clause 1.1.118(j)(iii)(1)(A)(I), (II) or (III) above or the non-payment by the Borrower of amounts payable by it in respect of the Equity Convertible Debentures pursuant to clause 1.118(j)(ii)(1) or (2) above (including pursuant to a rescheduling agreement) shall be deemed to constitute a default under or breach of the terms and conditions of the Permitted Subordinated Debt.

17.6.6. The aforegoing in this clause 17.6 shall not be applicable in respect only of Permitted Financial Indebtedness as referred to in clause 1.1.115(c) above and only, and for so long as, the following 2 (two) conditions are both met:

(a) such Permitted Financial Indebtedness is to one or both of the Banks; and

(b) such Permitted Financial Indebtedness is secured in full by deposits (in amounts to be not less than the amount of such Permitted Financial Indebtedness) placed with the relevant Banks and duly charged by first-ranking floating charge in

favour of the Banks.

17.7. **Insolvency and Rescheduling**

The Borrower or any material Subsidiary of the Borrower is unable to pay its debts as they fall due or admits inability to pay its debts as they fall due, commences negotiations with any one or more of its creditors with a view to the general readjustment or rescheduling of its Indebtedness or makes a general assignment for the benefit of or a composition with its creditors.

17.8. **Winding-Up**

The Borrower or any material Subsidiary of the Borrower takes any corporate action or other steps are taken or Proceedings are started or are consented to or any Order is made for its winding-up, liquidation, bankruptcy, dissolution, administration or re-organisation (or for the suspension of payments generally or any process giving protection against creditors) or for the appointment of a liquidator, receiver, administrator, administrative receiver or similar officer of it or of all or any part of its revenues or assets or such a person is appointed, which action, steps, Proceedings or Order are not cancelled or withdrawn within 60 (sixty) days of the occurrence or institution thereof.

17.9. **Execution or Other Process**

Any execution, attachment, sequestration or other process arising out of any claim by any third party against the Borrower or any material Subsidiary of the Borrower, save where: (a) the Borrower is in good faith on reasonable grounds, contesting the execution, attachment, sequestration or other process by appropriate Proceedings diligently pursued; (b) the Banks are satisfied that the ability of the Borrower to comply with its respective obligations under the Finance Documents will not be adversely affected whilst such distress, execution, attachment, diligence or other process is being so contested; and (c) such process as aforesaid is cancelled or withdrawn not later than 45 (forty-five) days after the institution thereof.

17.10. **Material Contracts**

17.10.1. [*Intentionally Deleted*]

17.10.2. Other than as permitted under clause 16.13 above: (i) any of the Material Contracts specified in Schedule 1.1.101 hereto shall cease to be in full force and effect or shall cease to constitute the legal, valid, binding and enforceable obligation of the Borrower or the relevant counterparty thereto; or (ii) any change adverse to the interests of the Borrower or the Banks is made to the terms of any of such Material Contracts, without the prior written consent of the Banks; or (iii) the specifications for Fab 2 are materially varied.

17.10.3. [*Intentionally Deleted*]

17.11. **Proceedings**

There is current or pending any litigation, dispute, arbitration, administrative, regulatory or other Proceedings or enquiry concerning or involving the Borrower or any Subsidiary of the Borrower which is likely to have a Material Adverse Effect.

17.12. **Consents**

17.12.1. Any Consent necessary for the Borrower to comply with its obligations under the Finance Documents or to perform the Project in whole or in part:

(i) is not obtained or is surrendered, terminated, withdrawn, suspended, cancelled or revoked or does not remain in full force and effect or otherwise expires and is not renewed prior to its expiry (in each case, without replacement by permits, consents or authorisations, as applicable, having equivalent effect); or

(ii) is modified in any material adverse respect or breached.

17.12.2. The Borrower becomes aware of any event which is reasonably likely to give rise to the revocation, termination, cancellation or suspension of the Consents or any of them (without replacement) in such circumstance where the Borrower is unable to demonstrate to the reasonable satisfaction of the Banks within 30 (thirty) days of such event occurring that such termination, suspension or revocation will not occur.

17.13. **Material Adverse Effect**

Any event or series of events occur which, in the reasonable opinion of the Banks, after discussion with the Borrower, is likely to have a Material Adverse Effect, including, any material adverse change in the business or financial condition of the Borrower or in the ability of the Borrower to perform its obligations under the Finance Documents or under the Material Contracts or to complete the Project.

17.14. **Fab 2**

Fab 2 or any other material equipment needed for the Project is destroyed or materially damaged so as to render Fab 2 or a substantial portion thereof inoperable or declared by the insurers to be a total loss or a constructive total loss.

17.15. **Completion of Fab 2**

[*Intentionally Deleted*]

17.16. **Construction Contract**

[*Intentionally Deleted*]

17.17. **Government Action**

Any government or Governmental Body: (a) nationalises, seizes or expropriates all or any substantial or material part of the assets of the Borrower, or its share capital, or Fab 2 or any part thereof; or (b) assumes custody or control of such assets, or of the business or operations of the Borrower, or of its share capital or of Fab 2; or (c) takes any action for the dissolution of the Borrower, or (d) takes any action that would prevent the Borrower or its officers from carrying on its business or operations or a substantial or material part thereof, or the Project; or by or under the authority of the government of Israel or any other competent Israeli Governmental Body any law is introduced after the date hereof imposing restrictions on the free exchange of NIS for Dollars or of Dollars for NIS.

17.18. **Illegality**

It is or becomes unlawful for the Borrower to perform any of its material obligations under the Finance Documents or any of its material obligations under any of the Material Contracts.

17.19. **Investment Centre Fab 2 Grants**

The Borrower is in breach of any material condition of the approvals of the Investment Centre Fab 2 Grants or the Israeli government cancels or reduces such Grants or any part thereof (save to the extent that such Grants may be, and are in fact, replaced by Paid-in Equity and/or equity equivalent capital notes).

17.20. **Default by the Borrower under any Qualifying Wafer Prepayment Contract**

[*Intentionally Deleted*]

17.20A. **Prohibited Payment under the Permitted Subordinated Debt**

The Borrower shall make any payment (whether of principal, Interest or any other amount) in respect of the Permitted Subordinated Debt, other than as permitted pursuant to the provisions of clause 1.1.118 above.

17.20B. **Outside Investment Undertaking**

17.20B.1. [*Intentionally Deleted*]

17.20B.2. (a) Any of the representations and warranties by any Lead Investor in any Outside Investment Undertaking to which it is a party are incorrect or misleading in any material respect when made or deemed to be made or repeated.

(b) Any Lead Investor fails to comply with any undertaking or obligation contained in any Outside Investment Undertaking to which it is a party and, if such default is capable of remedy within such period, within 7 (seven) days after the earlier of the Lead Investor becoming aware of such default and receipt by the Lead Investor of written notice from the Banks requiring the failure to be remedied, that Lead Investor shall have failed to cure such default.

(c) Any Outside Investment Undertaking shall cease to be in full force and effect in any material respect or shall cease to constitute the legal, valid, binding and enforceable obligation of any Lead Investor party to it or it shall be unlawful for any Lead Investor to perform any of its material obligations under any of the Outside Investment Undertakings, unless it expires in accordance with its terms.

(d) Any Lead Investor repudiates the Outside Investment Undertaking to which it is a party.

17.20C. **TIC Safety Net Undertaking**

17.20C.1. Any of the representations and warranties by TIC in the TIC Safety Net Undertaking is incorrect or misleading in any material respect when made or deemed to be made or repeated.

17.20C.2. TIC fails to comply with any undertaking or obligation contained in the TIC Safety Net Undertaking and, if such default is

capable of remedy within such period, within 7 (seven) days after the earlier of TIC becoming aware of such default and receipt by TIC of written notice from the Borrower requiring the failure to be remedied, TIC shall have failed to cure such default.

17.20C.3. The TIC Safety Net Undertaking shall cease to be in full force and effect in any material respect or shall cease to constitute the legal, valid, binding and enforceable obligation of TIC or it shall be unlawful for TIC to perform any of its material obligations under the TIC Safety Net Undertaking, unless it expires in accordance with its terms.

17.20C.4. TIC repudiates the TIC Safety Net Undertaking.

17.21. **Acceleration**

Upon the occurrence of an Event of Default and at any time thereafter while the same is continuing, the Banks may, by notice to the Borrower:

17.21.1. declare that an Event of Default has occurred; and/or

17.21.2. declare that the Loans together with all Interest accrued on all Loans and all other amounts (including amounts due under clause 19, to the extent applicable) payable by the Borrower under the Finance Documents from time to time, shall thenceforth be repayable on demand being made by the Banks (and in the event of any such demand, the Loans, such Interest and such other amounts shall be immediately due and payable); and/or

17.21.3. declare the Loans immediately due and payable, whereupon they shall become immediately due and payable, together with all Interest accrued on the Loans and all other amounts payable by the Borrower or under the Finance Documents (including, amounts due under clause 19, to the extent applicable); and/or

17.21.4. [*Intentionally Deleted*]

17.22. **Loans Due on Demand**

If, pursuant to clause 17.21.2 above the Banks declare the Loans to be due and payable on demand, then and at any time thereafter, so long as any Event of Default is continuing or has not been waived, the Banks may by written notice to the Borrower require repayment of the Loans on such date as the Banks may specify in such notice (whereupon the same shall become due and payable on such date together with accrued Interest thereon and any other sums then owed by the Borrower hereunder) or withdraw such declaration with effect from such date as they may specify in such notice.

17.23. **Collection**

In the event of acceleration of the Loans pursuant to clause 17.21.3 above or of a written notice under clause 17.22 above, then, without derogating from any other remedies or relief available to the Banks under law or under any of the Finance Documents, the Banks shall be entitled to take all steps as they deem fit in order to collect all sums owed by the Borrower to the Banks (including all sums referred to in clause 17.21 above), including, to realise all or any of the assets secured under the Security Documents, all at the expense of the Borrower and to utilise the sums received to repay in part or in full all amounts owed by the Borrower hereunder.

17.24. **Indemnity**

The Borrower shall indemnify the Banks against any losses, charges or expenses which the Banks may sustain or incur as a consequence of:

17.24.1. the occurrence of any Event of Default or Default; or

17.24.2. the operation of clauses 17.21, 17.22 or 17.23,

including, any losses, charges or expenses on account of funds acquired, contracted for or utilised to fund any amount payable under this Agreement or any amount repaid or prepaid. A certificate of the Banks as to the amount of any such loss or expense shall be *prima facie* evidence in the absence of manifest error.

17.25. **Termination of Commitment**

[*Intentionally Deleted*]

18. **DEFAULT INTEREST**

18.1. **Default Rate Periods**

If any sum due and payable by the Borrower hereunder or under any other Finance Document is not paid on the due date therefor in accordance with the provisions of this Agreement **("Unpaid Sum")**, the period beginning on such due date and ending on the date upon which the obligation of the Borrower to pay the Unpaid Sum is discharged, shall be divided into successive periods, each of which (other than the first) shall start on the last day of such preceding period and the duration of each of which shall (except as otherwise provided in this clause 18) be selected by the Banks (such periods selected as aforesaid **"Interest Periods"**).

18.2. **Default Interest**

During each such Interest Period as is mentioned in clause 18.1 above, an Unpaid Sum shall bear Interest at the rate per annum which is the sum from time to time of: (a) 3% (three percent); and (b) the Interest rate in respect of such Interest Period as would have been determined in accordance with clause 9.1.1 above (provided that, if, for any such Interest Period LIBOR cannot be determined, the rate of Interest applicable to such Unpaid Sum shall be the rate per annum which is the sum of: (i) 3% (three percent); and (ii) 2.5% (two point five percent) plus a rate as certified by the Banks in accordance with clause 9 above.

18.3. **Payment of Default Interest**

Any Interest which shall have accrued under clause 18.2 above in respect of an Unpaid Sum shall be due and payable and shall be paid by the Borrower at the end of each Interest Period by reference to which it is calculated or on such other dates as the Banks may specify by written notice to the Borrower.

19. **BROKEN FUNDING INDEMNITY**

19.1. **Broken Funding**

If any Bank receives or recovers all or any part of the Loans otherwise than on the scheduled date of repayment of the Loans, the Borrower shall on the first Interest Payment Date following such repayment on demand pay to such Bank an amount equal to the amount (if any) by which: (a) the additional amount of Interest which would, in accordance with the terms of this Agreement, have been payable on the amount so received or recovered had it been received or recovered on the following Interest Payment Date exceeds (b) the amount of Interest which, in the opinion of such Bank, would have been payable to such Bank on the last day of such Interest Period in respect of a deposit in the currency of the Loans, of an amount equal to the amount so received or recovered, had such an amount been placed by it with a prime bank in London for a period starting on the date of such receipt or recovery and ending on the following Interest Payment Date. For the removal of all doubt: (i) with respect to all or any part of the Loans received or recovered otherwise than on the scheduled date of repayment of such amount relating to the Loans, the payment set forth above shall only be made once; and (ii) voluntary or mandatory prepayments made in accordance with clause 7 or 8, as the case may be, on an Interest Payment Date shall not be subject to a payment of broken funding in accordance with this clause 19.1.

19.2. **Failure to Draw Advance**

[*Intentionally Deleted*]

20. **PAYMENTS**

20.1. **Payments by Borrower**

All payments to be made by the Borrower to the Banks shall be made in same day funds to the Project Accounts at such Bank or, in the event that there shall be any Bank other than Bank Hapoalim or Bank Leumi (any such other Bank, **"the New Bank"**), to an account in the name of the Borrower to be opened at Bank Hapoalim or Bank Leumi (such account, **"the New Account"**), which account shall be duly charged in favour of the Banks by way of a first-ranking fixed pledge and charge under the Debenture and shall, for all purposes under this Agreement, be a Charged Account. All payments required to be made by the Borrower under the Finance Documents shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without any deduction for or on account of, any set-off or counterclaim. Any amount received by the Bank at which the New Account is opened (**"the Account Bank"**) under this Agreement into the New Account for the account of a New Bank shall be made available by the Account Bank to such New Bank by payment in same day funds to such account as such New Bank may have notified to the Account Bank in writing not less than 2 (two) Business Days prior to such distribution. Any amounts received by the Account Bank on account of the New Banks generally shall be distributed by the Account Bank to the New Bank or, if more than one, each New Bank, pro rata to the amounts which are due to the New Banks under the Finance Documents.

20.2. **Payments by Banks to Borrower**

[*Intentionally Deleted*]

21. **SET-OFF**

21.1. **Conditions for Set-Off**

Each Bank may (but shall not be obliged to) set-off against any obligation of the Borrower due and payable by it to or for the account of such Bank under the Finance Documents and not paid on the due date or within any applicable grace period, any moneys held by such Bank for the account of the Borrower at any office of such Bank anywhere and in any currency, whether or not matured. For that purpose, such Bank may: (i) break or alter the amounts of all or any deposit of the Borrower; or (ii) effect such currency exchanges as are appropriate to implement the set-

off and any usual charges in relation to such currency exchanges shall be paid by the Borrower and such Bank shall not be liable to the Borrower for any penalties, losses or other damage resulting from any such breakage, alteration or currency exchange. The Banks shall give notice to the Borrower of any such set-off on or prior to the date of making such set-off.

21.2. **Debit or Credit of Accounts**

Each Bank shall be entitled (but not obliged): (i) to debit any of the Borrower's accounts at such Bank (even if not related to the Project) with any amount needed to pay any amount payable by the Borrower to such Bank under this Agreement and whether such account is credited or overdrawn or will become overdrawn as a result of such debiting; and (ii) to credit any amount received from the Borrower or for its account to such account of the Borrower at such Bank as it deems fit.

22. APPLICATION OF PAYMENTS

22.1. **Insufficient Payment**

If any Bank receives a payment insufficient to discharge all the amounts then due and payable by the Borrower to it under the Finance Documents, such Bank shall apply that payment towards the obligations of the Borrower under the Finance Documents in the following order or in such other order as such Bank may deem fit:

22.1.1. *firstly,* in or towards payment of any unpaid fees, costs and expenses of such Bank or any Receiver (as defined in any Security Document) under the Finance Documents; and

22.1.2. *secondly,* in or towards payment of any other amount due to such Bank but unpaid under this Agreement or any other Finance Document, other than principal (including, Interest, damages, commissions, fees, broken funding indemnity fees and all other costs), the above in such order as such Bank deems fit; and

22.1.3. *thirdly,* in or towards payment to such Bank on account of the principal of the Loans.

22.2. **Currency Conversion**

If, notwithstanding the obligations of the Borrower under this Agreement (and without derogating from such obligations), any sum is received by any Banks in a currency (**"the first currency"**) other than the currency (**"the second currency"**) in which the relevant amount is to be paid pursuant to the provisions of this Agreement, then such sum shall be converted into the second currency at the buying rate of the second currency in the first currency prevailing at such Bank at the close of business on the date of receipt thereof.

23. CALCULATIONS AND EVIDENCE OF DEBT

23.1. Each Bank shall maintain in accordance with its usual practice accounts evidencing the amounts from time to time lent by and owing to it hereunder.

23.2. In any legal action or Proceeding arising out of or in connection with this Agreement the entries made in the accounts maintained pursuant to clause 23.1 above shall, in the absence of manifest or proven error, be *prima facie* evidence of the existence and amounts of the specified obligations of the Borrower.

23.3. A certificate of a Banks as to: (a) the amount by which a sum payable to it hereunder is to be increased under clause 12.1 above; or (b) the amount for the time being required to indemnify it against any such cost, payment or liability as is mentioned in clause 13.1 above shall, in the absence of manifest or proven error, be *prima facie* evidence of the existence and amounts of the specified obligations of the Borrower.

24. SHARING BETWEEN BANKS

The Borrower acknowledges that it has been or will be agreed between the Banks that, subject to certain conditions, if a Bank (**"the Sharing Bank"**) receives or recovers (including by way of set-off) any sum in respect of an amount due to it from the Borrower under this Agreement or any of the other Finance Documents otherwise than by payment by the Borrower in accordance with the terms of this Agreement or any of the other Finance Documents:

24.1. the Sharing Bank shall forthwith pay to each of the other Banks an amount equal to each other Bank's Proportion of the sum so received or recovered. The Borrower hereby acknowledges and agrees that, subject to clauses 24.2 below, upon such payment being made, as between the Borrower and the Sharing Bank, the Borrower shall remain indebted to the Sharing Bank under this Agreement in the amount paid by the Sharing Bank to such other Banks as if the Sharing Bank had not received or recovered the sum mentioned above and each Bank receiving a payment from a Sharing Bank shall treat the amount paid to it by the Sharing Bank as if it were a payment by the Borrower on account of amounts due from the Borrower under this Agreement; and

24.2. any payment made by the Sharing Bank under clause 24.1 above shall (whether or not stated to be so subject) be subject to the condition that, if all or any part of the amount paid by the Sharing Bank to such other Bank has to be repaid by the Sharing Bank to the Borrower or any other person, whether under any insolvency law or otherwise, each of the Banks (other than the Sharing Bank) which received any part of the Sharing Bank's payment shall repay to the Sharing Bank the amount which the Sharing Bank distributed to that Bank, together with such amount (if any) as is necessary to reimburse the Sharing Bank the appropriate portion of any Interest it was obliged to pay on the sum it repaid to the Borrower or other person concerned.

25. **ASSIGNMENTS AND TRANSFERS**

25.1. This Agreement shall be binding upon and enure to the benefit of each party hereto and its or any subsequent permitted successors, transferees and permitted assigns.

25.2. The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations under any of the Finance Documents.

25.3. Any Bank may, at any time, assign all or any of its rights, benefits and obligations under the Finance Documents to any Israeli bank, financial institution (including benefit funds) or Israeli authorised dealer under the Value Added Tax Law; or (iii) with the prior consent of the Borrower (not to be unreasonably withheld), any other banking corporation or financial institution; provided that: (a) [*Intentionally Deleted*]; (b) the total number of Banks shall not exceed 8 (eight) at any time; and (c) in the event that any such Bank shall, in accordance with the aforegoing, wish to make an assignment as referred to in clause 25.3 above to a foreign bank in respect of which the Borrower shall, under clause 12.1 above be required to make an additional payment (which it is not entitled pursuant to clause 12.1, to deduct from payments to such foreign bank), by virtue of such bank being a foreign bank, then such an assignment shall not be permitted, unless: (1) such foreign bank waives its rights under clause 12 to receive such additional payment as aforesaid; or (2) the Bank making such assignment is doing so as a result of Bank of Israel requirements relating to the making of loans to, or the making of reserves in respect of loans to, a group of borrowers or a single borrower. Any Bank may also sell sub-participations in the Loans to such bank or financial institution as such Bank may deem fit. As a condition to any assignment, the assignee shall sign a written undertaking which provides that the Borrower shall only be required to interface with the assigning Banks and all communications, notice and other interactions, or waivers, consents or other agreements relating to the Borrower shall only be facilitated by and on behalf of the assigning Bank.

25.4. The Banks may at any time disclose to any actual or potential assignee or transferee or subparticipant (or other party entering into contractual arrangements to assume risks in relation to the Loans) in respect of the Finance Documents, such information about the Finance Documents, the Project (including Fab 2) and the Borrower as the Banks shall consider appropriate but only after having first obtained from such potential assignee, transferee or subparticipant or equivalent a confidentiality undertaking equivalent in effect to the confidentiality agreements set out in clause 33 below in writing and addressed to the relevant Bank and the Borrower. The Banks may also disclose any such information to the Bank of Israel, the Supervisor of Banks and any person acting on their behalf or any other Governmental Body to which the Banks are subject, upon receipt by such Bank of a demand for such information from any such person or Governmental Body.

26. **REMEDIES AND WAIVERS**

No failure to exercise, nor any delay in exercising, on the part of the Banks, or of the Borrower, of any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exhaustive of any rights or remedies provided by law.

27. **NOTICES**

27.1. **Notices in Writing**

Notices to be given hereunder shall be in writing and may be given personally, by facsimile or, if not available, as required by clause 27.2 below. Any notice to be given to a Bank or by a Bank must be given during normal banking hours of such Bank to the person and at the address designated below. If notice is sent by facsimile during normal banking hours as aforesaid, it shall be deemed to have been served when confirmation of receipt by the intended recipient has been received. All notices given by facsimile shall be confirmed by letter despatched in the manner provided in clause 27.2 within 24 (twenty-four) hours of transmission.

27.2. **Addresses**

Any other notices to be given hereunder shall be served on a party by prepaid express registered letter (or nearest equivalent) to its address given below or such other address as may from time to time be notified for this purpose and any notice so served shall be deemed to have been served within 5 (five) days after the time at which such notice was posted and in proving such service, it shall be sufficient to prove that the notice was properly addressed and posted:

27.2.1. to the Borrower at:

Tower Semiconductor Ltd.
P.O. Box 619
Migdal Haemek
Israel
Facsimile: (04) 604 7242
Attention: Oren Shirazi
Acting Chief
Financial Officer

with a copy to:

Yigal Arnon & Co.
1 Azrieli Center
46th Floor, The Round Tower
Tel-Aviv, 67021

Facsimile: (03) 608 7714
Attention: David H. Schapiro, Adv.

27.2.2. to Bank Hapoalim at:

Corporate Division
Migdal Levenstein
23 Menachem Begin Road
Tel-Aviv
Facsimile: (03) 567 2995
Attention: Head of Corporate Division

27.2.3. to Bank Leumi at:

Corporate Division
34 Yehuda Halevi Street
Tel-Aviv
Facsimile: (03) 514 9278
Attention: Manager of Hi-Tech Industries Section

28. **AMENDMENTS**

Any addition, variation, modification or amendment to this Agreement shall not be effective unless any such addition, variation, modification or amendment is in writing and signed by the authorised signatories of all of the parties to this Agreement.

29. **COUNTERPARTS**

This Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

30. **GOVERNING LAW AND JURISDICTION**

This Agreement shall be governed by and shall be construed in accordance with Israeli law and the courts of Tel-Aviv-Jaffa shall have exclusive jurisdiction to hear any matters, provided that the Banks shall be entitled to sue the Borrower in any jurisdiction in which it has an office or holds assets.

31. **ENTIRE AGREEMENT**

This Agreement constitutes the entire agreement between the parties with respect to the subject-matter hereof and supersedes any prior agreement, or arrangement amongst the parties. Any addition or amendment to this Agreement shall not be effective unless in writing signed by the authorised signatories of both the parties.

32. **CONFIDENTIALITY**

Subject to clause 25.4 above, the Banks shall keep confidential all confidential information received from the Borrower concerning the Borrower and its Business and will not disclose any such information to any third party, including to any shareholders of the Borrower, without the prior written consent of the Borrower unless such disclosure is:

32.1. made in connection with any Proceedings arising out of or in connection with any Finance Document, to the extent that such a party reasonably considers it necessary to protect its interests; or

32.2. required by an Order of a court of competent jurisdiction; or

32.3. made or required pursuant to any law or Proceeding in accordance with which the relevant party concerned is required to act or otherwise required to be disclosed by any banking or other regulatory or examining authorities or enquirers (whether Governmental Body or otherwise); or

32.4. made to its auditors for the purpose of enabling them to undertake any audit or to its legal advisers when seeking *bona fide* legal advice in connection with the Finance Documents or otherwise to any of its officers and employees considered to need to know the information concerned.

The restriction contained in this clause 32 shall continue to bind each Bank after termination of, or after the termination of its participation in, the Facility, without limit in time.

For the purpose of the above, **"confidential information"** shall exclude:

(i) information which at the time of disclosure to any Bank (or any of its advisers) is in the public domain (other than through a breach of this clause 32 by such Bank);

(ii) information which, prior to such disclosure, becomes generally available to third parties or otherwise in the public domain by publication or through no fault of any Bank; and

(iii) information which is lawfully in the possession of any Bank prior to such disclosure or subsequently comes into its possession, other than by reason of any breach of any confidentiality undertaking in favour of the Borrower.

Nothing herein contained shall limit or restrict the liability or right of any Bank and any Bank shall be entitled, to disclose to any other Bank, confidential information concerning the Borrower, the Project, Fab 2 or any other matter relating to the Finance Documents and the Material Contracts, including regarding the bank accounts of the Borrower.

33. **BANKS REPRESENTATION**

Each of the Banks, with respect to itself only, hereby represents that the relevant committees and other bodies of the Banks have passed all resolutions necessary to approve the Loans granted to the Borrower under this Agreement.

[*Signature Page to Amended and Restated Facility Agreement*]

the BORROWER:

for **TOWER SEMICONDUCTOR LTD.**

By: _____

Title: _____

the BANKS:

for **BANK HAPOALIM B.M.**

By: _____

Title: _____

for **BANK LEUMI LE-ISRAEL B.M.**

By: _____

Title: _____

Exhibit 4.87

CONVERSION AGREEMENT

This Conversion Agreement (this "**Agreement**") is made and entered into effective as of September 25 2008 by and between TOWER SEMICONDUCTOR LTD. (the "**Company**" or "**Tower**"), a company organized under the laws of the State of Israel and BANK HAPOALIM B.M., a banking corporation organized under the laws of the State of Israel (the "**Bank**").

WHEREAS, Tower is an independent manufacturer of wafers whose Ordinary Shares are traded on the Nasdaq Stock Market ("**NASDAQ**") under the symbol TSEM and whose Ordinary Shares and certain other securities are traded on the Tel-Aviv Stock Exchange ("**TASE**") under the symbol TSEM;

WHEREAS, the Bank and Bank Leumi Le-Israel B.M. (collectively, the "**Banks**") and Tower are parties to a Facility Agreement dated January 18, 2001, as amended and restated on August 24, 2006 and as further amended by Amendment No. 1 thereto dated September 10, 2007 (the "**Facility Agreement**"); and

WHEREAS, at the request of Tower, the Banks and Tower have entered into an Amending Agreement dated September 25, 2008 (the "**Amending Agreement**"), the conditions to the effectiveness of which include, *inter alia*, the conversion by each Bank of US $100,000,000 (one hundred million US dollars) of its loans made to Tower pursuant to the Facility Agreement and pursuant to an Equipment Facility Agreement dated September 10, 2007 (the "**Loans**") into a convertible capital note to be issued to the Bank (a "**Capital Note**") in the amount of US $100,000,000 (one hundred million US dollars) which will in turn be convertible, in whole or in part, by the Bank at any time and from time to time into 70,422,535 (seventy million, four hundred and twenty-two thousand, five hundred and thirty-five) ordinary shares of Tower at a conversion price of US $1.42 (one US dollar and forty-two cents) per share (such number of shares and conversion price, in each case, subject to adjustment from time to time as provided in the Capital Note) and the entering into by the Bank and Tower of a Registration Rights Agreement (the "**Registration Rights Agreement**") and of this Agreement, in each case, on the date of the effectiveness of the Amending Agreement (the "**Amendment Closing Date**"); and

WHEREAS, prior to the date hereof, Jazz Technologies, Inc. and its subsidiaries have become subsidiaries (as defined below), of Tower,

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Interpretation.

1.1. As used in Sections 3.8 and 5.1 of this Agreement:

1.1.1. "**control**" (including the terms "**controlling**", "**controlled by**" or **"under common control with**", means: (i) direct or indirect ownership of, or power to vote, 25% (twenty-five percent) or more of a class of voting securities of a person; (ii) the power to elect a majority of the directors or trustees of a person; or (iii) the possession direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise; and

1.1.2. "**subsidiary**" of a person means any company which is otherwise directly or indirectly controlled by such person. For the avoidance of doubt, a subsidiary need not be consolidated for financial statement purposes with such person in order to be deemed a subsidiary in this Agreement.

1.2. Definitions. Except as otherwise defined herein, terms and expressions defined in the Facility Agreement as amended and restated by the Amended Agreement (the **"Restated Facility Agreement"**) shall have the same meanings when used in this Agreement and all provisions of the Restated Facility Agreement concerning matters of construction and interpretation shall apply to this Agreement.

1.3. Preamble. The preamble to this Agreement constitutes an integral part thereof.

2. Conversion of Loan and Issue of Capital Note on the Amendment Closing Date.

The Company hereby:

2.1. with effect as of the Amendment Closing Date, issues to the Bank, and the Bank hereby receives from the Company, in conversion of US $100,000,000 (one hundred million US dollars) of the Loans (being US $84,779,607 (eighty-four million, seven hundred and seventy-nine thousand, six hundred and seven US dollars) of Loans under the Facility Agreement and US $15,220,393 (fifteen million, two hundred and twenty thousand, three hundred and ninety-three US dollars) of Loans under the Equipment Facility Agreement), an executed Capital Note in the principal amount of US $100,000,000 (one hundred million US dollars) in the form attached as **Exhibit 1** hereto. For the avoidance of doubt (i) as of the Amendment Closing Date, the principal amount of Loans outstanding and owed by Tower to the Banks shall be as set forth in the second sentence of clause 2.1 of the Restated Facility Agreement and (ii) there shall be no further amounts (principal or interest) payable by the Company under the Equipment Facility Agreement referred to above and the Equipment Facility Agreement shall be terminated as at the Amendment Closing Date;

2.2. furnishes to the Bank a copy of the approval of the TASE for listing the 70,422,535 (seventy million, four hundred and twenty-two thousand, five hundred and thirty-five) shares issuable upon conversion of said Capital Note; and

2.3. confirms that the Company has recorded such issuance of the Capital Note in the name of Bank on the records of the Company.

3. Representations and Warranties of the Company.

The Company hereby represents and warrants to the Bank on the Amendment Closing Date as follows:

3.1. Organization. The Company is duly organized and validly existing under the laws of its jurisdiction of incorporation and has full corporate power and authority to own, lease and operate its properties and assets and to conduct its business as now being conducted and to perform all its obligations under this Agreement.

3.2. Share Capital. All issued and outstanding share capital of the Company has been duly authorized and is validly issued. The shares to be issued upon conversion of any Capital Note issued pursuant to this Agreement (the "**Conversion Shares**") are duly authorized and reserved for issuance by the Company and, when issued in accordance with the terms of such Capital Note will be validly issued, fully paid, nonassessable and not subject to any pledge, lien or restriction on transfer, except for restrictions on transfer imposed by applicable securities laws. The entering into and performance of this Agreement and the issuance of any shares, or Capital Notes hereunder do not, and the issuance of any Conversion Shares will not, conflict with the Memorandum of Association or the Articles of Association of the Company nor with any outstanding convertible security, warrant, option, call, preemptive right or commitment of any type relating to the Company's capital stock (collectively, "**Equity Rights**"). The entering into and performance of this Agreement, the issuance of any shares or Capital Notes hereunder and the issuance of the Conversion Shares do not require, or give any holder of Equity Rights the right to have made, any adjustments to be made in the conversion or exercise price, the number of shares issuable upon conversion or exercise or any other provision of the aforegoing Equity Rights.

3.3. Authorization; Approvals. All corporate action on the part of the Company necessary for the execution, delivery and performance of this Agreement and the issuance of any shares, Capital Notes, and Conversion Shares has been taken. Except as set forth in Schedule 3.3 hereto, save for any consents, approvals, authorisations or exemptions already obtained, and filings already made, no consent, approval or authorization of, exemption by, or filing with, any governmental or regulatory authority, including any approval of, or filings with, the Israeli Securities Authority (the "**ISA**"), the TASE or any third party is required in connection with the execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby, including the issuance by way of private placement pursuant to this Agreement of any Capital Notes, or shares. This Agreement and all Capital Notes issued hereunder on the date which this representation is given have been executed and delivered by the Company, and each constitutes the valid and legally binding obligations of the Company, legally enforceable against the Company in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other laws relating to creditor's rights generally and general principles of equity.

3.4. Cross-Default. No Default or Event of Default exists under the Facility Agreement.

3.5. No Conflicts. Neither the execution and delivery of this Agreement by Tower, nor the compliance with the terms and provisions of this Agreement on the part of Tower, including the issuance of shares, Capital Notes, or Conversion Shares, will: (i) violate any statute or regulation of any governmental authority, domestic or foreign, affecting Tower; (ii) require the issuance of any authorization, license, consent or approval of any governmental agency, or any other person which has not been obtained, save as set forth in Schedule 3.5 hereto; or (iii) conflict with or result in a breach of any of the terms, conditions or provisions of any judgment, order, injunction, decree, loan agreement or other material agreement or instrument to which Tower is a party, or by which Tower is bound, or constitute a default thereunder, the effect of which might have a material adverse effect on Tower.

3.6. No Litigation. There are no actions, suits, proceedings, or injunctive orders, pending or threatened against or affecting Tower relating to the subject matter of this Agreement.

3.7. No Brokers. Tower has not engaged any broker or finder in connection with the transactions contemplated by this Agreement, and no broker or other person is entitled to any commission or finder's fee in connection with such transactions.

3.8. Activities in the United States.

3.8.1. More than 50% (fifty percent) of the consolidated assets of the Company as shown or would be shown on its consolidated financial statements (a) as of the last day of the immediately preceding calendar year and (b) as of the date hereof are, in each case, are located outside of the United States.

3.8.2. More than 50% (fifty percent) of the consolidated revenues of the Company as shown or would be shown on its consolidated financial statements (a) for the immediately preceding calendar year; and (b) during the current calendar year to date, in each case, are derived from outside the United States.

3.8.3. For the purposes of Section 3.8.1, Section 3.8.2, Section 5.1.1, Section 5.1.2, Section 5.1.6, Section 5.1.7 and Section 6.6 herein, assets and revenues of the Company will be deemed to be located or derived from "outside the United States" if they are recorded on the books of the Company or of any subsidiaries of the Company incorporated outside the United States **("Non-U.S. Subsidiaries**") (provided that such revenues are not recorded on the books of any offices of the Company or of its Non-U.S. Subsidiaries located in the United States ("**U.S. Offices**") and will be deemed to be located in or derived from the United States if they are recorded on the books of any U.S. Offices or of any subsidiaries of the Company incorporated in the United States ("**U.S. Subsidiaries**"). By way of example, revenues recorded on the books of the Company itself (but not on the books of any U.S. Offices) will be considered revenues derived from outside the United States, even if the revenues derive from a sale of the Company's products to a U.S. person and even if the Company's U.S. Subsidiary was involved in marketing, sales or post-sales support efforts.

3.8.4. The activities, if any, of the Company and its Non-U.S. Subsidiaries within the United States and the activities of all U.S. Subsidiaries are the same kind as or support the Company's or its Non-U.S. Subsidiaries' activities outside of the United States. For purposes of this Section 3.8.4, Section 5.1.3, Section 5.1.6, Section 5.1.7 and Section 6.6 below (a) "the same kind as" shall mean activities that are within the same "establishment" categories of the North American Classification System published by the United States Census Bureau, and (b) "support" shall mean supply, distribution, sales, marketing, servicing, research and development, licensing, design, customer relations and/or similar activities.

3.8.5. Neither the Company nor any of its subsidiaries conducts activities in the United States that consist of engaging in the business of banking, securities, insurance or real estate.

3.8.6. Neither the Company nor any of its subsidiaries engages, nor do either own more than 5% (five percent) of a class of voting securities of a person that engages, in the business of securities underwriting or distribution in the United States.

3.9. The Company acknowledges that the Bank is acquiring the Capital Notes on the Amendment Closing Date in full reliance upon the representations and warranties made by the Company in this Agreement, including in Section 3.8 above.

4. Representations and Warranties of the Bank.

The Bank hereby represents and warrants to the Company that it:

4.1. is acquiring the securities issued and to be issued to the Bank pursuant to this Agreement for investment and not with a view to distribution without registration under the U.S. Securities Act of 1933 (the **"Securities Act"**);

4.2. has requisite knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of an investment in the Company and is an accredited investor as defined in Rule 501(a) under the Securities Act;

4.3. understands that none of the Capital Notes issued and to be issued under this Agreement have been, or will be, registered under the Securities Act, or the laws of any jurisdiction;

4.4. agrees that none of the securities issued and to be issued to the Bank pursuant to this Agreement may be sold, offered for sale, transferred, pledged, hypothecated or otherwise disposed of except by registration under the Securities Act or otherwise in compliance with the Securities Act, the Israeli Securities Law or any applicable securities laws of any jurisdiction (including pursuant to an exemption therefrom); and

4.5. acknowledges that the securities, upon issuance, will, unless in the reasonable opinion of counsel for the Company such legend is not required in order to ensure compliance under the Securities Act, bear the following legend:

THESE SECURITIES [(INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO)][1] HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, OR ANY U.S. STATE OR OTHER JURISDICTION'S SECURITIES LAWS. THESE SECURITIES (INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO) MAY NOT BE SOLD, OFFERED FOR SALE OR PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, (THE **"ACT"**) WITH RESPECT TO ANY SUCH SECURITIES OR AN OPINION OF COUNSEL (REASONABLY SATISFACTORY TO THE COMPANY) THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF THE ACT OR ON THE TEL-AVIV STOCK EXCHANGE IN COMPLIANCE WITH REGULATION S UNDER THE ACT.

For the avoidance of doubt, nothing in this Section 4 shall derogate from the Company's obligations under the Registration Rights Agreement.

5. Undertakings by the Company.

5.1. For so long as (a) any shares or Capital Notes are issuable to the Bank and/or its subsidiaries (for the avoidance of doubt, as defined in Section 1.1.2 above) pursuant to this Agreement and (b) any securities of the Company (including Capital Notes, Warrants and shares), constituting or convertible into 5% or more of any class of voting securities (as defined in the United States Code of Federal Regulations – 12 C.F.R. Section 225.2(q)) of the Company are beneficially owned by the Bank and/or its subsidiaries (for the avoidance of doubt, as defined in Section 1.1.2 above), the Company shall use its best efforts in order:

5.1.1. that more than 50% (fifty percent) of the consolidated assets of the Company as of December 31 of each calendar year are located outside of the United States (the "**Asset Test**");

5.1.2. that more than 50% (fifty percent) of the consolidated revenues of the Company as of December 31 of each calendar year are derived from outside the United States (the "**Revenue Test**");

5.1.3. that the activities of the Company within the United States and the activities of the U.S. Subsidiaries are of the same kind as or support the activities of the Company or its Non-U.S. Subsidiaries outside the United States (the "**Same Line of Business Test**");

5.1.4. that neither the Company nor any of its subsidiaries will conduct activities in the United States that consist of engaging in the business of banking, securities, insurance or real estate (the "**Financial Activities Test**") (for the avoidance of doubt, nothing in the aforesaid shall derogate from the obligations of the Company under the Restated Facility Agreement);

5.1.5. not to engage, or permit any of its subsidiaries to engage, or to own or permit any of its subsidiaries to own more than 5% (five percent) of a class of voting securities of a person that engages, in the business of securities' underwriting or distribution in the United States (the "**No Underwriting Test**") (for the avoidance of doubt, nothing in the aforesaid shall derogate from the obligations of the Company under the Restated Facility Agreement);

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[1] Following the effective date of any registration statement covering the Conversion Shares or any of them, if applicable, bracketed language to be removed from future Capital Notes relating to such Conversion Shares and, at the request of the holder, a substitute Capital Note or Notes omitting the bracketed language will promptly be delivered to the holder.

5.1.6. Nothing in Sections 5.1, 5.1.1, 5.1.2, 5.1.3, 5.1.4 or 5.1.5 above shall require the Company to prejudice the business or financial interests of the Company and the Company may take such actions or refrain from taking actions that may cause it not to satisfy the Asset Test, the Revenue Test, the Same Line of Business Test, the Financial Activities Test and/or the No Underwriting Test, provided that the taking of such actions, or refraining from taking such actions, are in the business or financial interests of the Company as reasonably determined by the Company;

5.1.7. furnish to the Bank, as soon as practicable (and, in any event, within thirty (30) days after the end of each calendar year), a certificate of the Chief Financial Officer of the Company, in a form reasonably satisfactory to the Bank (i) confirming whether the Company is in compliance with each

of the Asset Test, the Revenue Test, the Same Line of Business Test, the Financial Activities Test and the No Underwriting Test, provided that if the Company is not in compliance with the Asset Test or the Revenue Test in a particular calendar year, the Chief Financial Officer shall describe the steps, if any, being taken by the Company to ensure compliance in the immediately following calendar year (for the removal of doubt, without derogating from Section 5.1.6 above); and (ii) setting out (a) the amount and percentage of the consolidated revenues of the Company derived from outside the United States during the immediately preceding calendar year, and (b) the amount and percentage of the consolidated assets of the Company located outside of the United States as of December 31 of such immediately preceding calendar year; and

5.1.8. furnish promptly to the Bank, such other information as such person may reasonably request in order to satisfy their obligations to file certain reports or assess its compliance with applicable legal or regulatory requirements relating to the transactions contemplated herein.

5.2. The Company shall fulfil all of its obligations under the Equity Documents, including the Capital Notes issued pursuant hereto and the under any registration rights agreement.

5.3. In the event that the adjustment provisions of any Capital Notes issued pursuant hereto result in additional Conversion Shares to be issued upon conversion of the Capital Notes, the Company shall promptly furnish the Bank with a copy of the approval of the TASE for listing such additional Conversion Shares (if the Company's shares are then traded on the TASE).

5.4. To the extent that ordinary shares (or other shares of capital stock substituted therefor) of the Company are listed on one or more securities exchanges, including the NASDAQ and the TASE, the Company shall maintain, at its expense, the listing of the shares of the Company issued pursuant to this Agreement (including upon conversion of Capital Notes issued pursuant to this Agreement) on such exchanges or, in the event such shares of the Company are listed on only one securities exchange, such exchange. Nothing in this Section 5.4 shall constitute an obligation of the Company to list or maintain the listing of its ordinary shares (or other shares of capital stock substituted therefor) on any securities exchanges, including the NASDAQ and the TASE.

5.5. The Company undertakes not to issue Shares or Securities (as defined in the Securities Law, 1968) of the Company, save on market terms and conditions.

6. Miscellaneous.

6.1. Governing Law; Jurisdiction. This Agreement shall be governed by and shall be construed in accordance with Israeli law and the courts of Tel-Aviv-Jaffa shall have exclusive jurisdiction to hear any matters, provided that the Bank and any other Affiliate of the Bank party to this Agreement shall be entitled to sue Tower in any jurisdiction in which it has an office or holds assets.

6.2. Successors and Assigns; Assignment. Except as otherwise expressly limited herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors and permitted assigns of the parties hereto. This Agreement may not be assigned by any party without the prior written consent of the other party hereto, provided that the Bank may assign this Agreement, in whole or in part, to any Affiliate of the Bank or add an Affiliate of the Bank as an additional party hereto, Nothing in this Agreement shall be deemed to restrict the (a) transferability of the shares, and Capital Notes to be issued pursuant to this Agreement or the Conversion Shares, in each case, in whole or in part at any time and from time to time, except for restrictions on transfer imposed by applicable securities laws or (b) the assignability of the registration rights in accordance with the Registration Rights Agreement.

6.3. Expenses. The Company shall bear the expenses and costs of all the parties to the transactions contemplated hereby (including the fees and expenses of counsel to the Bank).

6.4. Entire Agreement; Amendment and Waiver. This Agreement constitutes the full and entire understanding and agreement between the parties with regard to the subject matter hereof. Any term of this Agreement may be amended and the observance of any term hereof may be waived (either prospectively or retroactively and either generally or in a particular instance) only with the written consent of the parties to this Agreement.

6.5. Notices, etc. All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed to such party's address as set forth below:

If to the Bank:	Corporate Division Migdal Levenstein 23 Menachem Begin Road Tel-Aviv, Israel Facsimile: (03) 567 2995 Attention: Head of Corporate Division
If to the Company:	Tower Semiconductor Ltd. Ramat Gavriel Industrial Area P.O. Box 619 Migdal Haemek Israel 23105 Fax. 972-4-6047242 Attn: Oren Shirazi, Acting CFO
with a copy to (which shall not constitute notice):	Yigal Arnon & Co. 1 Azrieli Center 46th Floor Tel-Aviv, Israel, 67021 Fax: 972-3-6087714 Attn: David Schapiro, Adv.

or such other address with respect to a party as such party shall notify each other party in writing as above provided. Any notice sent in accordance with this Section 8.5 shall be effective (i) if mailed, five (5) business days after mailing, (ii) if sent by messenger, upon delivery, and (iii) if sent via facsimile, one (1) business day following transmission and electronic confirmation of receipt.

6.6. Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Agreement, shall be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. Unless provided otherwise herein, all remedies, either under this Agreement or by law or otherwise afforded to any of the parties, shall be cumulative and not alternative.

6.7. Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable under applicable law, then such provision shall be excluded from this Agreement and the remainder of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms; provided, however, that in such event this Agreement shall be interpreted so as to give effect, to the greatest extent consistent with and permitted by applicable law, to the meaning and intention of the excluded provision as determined by such court of competent jurisdiction.

6.8. Counterparts. This Agreement may be executed in any number of counterparts (including facsimile counterparts), each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

6.9. Headings. The headings of the sections and paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction hereof.

6.10. Further Assurances. Each of the parties hereto shall perform such further acts and execute such further documents as may reasonably be necessary to carry out and give full effect to the provisions of this Agreement and the intentions of the parties as reflected thereby,

IN WITNESS WHEREOF, each of the parties has signed this Agreement as of the date first hereinabove set forth.

TOWER SEMICONDUCTOR LTD.	**BANK HAPOALIM B.M.**
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____

Schedules to Conversion Agreement

Schedule 3.3

Schedule 3.5

CONVERSION AGREEMENT

This Conversion Agreement (this "**Agreement**") is made and entered into effective as of September 25, 2008 by and between TOWER SEMICONDUCTOR LTD. (the "**Company**" or "**Tower**"), a company organized under the laws of the State of Israel and BANK LEUMI LE-ISRAEL B.M., a banking corporation organized under the laws of the State of Israel (the "**Bank**").

WHEREAS, Tower is an independent manufacturer of wafers whose Ordinary Shares are traded on the Nasdaq Stock Market ("**NASDAQ**") under the symbol TSEM and whose Ordinary Shares and certain other securities are traded on the Tel-Aviv Stock Exchange ("**TASE**") under the symbol TSEM;

WHEREAS, the Bank and Bank Hapoalim B.M. (collectively, the "**Banks**") and Tower are parties to a Facility Agreement dated January 18, 2001, as amended and restated on August 24, 2006 and as further amended by Amendment No. 1 thereto dated September 10, 2007 (the "**Facility Agreement**"); and

WHEREAS, at the request of Tower, the Banks and Tower have entered into an Amending Agreement dated September 25, 2008 (the "**Amending Agreement**"), the conditions to the effectiveness of which include, *inter alia*, the conversion by each Bank of US $100,000,000 (one hundred million US dollars) of its loans made to Tower pursuant to the Facility Agreement and pursuant to an Equipment Facility Agreement dated September 10, 2007 (the "**Loans**") into a convertible capital note to be issued to the Bank (a "**Capital Note**") in the amount of US $100,000,000 (one hundred million US dollars) which will in turn be convertible, in whole or in part, by the Bank at any time and from time to time into 70,422,535 (seventy million, four hundred and twenty-two thousand, five hundred and thirty-five) ordinary shares of Tower at a conversion price of US $1.42 (one US dollar and forty-two cents) per share (such number of shares and conversion price, in each case, subject to adjustment from time to time as provided in the Capital Note) and the entering into by the Bank and Tower of a Registration Rights Agreement (the **"Registration Rights Agreement**") and of this Agreement, in each case, on the date of the effectiveness of the Amending Agreement (the "**Amendment Closing Date**"); and

WHEREAS, prior to the date hereof, Jazz Technologies, Inc. and its subsidiaries have become subsidiaries (as defined below), of Tower,

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Interpretation.

1.1. As used in Sections 3.8 and 5.1 of this Agreement:

1.1.1. "**control**" (including the terms "**controlling**", "**controlled by**" or **"under common control with**", means: (i) direct or indirect ownership of, or power to vote, 25% (twenty-five percent) or more of a class of voting securities of a person; (ii) the power to elect a majority of the directors or trustees of a person; or (iii) the possession direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise; and

1.1.2. "**subsidiary**" of a person means any company which is otherwise directly or indirectly controlled by such person. For the avoidance of doubt, a subsidiary need not be consolidated for financial statement purposes with such person in order to be deemed a subsidiary in this Agreement.

1.2. Definitions. Except as otherwise defined herein, terms and expressions defined in the Facility Agreement as amended and restated by the Amended Agreement (the **"Restated Facility Agreement"**) shall have the same meanings when used in this Agreement and all provisions of the Restated Facility Agreement concerning matters of construction and interpretation shall apply to this Agreement.

1.3. Preamble. The preamble to this Agreement constitutes an integral part thereof.

2. Conversion of Loan and Issue of Capital Note on the Amendment Closing Date.

The Company hereby:

2.1. with effect as of the Amendment Closing Date, issues to the Bank, and the Bank hereby receives from the Company, in conversion of US $100,000,000 (one hundred million US dollars) of the Loans (being US $84,779,607 (eighty-four million, seven hundred and seventy-nine thousand, six hundred and seven US dollars) of Loans under the Facility Agreement and US $15,220,393 (fifteen million, two hundred and twenty thousand, three hundred and ninety-three US dollars) of Loans under the Equipment Facility Agreement), an executed Capital Note in the principal amount of US $100,000,000 (one hundred million US dollars) in the form attached as **Exhibit 1** hereto. For the avoidance of doubt (i) as of the Amendment Closing Date, the principal amount of Loans outstanding and owed by Tower to the Banks shall be as set forth in the second sentence of clause 2.1 of the Restated Facility Agreement and (ii) there shall be no further amounts (principal or interest) payable by the Company under the Equipment Facility Agreement referred to above and the Equipment Facility Agreement shall be terminated as at the Amendment Closing Date;

2.2. furnishes to the Bank a copy of the approval of the TASE for listing the 70,422,535 (seventy million, four hundred and twenty-two thousand, five hundred and thirty-five) shares issuable upon conversion of said Capital Note; and

2.3. confirms that the Company has recorded such issuance of the Capital Note in the name of Bank on the records of the Company.

3. Representations and Warranties of the Company.

The Company hereby represents and warrants to the Bank on the Amendment Closing Date as follows:

3.1. Organization. The Company is duly organized and validly existing under the laws of its jurisdiction of incorporation and has full corporate power and authority to own, lease and operate its properties and assets and to conduct its business as now being conducted and to perform all its obligations under this Agreement.

3.2. Share Capital. All issued and outstanding share capital of the Company has been duly authorized and is validly issued. The shares to be issued upon conversion of any Capital Note issued pursuant to this Agreement (the "**Conversion Shares**") are duly authorized and reserved for issuance by the Company and, when issued in accordance with the terms of such Capital Note will be validly issued, fully paid, nonassessable and not subject to any pledge, lien or restriction on transfer, except for restrictions on transfer imposed by applicable securities laws. The entering into and performance of this Agreement and the issuance of any shares, or Capital Notes hereunder do not, and the issuance of any Conversion Shares will not, conflict with the Memorandum of Association or the Articles of Association of the Company nor with any outstanding convertible security, warrant, option, call, preemptive right or commitment of any type relating to the Company's capital stock (collectively, "**Equity Rights**"). The entering into and performance of this Agreement, the issuance of any shares or Capital Notes hereunder and the issuance of the Conversion Shares do not require, or give any holder of Equity Rights the right to have made, any adjustments to be made in the conversion or exercise price, the number of shares issuable upon conversion or exercise or any other provision of the aforegoing Equity Rights.

3.3. Authorization; Approvals. All corporate action on the part of the Company necessary for the execution, delivery and performance of this Agreement and the issuance of any shares, Capital Notes, and Conversion Shares has been taken. Except as set forth in Schedule 3.3 hereto, save for any consents, approvals, authorisations or exemptions already obtained, and filings already made, no consent, approval or authorization of, exemption by, or filing with, any governmental or regulatory authority, including any approval of, or filings with, the Israeli Securities Authority (the "**ISA**"), the TASE or any third party is required in connection with the execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby, including the issuance by way of private placement pursuant to this Agreement of any Capital Notes, or shares. This Agreement and all Capital Notes issued hereunder on the date which this representation is given have been executed and delivered by the Company, and each constitutes the valid and legally binding obligations of the Company, legally enforceable against the Company in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other laws relating to creditor's rights generally and general principles of equity.

3.4. Cross-Default. No Default or Event of Default exists under the Facility Agreement.

3.5. No Conflicts. Neither the execution and delivery of this Agreement by Tower, nor the compliance with the terms and provisions of this Agreement on the part of Tower, including the issuance of shares, Capital Notes, or Conversion Shares, will: (i) violate any statute or regulation of any governmental authority, domestic or foreign, affecting Tower; (ii) require the issuance of any authorization, license, consent or approval of any governmental agency, or any other person which has not been obtained, save as set forth in Schedule 3.5 hereto; or (iii) conflict with or result in a breach of any of the terms, conditions or provisions of any judgment, order, injunction, decree, loan agreement or other material agreement or instrument to which Tower is a party, or by which Tower is bound, or constitute a default thereunder, the effect of which might have a material adverse effect on Tower.

3.6. No Litigation. There are no actions, suits, proceedings, or injunctive orders, pending or threatened against or affecting Tower relating to the subject matter of this Agreement.

3.7. No Brokers. Tower has not engaged any broker or finder in connection with the transactions contemplated by this Agreement, and no broker or other person is entitled to any commission or finder's fee in connection with such transactions.

3.8. Activities in the United States.

3.8.1. More than 50% (fifty percent) of the consolidated assets of the Company as shown or would be shown on its consolidated financial statements (a) as of the last day of the immediately preceding calendar year and (b) as of the date hereof are, in each case, are located outside of the United States.

3.8.2. More than 50% (fifty percent) of the consolidated revenues of the Company as shown or would be shown on its consolidated financial statements (a) for the immediately preceding calendar year; and (b) during the current calendar year to date, in each case, are derived from outside the United States.

3.8.3. For the purposes of Section 3.8.1, Section 3.8.2, Section 5.1.1, Section 5.1.2, Section 5.1.6, Section 5.1.7 and Section 6.6 herein, assets and revenues of the Company will be deemed to be located or derived from "outside the United States" if they are recorded on the books of the Company or of any subsidiaries of the Company incorporated outside the United States **("Non-U.S. Subsidiaries**") (provided that such revenues are not recorded on the books of any offices of the Company or of its Non-U.S. Subsidiaries located in the United States ("**U.S. Offices**") and will be deemed to be located in or derived from the United States if they are recorded on the books of any U.S. Offices or of any subsidiaries of the Company incorporated in the United States ("**U.S. Subsidiaries**"). By way of example, revenues recorded on the books of the Company itself (but not on the books of any U.S. Offices) will be considered revenues derived from outside the United States, even if the revenues derive from a sale of the Company's products to a U.S. person and even if the Company's U.S. Subsidiary was involved in marketing, sales or post-sales support efforts.

3.8.4. The activities, if any, of the Company and its Non-U.S. Subsidiaries within the United States and the activities of all U.S. Subsidiaries are the same kind as or support the Company's or its Non-U.S. Subsidiaries' activities outside of the United States. For purposes of this Section 3.8.4, Section 5.1.3, Section 5.1.6, Section 5.1.7 and Section 6.6 below (a) "the same kind as" shall mean activities that are within the same "establishment" categories of the North American Classification System published by the United States Census Bureau, and (b) "support" shall mean supply, distribution, sales, marketing, servicing, research and development, licensing, design, customer relations and/or similar activities.

3.8.5. Neither the Company nor any of its subsidiaries conducts activities in the United States that consist of engaging in the business of banking, securities, insurance or real estate.

3.8.6. Neither the Company nor any of its subsidiaries engages, nor do either own more than 5% (five percent) of a class of voting securities of a person that engages, in the business of securities underwriting or distribution in the United States.

3.9. The Company acknowledges that the Bank is acquiring the Capital Notes on the Amendment Closing Date in full reliance upon the representations and warranties made by the Company in this Agreement, including in Section 3.8 above.

4. Representations and Warranties of the Bank.

The Bank hereby represents and warrants to the Company that it:

4.1. is acquiring the securities issued and to be issued to the Bank pursuant to this Agreement for investment and not with a view to distribution without registration under the U.S. Securities Act of 1933 (the **"Securities Act"**);

4.2. has requisite knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of an investment in the Company and is an accredited investor as defined in Rule 501(a) under the Securities Act;

4.3. understands that none of the Capital Notes issued and to be issued under this Agreement have been, or will be, registered under the Securities Act, or the laws of any jurisdiction;

4.4. agrees that none of the securities issued and to be issued to the Bank pursuant to this Agreement may be sold, offered for sale, transferred, pledged, hypothecated or otherwise disposed of except by registration under the Securities Act or otherwise in compliance with the Securities Act, the Israeli Securities Law or any applicable securities laws of any jurisdiction (including pursuant to an exemption therefrom); and

4.5. acknowledges that the securities, upon issuance, will, unless in the reasonable opinion of counsel for the Company such legend is not required in order to ensure compliance under the Securities Act, bear the following legend:

THESE SECURITIES [(INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO)][1] HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, OR ANY U.S. STATE OR OTHER JURISDICTION'S SECURITIES LAWS. THESE SECURITIES (INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO) MAY NOT BE SOLD, OFFERED FOR SALE OR PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, (THE **"ACT"**) WITH RESPECT TO ANY SUCH SECURITIES OR AN OPINION OF COUNSEL (REASONABLY SATISFACTORY TO THE COMPANY) THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF THE ACT OR ON THE TEL-AVIV STOCK EXCHANGE IN COMPLIANCE WITH REGULATION S UNDER THE ACT.

For the avoidance of doubt, nothing in this Section 4 shall derogate from the Company's obligations under the Registration Rights Agreement.

5. Undertakings by the Company.

5.1. For so long as (a) any shares or Capital Notes are issuable to the Bank and/or its subsidiaries (for the avoidance of doubt, as defined in Section 1.1.2 above) pursuant to this Agreement and (b) any securities of the Company (including Capital Notes, Warrants and shares), constituting or convertible into 5% or more of any class of voting securities (as defined in the United States Code of Federal Regulations – 12 C.F.R. Section 225.2(q)) of the Company are beneficially owned by the Bank and/or its subsidiaries (for the avoidance of doubt, as defined in Section 1.1.2 above), the Company shall use its best efforts in order:

5.1.1. that more than 50% (fifty percent) of the consolidated assets of the Company as of December 31 of each calendar year are located outside of the United States (the "**Asset Test**");

5.1.2. that more than 50% (fifty percent) of the consolidated revenues of the Company as of December 31 of each calendar year are derived from outside the United States (the "**Revenue Test**");

5.1.3. that the activities of the Company within the United States and the activities of the U.S. Subsidiaries are of the same kind as or support the activities of the Company or its Non-U.S. Subsidiaries outside the United States (the "**Same Line of Business Test**");

5.1.4. that neither the Company nor any of its subsidiaries will conduct activities in the United States that consist of engaging in the business of banking, securities, insurance or real estate (the "**Financial Activities Test**") (for the avoidance of doubt, nothing in the aforesaid shall derogate from the obligations of the Company under the Restated Facility Agreement);

5.1.5. not to engage, or permit any of its subsidiaries to engage, or to own or permit any of its subsidiaries to own more than 5% (five percent) of a class of voting securities of a person that engages, in the business of securities' underwriting or distribution in the United States (the "**No Underwriting Test**") (for the avoidance of doubt, nothing in the aforesaid shall derogate from the obligations of the Company under the Restated Facility Agreement);

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[1] Following the effective date of any registration statement covering the Conversion Shares or any of them, if applicable, bracketed language to be removed from future Capital Notes relating to such Conversion Shares and, at the request of the holder, a substitute Capital Note or Notes omitting the bracketed language will promptly be delivered to the holder.

5.1.6. Nothing in Sections 5.1, 5.1.1, 5.1.2, 5.1.3, 5.1.4 or 5.1.5 above shall require the Company to prejudice the business or financial interests of the Company and the Company may take such actions or refrain from taking actions that may cause it not to satisfy the Asset Test, the Revenue Test, the Same Line of Business Test, the Financial Activities Test and/or the No Underwriting Test, provided that the taking of such actions, or refraining from taking such actions, are in the business or financial interests of the Company as reasonably determined by the Company;

5.1.7. furnish to the Bank, as soon as practicable (and, in any event, within thirty (30) days after the end of each calendar year), a certificate of the Chief Financial Officer of the Company, in a form reasonably satisfactory to the Bank (i) confirming whether the Company is in compliance with each

of the Asset Test, the Revenue Test, the Same Line of Business Test, the Financial Activities Test and the No Underwriting Test, provided that if the Company is not in compliance with the Asset Test or the Revenue Test in a particular calendar year, the Chief Financial Officer shall describe the steps, if any, being taken by the Company to ensure compliance in the immediately following calendar year (for the removal of doubt, without derogating from Section 5.1.6 above); and (ii) setting out (a) the amount and percentage of the consolidated revenues of the Company derived from outside the United States during the immediately preceding calendar year, and (b) the amount and percentage of the consolidated assets of the Company located outside of the United States as of December 31 of such immediately preceding calendar year; and

5.1.8. furnish promptly to the Bank, such other information as such person may reasonably request in order to satisfy their obligations to file certain reports or assess its compliance with applicable legal or regulatory requirements relating to the transactions contemplated herein.

5.2. The Company shall fulfil all of its obligations under the Equity Documents, including the Capital Notes issued pursuant hereto and the under any registration rights agreement.

5.3. In the event that the adjustment provisions of any Capital Notes issued pursuant hereto result in additional Conversion Shares to be issued upon conversion of the Capital Notes, the Company shall promptly furnish the Bank with a copy of the approval of the TASE for listing such additional Conversion Shares (if the Company's shares are then traded on the TASE).

5.4. To the extent that ordinary shares (or other shares of capital stock substituted therefor) of the Company are listed on one or more securities exchanges, including the NASDAQ and the TASE, the Company shall maintain, at its expense, the listing of the shares of the Company issued pursuant to this Agreement (including upon conversion of Capital Notes issued pursuant to this Agreement) on such exchanges or, in the event such shares of the Company are listed on only one securities exchange, such exchange. Nothing in this Section 5.4 shall constitute an obligation of the Company to list or maintain the listing of its ordinary shares (or other shares of capital stock substituted therefor) on any securities exchanges, including the NASDAQ and the TASE.

5.5. The Company undertakes not to issue Shares or Securities (as defined in the Securities Law, 1968) of the Company, save on market terms and conditions.

6. Miscellaneous.

6.1. Governing Law; Jurisdiction. This Agreement shall be governed by and shall be construed in accordance with Israeli law and the courts of Tel-Aviv-Jaffa shall have exclusive jurisdiction to hear any matters, provided that the Bank and any other Affiliate of the Bank party to this Agreement shall be entitled to sue Tower in any jurisdiction in which it has an office or holds assets.

6.2. Successors and Assigns; Assignment. Except as otherwise expressly limited herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors and permitted assigns of the parties hereto. This Agreement may not be assigned by any party without the prior written consent of the other party hereto, provided that the Bank may assign this Agreement, in whole or in part, to any Affiliate of the Bank or add an Affiliate of the Bank as an additional party hereto, Nothing in this Agreement shall be deemed to restrict the (a) transferability of the shares, and Capital Notes to be issued pursuant to this Agreement or the Conversion Shares, in each case, in whole or in part at any time and from time to time, except for restrictions on transfer imposed by applicable securities laws or (b) the assignability of the registration rights in accordance with the Registration Rights Agreement.

6.3. Expenses. The Company shall bear the expenses and costs of all the parties to the transactions contemplated hereby (including the fees and expenses of counsel to the Bank).

6.4. Entire Agreement; Amendment and Waiver. This Agreement constitutes the full and entire understanding and agreement between the parties with regard to the subject matter hereof. Any term of this Agreement may be amended and the observance of any term hereof may be waived (either prospectively or retroactively and either generally or in a particular instance) only with the written consent of the parties to this Agreement.

6.5. Notices, etc. All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed to such party's address as set forth below:

If to the Bank:	Corporate Division 34 Yehuda Halevi Street Tel-Aviv Israel Fax. 972-3-5149278 Attn: Head of Corporate Division
If to the Company:	Tower Semiconductor Ltd. Ramat Gavriel Industrial Area P.O. Box 619 Migdal Haemek Israel 23105 Fax. 972-4-6047242 Attn: Oren Shirazi, Acting CFO
with a copy to (which shall not constitute notice):	Yigal Arnon & Co. 1 Azrieli Center 46th Floor Tel-Aviv, Israel, 67021 Fax: 972-3-6087714 Attn: David Schapiro, Adv.

or such other address with respect to a party as such party shall notify each other party in writing as above provided. Any notice sent in accordance with this Section 8.5 shall be effective (i) if mailed, five (5) business days after mailing, (ii) if sent by messenger, upon delivery, and (iii) if sent via facsimile, one (1) business day following transmission and electronic confirmation of receipt.

6.6. Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Agreement, shall be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. Unless provided otherwise herein, all remedies, either under this Agreement or by law or otherwise afforded to any of the parties, shall be cumulative and not alternative.

6.7. Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable under applicable law, then such provision shall be excluded from this Agreement and the remainder of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms; provided, however, that in such event this Agreement shall be interpreted so as to give effect, to the greatest extent consistent with and permitted by applicable law, to the meaning and intention of the excluded provision as determined by such court of competent jurisdiction.

6.8. Counterparts. This Agreement may be executed in any number of counterparts (including facsimile counterparts), each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

6.9. Headings. The headings of the sections and paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction hereof.

6.10. Further Assurances. Each of the parties hereto shall perform such further acts and execute such further documents as may reasonably be necessary to carry out and give full effect to the provisions of this Agreement and the intentions of the parties as reflected thereby,

IN WITNESS WHEREOF, each of the parties has signed this Agreement as of the date first hereinabove set forth.

TOWER SEMICONDUCTOR LTD.	**BANK LEUMI LE-ISRAEL B.M.**
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____

Schedules to Conversion Agreement

Schedule 3.3

Schedule 3.5

CONVERSION AGREEMENT

This Conversion Agreement (this "**Agreement**") is made and entered into effective as of September 25 2008 by and between TOWER SEMICONDUCTOR LTD. (the "**Company**" or "**Tower**"), a company organized under the laws of the State of Israel and ISRAEL CORPORATION LTD., a corporation organized under the laws of the State of Israel ("**TIC**").

WHEREAS, Tower is an independent manufacturer of wafers whose Ordinary Shares are traded on the Nasdaq Stock Market ("**NASDAQ**") under the symbol TSEM and whose Ordinary Shares and certain other securities are traded on the Tel-Aviv Stock Exchange ("**TASE**") under the symbol TSEM;

WHEREAS, Bank Leumi Le-Israel B.M. and Bank Hapoalim B.M. (collectively, the "**Banks**") and Tower are parties to a Facility Agreement dated January 18, 2001, as amended and restated on August 24, 2006 and as further amended by Amendment No. 1 thereto dated September 10, 2007 (the "**Facility Agreement**");

WHEREAS, TIC and Tower are parties to an Equipment Loan Facility dated September 10, 2007 (the "**Equipment Facility**");

WHEREAS, TIC holds convertible debentures series B of the Company convertible into an amount of 18,181,823 Company ordinary shares (the "**CD B's**"); and

WHEREAS, at the request of Tower, the Banks and Tower have entered into an Amending Agreement dated September 25, 2008 (the "**Amending Agreement**");

WHEREAS, in connection with this Agreement and the Amending Agreement, Tower and TIC have entered on the date hereof into (i) an Amended and Restated Registration Rights Agreement (the "**Amended and Restated Registration Rights Agreement**"), and (ii) a Securities Purchase Agreement (the "**Securities Purchase Agreement**") ; and

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Preamble.

1.1. Preamble. The preamble to this Agreement constitutes an integral part thereof.

2. Conversion of Equipment Facility, CD B's and Issue of Capital Note on the Amendment Closing Date.

The Company hereby:

2.1. issues to TIC, and TIC hereby receives from the Company, in conversion of US $30,000,000 (thirty million US dollars) owed pursuant to the Equipment Facility, a convertible capital note in the principal amount of US $30,000,000 (thirty million US dollars) in the form attached as **Exhibit 1** hereto. For the avoidance of doubt (i) as of the date of the effectiveness of the Amending Agreement (the "**Amendment Closing Date**"), the principal amount under the Equipment Facility outstanding and owed by Tower to TIC shall be zero, (ii) there shall be no further amounts (principal or interest) payable by the Company under the Equipment Facility and the Equipment Facility shall be terminated as at the Amendment Closing Date, and (iii) the amount of Company ordinary shares into which the capital note TIC receives pursuant to this Section 2.1 is calculated on the basis of $1.42 per share, representing two times the average closing price of the ordinary shares of the Company on the NASDAQ for the last ten trading days prior to August 7, 2008;

2.2. issues to TIC, and TIC hereby receives from the Company, in exchange for delivery to the Company of US $20,000,000 (twenty million US dollars) of CD B's (comprising (i) such part of the principal of the CD B's that together with the accrued interest thereon as of the date of the Amendment Closing Date aggregates $20 million and (ii) such accrued interest) an executed convertible capital note (and together with the capital note given to TIC pursuant to Section 2.1 above, the "**Capital Notes**") in the principal amount of US $20,000,000 (twenty million US dollars) in the form attached as **Exhibit 2** hereto. For the avoidance of doubt (i) following the Amendment Closing Date, TIC will remain the holder of $2,817,609 of convertible debentures series B of the Company convertible into an amount of 2,561,467 Company ordinary shares, such remaining CD B's will bear interest of 5% to be accrued from the Amendment Closing Date payable in accordance with the CD B's terms, and TIC will no longer hold or have the rights and obligations of a holder of the CD B's delivered to the Company pursuant to this Section 2.2, (ii) there shall be no further amounts (principal or interest) payable by the Company under CD B's save for unconverted remaining principal of $2,817,609 and interest thereon incurred after the Amendment Closing Date, and (iii) the amount of Company ordinary shares into which the capital note TIC receives pursuant to this Section 2.2 is calculated on the basis of $1.42 per share, representing two times the average closing price of the ordinary shares of the Company on the NASDAQ for the last ten trading days prior to August 7, 2008;

2.3. furnishes to TIC a copy of the approval of the TASE for listing the 35,211,271 (thirty-five, two hundred and eleven thousand, two hundred and seventy-one) shares issuable upon conversion of said Capital Notes; and

2.4. confirms that the Company has recorded such issuance of the Capital Notes in the name of TIC on the records of the Company.

3. Representations and Warranties of the Company.

The Company hereby represents and warrants to TIC on the Amendment Closing Date as follows:

3.1. Organization. The Company is duly organized and validly existing under the laws of its jurisdiction of incorporation and has full corporate power and authority to own, lease and operate its properties and assets and to conduct its business as now being conducted and to perform all its obligations under this Agreement.

3.2. Share Capital. All issued and outstanding share capital of the Company has been duly authorized and is validly issued. The shares to be issued upon conversion of any Capital Note issued pursuant to this Agreement (the "**Conversion Shares**") are duly authorized and reserved for issuance by the Company and, when issued in accordance with the terms of such Capital Note will be validly issued, fully paid, nonassessable and not subject to any pledge, lien or restriction on

transfer, except for restrictions on transfer imposed by applicable securities laws. The entering into and performance of this Agreement and the issuance of any shares, or Capital Notes hereunder do not, and the issuance of any Conversion Shares will not, conflict with the Memorandum of Association or the Articles of Association of the Company nor with any outstanding convertible security, warrant, option, call, preemptive right or commitment of any type relating to the Company's capital stock (collectively, **"Equity Rights**"). The entering into and performance of this Agreement, the issuance of any shares or Capital Notes hereunder and the issuance of the Conversion Shares do not require, or give any holder of Equity Rights the right to have made, any adjustments to be made in the conversion or exercise price, the number of shares issuable upon conversion or exercise or any other provision of the aforegoing Equity Rights.

3.3. Authorization; Approvals. All corporate action on the part of the Company necessary for the execution, delivery and performance of this Agreement and the issuance of any shares, Capital Notes, and Conversion Shares has been taken. Except as set forth in Schedule 3.3 hereto, save for any consents, approvals, authorisations or exemptions already obtained, and filings already made, no consent, approval or authorization of, exemption by, or filing with, any governmental or regulatory authority, including any approval of, or filings with, the Israeli Securities Authority (the "**ISA**"), the TASE or any third party is required in connection with the execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby, including the issuance by way of private placement pursuant to this Agreement of any Capital Notes, or shares. This Agreement and all Capital Notes issued hereunder on the date which this representation is given have been executed and delivered by the Company, and each constitutes the valid and legally binding obligations of the Company, legally enforceable against the Company in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other laws relating to creditor's rights generally and general principles of equity.

3.4. Cross-Default. No Default or Event of Default exists under the Facility Agreement.

3.5. No Conflicts. Neither the execution and delivery of this Agreement by Tower, nor the compliance with the terms and provisions of this Agreement on the part of Tower, including the issuance of shares, Capital Notes, or Conversion Shares, will: (i) violate any statute or regulation of any governmental authority, domestic or foreign, affecting Tower; (ii) require the issuance of any authorization, license, consent or approval of any governmental agency, or any other person which has not been obtained, save as set forth in Schedule 3.5 hereto; or (iii) conflict with or result in a breach of any of the terms, conditions or provisions of any judgment, order, injunction, decree, loan agreement or other material agreement or instrument to which Tower is a party, or by which Tower is bound, or constitute a default thereunder, the effect of which might have a material adverse effect on Tower.

3.6. No Litigation. There are no actions, suits, proceedings, or injunctive orders, pending or threatened against or affecting Tower relating to the subject matter of this Agreement.

3.7. No Brokers. Tower has not engaged any broker or finder in connection with the transactions contemplated by this Agreement, and no broker or other person is entitled to any commission or finder's fee in connection with such transactions.

3.8. The Company acknowledges that TIC is acquiring the Capital Notes on the Amendment Closing Date in full reliance upon the representations and warranties made by the Company in this Agreement.

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4. Representations and Warranties of TIC.

TIC hereby represents and warrants to the Company that it:

4.1. is acquiring the securities issued and to be issued to TIC pursuant to this Agreement for investment and not with a view to distribution without registration under the U.S. Securities Act of 1933 (the "Securities Act");

4.2. has requisite knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of an investment in the Company and is an accredited investor as defined in Rule 501(a) under the Securities Act;

4.3. understands that none of the Capital Notes issued and to be issued under this Agreement have been, or will be, registered under the Securities Act, or the laws of any jurisdiction;

4.4. agrees that none of the securities issued and to be issued to TIC pursuant to this Agreement may be sold, offered for sale, transferred, pledged, hypothecated or otherwise disposed of except by registration under the Securities Act or otherwise in compliance with the Securities Act, the Israeli Securities Law or any applicable securities laws of any jurisdiction (including pursuant to an exemption therefrom); and

4.5. acknowledges that the securities, upon issuance, will, unless in the reasonable opinion of counsel for the Company such legend is not required in order to ensure compliance under the Securities Act, bear the following legend:

THESE SECURITIES [(INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO)][1] HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, OR ANY U.S. STATE OR OTHER JURISDICTION'S SECURITIES LAWS. THESE SECURITIES (INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO) MAY NOT BE SOLD, OFFERED FOR SALE OR PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, (THE "ACT") WITH RESPECT TO ANY SUCH SECURITIES OR AN OPINION OF COUNSEL (REASONABLY SATISFACTORY TO THE COMPANY) THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF THE ACT OR ON THE TEL-AVIV STOCK EXCHANGE IN COMPLIANCE WITH REGULATION S UNDER THE ACT.

For the avoidance of doubt, nothing in this Section 4 shall derogate from the Company's obligations under the Registration Rights Agreement.

5. Undertakings by the Company.

5.1. The Company shall fulfil all of its obligations under this Agreement, the Amended and Restated Registration Rights Agreement, the Capital Notes and the Securities Purchase Agreement, including the Capital Notes issued pursuant hereto and the under any registration rights agreement .

5.2. In the event that the adjustment provisions of any Capital Notes issued pursuant hereto result in additional Conversion Shares to be issued upon conversion of the Capital Notes, the Company shall promptly furnish TIC with a copy of the approval of the TASE for listing such additional Conversion Shares (if the Company's shares are then traded on the TASE).

5.3. To the extent that ordinary shares (or other shares of capital stock substituted therefor) of the Company are listed on one or more securities exchanges, including the NASDAQ and the TASE, the Company shall maintain, at its expense, the listing of the shares of the Company issued pursuant to this Agreement (including upon conversion of Capital Notes issued pursuant to this Agreement) on such exchanges or, in the event such shares of the Company are listed on only one securities exchange, such exchange. Nothing in this Section 5.4 shall constitute an obligation of the Company to list or maintain the listing of its ordinary shares (or other shares of capital stock substituted therefor) on any securities exchanges, including the NASDAQ and the TASE.

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[1] Following the effective date of any registration statement covering the Conversion Shares or any of them, if applicable, bracketed language to be removed from future Capital Notes relating to such Conversion Shares and, at the request of the holder, a substitute Capital Note or Notes omitting the bracketed language will promptly be delivered to the holder.

5.4. The Company undertakes not to issue Shares or Securities (as defined in the Securities Law, 1968) of the Company, save on market terms and conditions.

6. Conditions Precedent.

This Agreement and the issuance and allotment of the shares of the Company, or the issuance of Capital Notes, pursuant to and in accordance with this Agreement, to TIC or its nominee (which shall be a Subsidiary of TIC) shall be subject to closing of the Amending Agreement and the satisfaction or waiver of all the conditions precedent thereto. For the purposes of this Agreement, "Subsidiary" of any person means any company which directly or indirectly is controlled by such person; **"control"** shall in this Section 6 bear the meaning assigned to such term in Section 1 of the Securities Law, 1968.

7. Miscellaneous.

7.1. Governing Law; Jurisdiction. This Agreement shall be governed by and shall be construed in accordance with Israeli law and the courts of Tel-Aviv-Jaffa shall have exclusive jurisdiction to hear any matters, provided that TIC and any other Subsidiary of TIC party to this Agreement shall be entitled to sue Tower in any jurisdiction in which it has an office or holds assets.

7.2. Successors and Assigns; Assignment. Except as otherwise expressly limited herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors and permitted assigns of the parties hereto. This Agreement may not be assigned by any party without the prior written consent of the other party hereto, provided that TIC may assign this Agreement, in whole or in part, to any Subsidiary of TIC or add a Subsidiary of TIC as an additional party hereto, Nothing in this Agreement shall be deemed to restrict the (a) transferability of the shares, and Capital Notes to be issued pursuant to this Agreement or the Conversion Shares, in each case, in whole or in part at any time and from time to time, except for restrictions on transfer imposed by applicable securities laws or (b) the assignability of the registration rights in accordance with the Registration Rights Agreement .

7.3. Expenses. The Company shall bear the expenses and costs of all the parties to the transactions contemplated hereby (except for the fees and expenses of counsel to TIC which shall be borne by TIC).

7.4. Entire Agreement; Amendment and Waiver. This Agreement constitutes the full and entire understanding and agreement between the parties with regard to the subject matter hereof. Any term of this Agreement may be amended and the observance of any term hereof may be waived (either prospectively or retroactively and either generally or in a particular instance) only with the written consent of the parties to this Agreement.

7.5. Notices, etc. All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed to such party's address as set forth below:

If to Israel Corporation:	Israel Corporation Ltd. 23 Arania St. Millennium Tower Tel-Aviv Facsimile: 03-684-4574 Attention: Avisar Paz, CFO
with a copy to:	Gornitzky &Co. 45 Rothschild Blvd. Tel-Aviv, 65784 Facsimile: 03-560-6555 Attention: Zvi Ephrat, Adv.
If to the Company:	Tower Semiconductor Ltd. Ramat Gavriel Industrial Area P.O. Box 619 Migdal Haemek Israel 23105 Fax. 972-4-6047242 Attn: Oren Shirazi, Acting CFO
with a copy to (which shall not constitute notice):	Yigal Arnon & Co. 1 Azrieli Center 46th Floor Tel-Aviv, Israel, 67021 Fax: 972-3-6087714 Attn: David Schapiro, Adv.

or such other address with respect to a party as such party shall notify each other party in writing as above provided. Any notice sent in accordance with this Section 7.5 shall be effective (i) if mailed, five (5) business days after mailing, (ii) if sent by messenger, upon delivery, and (iii) if sent via facsimile, one (1) business day following transmission and electronic confirmation of receipt.

7.6. Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Agreement, shall be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. Unless provided otherwise herein, all remedies, either under this Agreement or by law or otherwise afforded to any of the parties, shall be cumulative and not alternative.

7.7. Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable under applicable law, then such provision shall be excluded from this Agreement and the remainder of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms; provided, however, that in such event this Agreement shall be interpreted so as to give effect, to the greatest extent consistent with and permitted by applicable law, to the meaning and intention of the excluded provision as determined by such court of competent jurisdiction.

7.8. Counterparts. This Agreement may be executed in any number of counterparts (including facsimile counterparts), each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

7.9. Headings. The headings of the sections and paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction hereof.

7.10. Further Assurances. Each of the parties hereto shall perform such further acts and execute such further documents as may reasonably be necessary to carry out and give full effect to the provisions of this Agreement and the intentions of the parties as reflected thereby.

[Signature Page to Israel Corporation Ltd. Conversion Agreement]

IN WITNESS WHEREOF, each of the parties has signed this Agreement as of the date first hereinabove set forth.

TOWER SEMICONDUCTOR LTD.	**ISRAEL CORPORATION LTD**
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____

Schedules to Conversion Agreement

Schedule 3.3

Schedule 3.5

Exhibit 4.90

PLEDGE AGREEMENT

THIS PLEDGE AGREEMENT (as amended, restated, supplemented or otherwise modified from time to time, this "Agreement") dated as of September 25, 2008, is by and among TOWER SEMICONDUCTOR LTD., a company incorporated under the laws of Israel (company no. 52-004199-7) (the "Borrower"), BANK HAPOALIM B.M. and BANK LEUMI LE-ISRAEL B.M., as the Security Banks (as defined below), and BANK HAPOALIM, NEW YORK BRANCH, on behalf of the Security Banks (as defined below), as Collateral Trustee (in such capacity, the "Collateral Trustee").

W I T N E S S E T H:

WHEREAS, the Borrower and the Banks are parties to that certain Restated Facility Agreement Originally Made On 18 January 2001 dated as of August 24, 2006 by and between the Borrower and the Banks, as amended by that certain Amendment No. 1 thereto on September 10, 2007 and by that certain Amending Agreement dated as of the date hereof (as amended, restated, supplemented or otherwise modified from time to time, the "Amending Agreement") by and between the Borrower and the Banks (as so amended and as the same may be further amended, restated, supplemented or otherwise modified and in effect, the "Facility Agreement");

WHEREAS, in accordance with Section 1.5 of that certain Agreement and Plan of Merger dated as of May 19, 2008 (as amended, restated, supplemented or otherwise modified from time to time, the "Merger Agreement") by and among the Borrower, Armstrong Acquisition Corp., a Delaware corporation ("Acquisition Sub"), and Jazz Technologies, Inc., a Delaware corporation ("Jazz"), at the Effective Time (as defined in the Merger Agreement), all of the issued and outstanding stock of Acquisition Sub, represented by stock certificate no. CS-1 certifying as to ownership by the Borrower of one hundred (100) shares of the common stock of Acquisition Sub (the "Share Certificate"), was converted into 100% of the then issued and outstanding stock of Jazz; and

WHEREAS, it is a condition precedent to the effectiveness of the Amending Agreement that the Borrower execute and deliver this Agreement;

NOW, THEREFORE, for and in consideration of any loan, advance or other financial accommodation heretofore or hereafter made to the Borrower under or in connection with the Facility Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions. When used herein, (a) capitalized terms which are not otherwise defined have the meanings assigned thereto in the Facility Agreement, (b) all terms in this Agreement that are not capitalized shall have the meanings provided by the UCC to the extent the same are used or defined therein and (c) the following terms have the following meanings (such meanings to be applicable to both the singular and plural forms of such terms):

"Additional Shares" shall have the meaning assigned to such term in Section 2.

"Collateral" shall have the meaning assigned to such term in Section 2.

"Debenture" means the Debenture between the Borrower and the Security Banks, dated 18 January 2001, as amended and supplemented and as may be further amended, restated, supplemented or otherwise modified from time to time.

"Initial Shares" shall have the meaning assigned to such term in Section 2.

"Issuer" means the issuer of any of the Shares (as defined below) constituting all or any part of the Collateral.

"Lien" means any lien (statutory or other), mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, the interest of a vendor or lessor under any conditional sale, capitalized lease or other title retention agreement).

"Secured Obligations" shall have the meaning assigned to such term in Section 2.

"Security Banks" means Bank Hapoalim B.M. and Bank Leumi le-Israel B.M. in their respective own capacities or, in the event that there shall be additional Banks, in their capacities as security trustees on behalf of all the Banks (including Bank Hapoalim B.M. and Bank Leumi le-Israel B.M.).

"Shares" shall have the meaning assigned to such term in Section 2.

"UCC" means the Uniform Commercial Code as in effect from time to time in the State of New York.

2. Pledge. As security for the payment and performance of all present and future obligations and liabilities (whether actual or contingent, whether owed jointly or severally, as principal, guarantor or in any other capacity), of the Borrower to the Banks (or any of them), including under those Finance Documents (including the Facility Agreement, the Debenture and this Agreement) to which the Borrower is and will, from time to time, become a party, whether or not evidenced by any note, guaranty or other instrument, whether direct or indirect, due or to become due, now existing or hereafter arising (collectively, the "Secured Obligations"), the Borrower hereby pledges, hypothecates, charges and mortgages jointly to the Security Banks, for their respective benefit and the benefit of the Banks, and grants jointly to the Security Banks, for their respective benefit and the benefit of the Banks, a continuing lien on and security interest in, all of its right, title and interest in all of the following personal property, whether now existing or hereafter arising or acquired:

(a) All of the shares of stock and other securities described in Schedule I hereto (collectively, the "Initial Shares"), all of the certificates and/or instruments representing such Initial Shares, and all cash, securities, dividends, rights and other property at any time and from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such Initial Shares;

(b) All additional shares of stock of the Issuer (collectively, the "Additional Shares", and, together with the Initial Shares, the "Shares") at any time and from time to time acquired by the Borrower in any manner, all of the certificates representing such Additional Shares, and all cash, securities, dividends, rights

and other property at any time and from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such Additional Shares;

(c) All other property hereafter delivered to any of the Security Banks in substitution for or in addition to any of the foregoing, all certificates and instruments representing or evidencing such property, and all cash, securities, interest, dividends, rights and other property at any time and from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all thereof; and

(d) All products and proceeds of all of the foregoing.

All of the foregoing in clauses (a) – (d) above are herein collectively called the "Collateral".

All Collateral comprised of certificated Shares shall be delivered to and held by the Security Banks or by or on behalf of the Collateral Trustee on behalf of the Security Banks pursuant hereto, shall be in suitable form for transfer by delivery and shall be accompanied by all necessary instruments of transfer or assignment, duly executed in blank. Each Security Bank hereby appoints the Collateral Trustee as such Security Bank's agent and bailee to possess, hold in custody and/or control as agent and bailee all such certificated Shares and related instruments of transfer or assignment. The Collateral Trustee agrees that it shall act under this Agreement only in accordance with written instructions signed by both of the Security Banks.

The Borrower agrees to deliver to the Security Banks (or, in the case of certificated Shares and related instruments of transfer or assignment (collectively, "Certificated Share Documents"), the Collateral Trustee), promptly upon receipt and in due form for transfer (i.e., endorsed in blank or accompanied by stock or bond powers executed in blank), any Collateral (other than payments which the Borrower is entitled to receive and retain pursuant to Section 7) which may at any time or from time to time be in or come into the possession or control of the Borrower; and prior to the delivery thereof to the Security Banks or the Collateral Trustee (as applicable), such Collateral shall be held by the Borrower separate and apart from its other property. The Collateral Trustee agrees that any and all money and other property paid over to or received by the Collateral Trustee that does not constitute Certificated Share Documents shall be delivered by the Collateral Trustee to the Security Banks to be held by the Security Banks as collateral under the applicable Finance Documents.

3. Warranties. The Borrower warrants that: (a) this Agreement constitutes the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms; (b) there are no existing options, convertible securities, warrants, calls, pledges, transfer restrictions (except restrictions imposed by federal and state securities laws), liens, rights of first offer, rights of first refusal, antidilution provisions or commitments of any character relating to any of the Collateral; (c) the Borrower is (or at the time of any future delivery, pledge, assignment or transfer thereof will be) the legal, beneficial and equitable owner of the Collateral; (d) all of the Collateral is and will be free and clear of (i) any Lien thereon or affecting title thereto and (ii) any condition to or restriction on the ability of the holder of the Collateral to sell, assign, transfer or otherwise dispose of such Collateral or to enforce any provision thereof or of any document related thereto, in each case, except for the security interest granted to the Security Banks hereunder and for restrictions imposed by federal and state securities laws; (e) this Agreement creates a valid Lien in favor of the Security Banks, for the benefit of the Banks; (f) (i) the delivery of the Share Certificate and the stock power related to the Share Certificate, each of which the Borrower warrants was duly and validly executed and delivered to the Security Banks on the date hereof, and (ii) the filing of the UCC-1 financing statement attached as Schedule III hereto with the Recorder of Deeds of the District of Columbia, creates a valid and perfected first priority Lien in favor of the Security Banks, for the benefit of the Banks, in the Collateral securing the Secured Obligations, and no filings, registrations, recordings or actions of the Shares are necessary or appropriate in order to maintain the perfection and priority of such Lien, save for maintenance of possession of the Collateral by the Security Banks or the Collateral Trustee on behalf of the Security Banks; (g) all of the Shares are duly authorized, validly issued, fully paid and non-assessable and have been issued in compliance with all applicable securities laws; (h) the Collateral represents, on the date hereof, 100% of the total shares of capital stock issued and outstanding of the Issuer; (i) the information contained in Schedules I and II hereto is true and accurate in all respects; (j) the Borrower is duly qualified to do business in each jurisdiction where the nature of its business requires such qualification; and (k) in accordance with Section 1.5 of the Merger Agreement, the Share Certificate represents 100% of the total shares of capital stock issued and outstanding of Jazz on the date hereof.

4. Continuing Security Interest; Transfer of Note. This Agreement shall create a continuing security interest in the Collateral and shall

(a) remain in full force and effect until the Security Banks, for their respective benefit and the benefit of the Banks, are satisfied that (i) irrevocable payment and discharge in full of all Secured Obligations has been made and (ii) none of the Banks is under any commitment, obligation or liability (whether actual or continuing) under the Finance Documents,

(b) be binding upon the Borrower and its successors, transferees and assigns, and

(c) inure, together with the rights and remedies of the Security Banks hereunder, to the benefit of the Security Banks and each Bank and their respective successors and assigns.

5. Covenants. So long as any of the Secured Obligations shall be outstanding or any commitment shall exist on the part of any Security Bank or any Bank with respect to the creation of any Secured Obligations, the Borrower (a) shall not, without the express prior written consent of each Security Bank, sell, lease, assign, exchange, pledge or otherwise transfer or dispose of, permit to exist any Lien on, or grant any option, warrant or other right to purchase with respect to, any of the Collateral, or otherwise diminish or impair any of such Security Bank's rights in, to or under any of the Collateral; (b) will execute and deliver to the Security Banks or the Collateral Trustee (as applicable) such stock powers and similar documents relating to the Collateral, satisfactory in form and substance to such Security Bank, as any Security Bank may request; (c) will furnish any Security Bank or any Bank such information concerning the Collateral as such Security Bank or Bank may from time to time request, and will permit any Security Bank or any designee of any Security Bank, from time to time, at reasonable times and on reasonable notice (or at any time without notice at any time that an Event of Default has occurred and is continuing), to inspect, audit and make copies of and extracts from all records and all other papers in the possession of the Borrower which pertain to the Collateral, and will, upon request of any Security Bank at any time when an Event of Default has occurred and is continuing, deliver to the Security Banks all of such records and papers; (d) if any restrictive legend appears on any certificate evidencing any of the Collateral, at the request of any Security Bank, will cause such restrictive legend to be promptly removed, unless the removal of such legend is prohibited by applicable law, provided that the Borrower is not required to register the Shares under United States securities laws; (e) shall not (i) change its name, identity or corporate structure, (ii) change its chief executive office from the location thereof listed on Schedule II hereto or (iii) change the jurisdiction of its organization from the jurisdiction listed on Schedule II hereto (whether by merger or otherwise), unless the Borrower has (1) given twenty (20) days' prior written notice to each Security Bank of its intention to do so, together with information regarding any such new location and such other information in connection with such proposed action as any Security Bank may reasonably request, and (2) delivered to each Security Bank ten (10) days prior to any such change such documents, instruments and financing statements as may be required by such Security Bank, all in form and substance satisfactory to such Security Bank, and taken all other actions reasonably requested by each Security Bank, in each case in order to perfect and maintain the security interest granted hereunder; (f) shall maintain at all times a valid and perfected first priority Lien in favor of the Security Banks, for the benefit of the

Banks, in the Collateral securing the Secured Obligations, save for maintenance of possession of the Collateral by the Security Banks or by the Collateral Trustee on behalf of the Security Banks; and (g) will, within 14 days after the date hereof, provide to the Security Banks a share certificate in substitution for the Share Certificate naming Jazz as the Issuer, which share certificate shall be in form and substance satisfactory to the Security Banks. The Security Banks shall, promptly after receipt of such share certificate, cause the Share Certificate to be surrendered to the Borrower. Immediately upon such surrender of the Share Certificate to the Borrower, the Borrower shall, or shall cause, the Share Certificate to be immediately cancelled and be of no further force and effect.

6. Holding in Name of Security Banks, etc. Each Security Bank may from time to time after the occurrence and during the continuance of an Event of Default, without notice to the Borrower, take all or any of the following actions: (a) transfer all or any part of the Collateral into the name of such Security Bank or both Security Banks or any nominee or agent for any Security Bank, with or without disclosing that such Collateral is subject to the Lien granted hereunder, (b) appoint one or more agents or nominees for the purpose of retaining physical possession of the Collateral, (c) notify the parties obligated on any of the Collateral to make payment to one or both of the Security Banks of any amounts due or to become due thereunder, (d) endorse any checks, drafts or other writings in the name of the Borrower to allow collection of the Collateral, (e) enforce collection of any of the Collateral by suit or otherwise, and surrender, release or exchange all or any part thereof, or compromise or renew for any period (whether or not longer than the original period) any obligations of any nature of any party with respect thereto and (f) take control of any proceeds of the Collateral.

7. Voting Rights, Dividends, etc.

(a) (i) So long as no Event of Default exists and is continuing, or is created thereby, the Borrower shall be entitled to exercise any and all voting or consensual rights and powers relating or pertaining to the Collateral or any part thereof for any purpose.

(ii) So long as no Event of Default exists and is continuing, or is created thereby, the Borrower shall be entitled to receive and retain any and all lawful dividends payable in respect of the Collateral which are paid in cash by the Issuer.

(b) All dividends and distributions in respect of the Collateral or any part thereof made in shares of stock or other property or representing any return of capital, whether resulting from a subdivision, combination or reclassification of Collateral or any part thereof or received in exchange for Collateral or any part thereof or as a result of any merger, consolidation, acquisition or other exchange of assets to which the Issuer may be a party or otherwise or as a result of any exercise of any stock purchase or subscription right, shall be and become part of the Collateral hereunder and, if received by the Borrower, shall be forthwith delivered to the Security Banks (or, in the case of Certificated Share Documents, the Collateral Trustee) in due form for transfer (i.e., endorsed in blank or accompanied by stock or bond powers executed in blank) to be held for the purposes of this Agreement.

(c) The Security Banks shall execute and deliver, or cause to be executed and delivered, to the Borrower all such proxies, powers of attorney, dividend orders and other instruments as the Borrower may request for the purpose of enabling the Borrower to exercise the rights and powers which it is entitled to exercise pursuant to Section 7(a)(i) and to receive the dividends which it is authorized to retain pursuant to Section 7(a)(ii).

(d) During the existence of an Event of Default, and so long as the same shall be continuing, all rights and powers which the Borrower is entitled to exercise pursuant to Section 7(a)(i) shall forthwith cease, and all such rights and powers shall thereupon become vested in the Security Banks which shall have, during the continuance of such Event of Default, the sole and exclusive authority to exercise such rights and powers. During the existence of an Event of Default, and so long as the same shall be continuing, all rights of the Borrower to receive and retain dividends pursuant to Section 7(a)(ii) shall forthwith cease, and all such rights shall thereupon become vested in the Security Banks which shall have, during the continuance of such Default or Event of Default, the sole and exclusive authority to receive such dividends. Any and all money and other property paid over to or received by the Security Banks pursuant to this Section 7(d) shall be retained by the Security Banks as additional Collateral hereunder and applied in accordance with the provisions hereof.

8. Remedies. Upon the occurrence and during the continuation of an Event of Default, each Security Bank may exercise from time to time any rights and remedies available to it under the UCC or otherwise available to it. Without limiting the foregoing, whenever an Event of Default shall have occurred and be continuing, each Security Bank (a) may, to the fullest extent permitted by applicable law, without notice, advertisement, hearing or process of law of any kind, (i) sell (or cause or direct to be sold) any or all of the Collateral, free of all rights and claims of the Borrower therein and thereto, at any public or private sale or brokers' board and (ii) bid for and purchase any or all of the Collateral at any such public sale and (b) shall have the right, for and in the name, place and stead of the Borrower, to execute endorsements, assignments, stock powers and other instruments of conveyance or transfer with respect to all or any of the Collateral. The Borrower hereby expressly waives, to the fullest extent permitted by applicable law, any and all notices, advertisements, hearings or process of law in connection with the exercise by the Security Banks of any of its rights and remedies during the continuance of an Event of Default. Any notification of intended disposition of any of the Collateral shall be deemed reasonably and properly given if given at least ten (10) days before such disposition. Any proceeds of any of the Collateral may be applied by the Security Banks to the payment of expenses in connection with the Collateral, including, without limitation, attorneys' fees and legal expenses, and any balance of such proceeds may be applied by the Security Banks toward the payment of such of the Secured Obligations, and in such order of application, as the Security Banks may from time to time elect (and, after payment in full of all Secured Obligations, any excess shall be delivered to the Borrower or as a court of competent jurisdiction shall direct).

Each Security Bank is hereby authorized to comply with any limitation or restriction in connection with any sale of Collateral as it may be advised by counsel is necessary in order to (a) avoid any violation of applicable law (including, without limitation, compliance with such procedures as may restrict the number of prospective bidders or purchasers and/or further restrict such prospective bidders or purchasers to persons or entities who will represent and agree that they are purchasing for their own account for investment and not with a view to the distribution or resale of such Collateral) or (b) obtain any required approval of the sale or of the purchase by any governmental regulatory authority or official, and the Borrower agrees that such compliance shall not result in such sale being considered or deemed not to have been made in a commercially reasonable manner and that no Security Bank shall be liable or accountable to the Borrower for any discount allowed by reason of the fact that such Collateral is sold in compliance with any such limitation or restriction.

9. Further Assurances; Power of Attorney.

(a) To perfect the security interest granted by the Borrower to the Security Banks in the Collateral hereunder, (i) the Borrower shall make such filings and take such measures as may be requested by any Security Bank and (ii) the Borrower hereby irrevocably authorizes each Security Bank, at the Borrower's expense, at any time and from time to time, to file in any filing office in any jurisdiction any UCC financing statement and amendment thereto, and continuation statements, in respect of the Borrower in respect of such security interest. The Borrower will cause to be done, executed, acknowledged and delivered all such further acts, conveyances and assurances as any Security Bank shall require for accomplishing the purposes of this Agreement, and which are necessary or desirable to continue the perfection and priority of the lien and security interest granted under this Agreement. The Borrower agrees for the benefit of the Security Banks, at no expense to any Security Bank, to defend the Security Banks' security interest in and to the Collateral against the claims of any other person or entity

and to ensure that the Security Banks shall have at all times pursuant to this Agreement a first priority perfected lien on and security interest in the Collateral, subject to no prior or equal lien whatsoever.

(b) The Borrower hereby irrevocably appoints each of the Security Banks as its lawful attorney-in-fact, with full authority in the place and stead of the Borrower and in the name of the Borrower, such Security Bank or otherwise, and with full power of substitution in the premises, from time to time in such Security Bank's discretion, after the occurrence and during the continuance of a Default or an Event of Default, to take any action and to execute any instruments that such Security Bank may deem necessary or advisable to accomplish the purposes of this Agreement.

(c) If the Borrower fails to perform any covenant or agreement contained in this Agreement after written request to do so by any Security Bank (provided that no such request shall be necessary at any time after the occurrence and during the continuance of an Event of Default), any Security Bank may itself perform, or cause the performance of, such covenant or agreement and may take any other action that it deems necessary and appropriate for the maintenance and preservation of the Collateral or the Security Banks' security interest therein, and the costs, internal charges and out-of-pocket expenses (including attorneys' fees and out-of-pocket expenses incurred by the Security Banks and the Banks (or any of them) in connection therewith shall be payable by the Borrower, together with Interest at the rate referred to in clause 18 of the Facility Agreement from date on which the payment of such expenses was demanded by any Security Bank or by any of the Banks until the date of payment (after, as well as before, judgment).

10. Waivers. The Borrower, to the greatest extent not prohibited by applicable law, hereby (i) agrees that it will not invoke, claim or assert the benefit of any rule of law or statute now or hereafter in effect (including, without limitation, any right to prior notice or judicial hearing in connection with any Security Bank's or the Collateral Trustee's possession, custody or disposition of any Collateral or any appraisal, valuation, stay, extension, moratorium or redemption law), or take or omit to take any other action, that could reasonably be expected to have the effect of delaying, impeding or preventing the exercise of any rights and remedies in respect of the Collateral, the absolute sale of any of the Collateral or the possession thereof by any purchaser at any sale thereof, and waives the benefit of all such laws and further agrees that it will not hinder, delay or impede the execution of any power granted hereunder to any Security Bank, but that it will permit the execution of every such power as though no such laws were in effect, (ii) waives all rights that it has or may have under any rule of law or statute now existing or hereafter adopted to require either or both of the Security Banks to marshal any Collateral or other assets in favor of the Borrower or any other person or entity or against or in payment of any or all of the Secured Obligations and (iii) waives all rights that it has or may have under any rule of law or statute now existing or hereafter adopted to demand, presentment, protest, advertisement or notice of any kind.

11. Miscellaneous.

11.1. Captions. Section captions used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

11.2. Governing Law; Severability. **THIS AGREEMENT SHALL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING FOR SUCH PURPOSE SECTIONS 5-1401 AND 5-1402 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK).** Any provision in this Agreement that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction.

11.3. Counterparts. This Agreement may be executed in any number of counterparts, and by the parties hereto on the same or separate counterparts, and each such counterpart, when executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Agreement.

11.4. Successors and Assigns. This Agreement shall be binding upon the parties hereto and their successors and assigns, and shall inure to the sole benefit of the parties hereto and the respective successors and assigns of the Banks.

11.5. Amendments, etc. No amendment to or waiver of any provision of this Agreement nor consent to any departure by the Borrower herefrom shall in any event be effective unless the same shall be in writing and signed by the Security Banks, the Collateral Trustee and the Borrower, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which it is given.

11.6. Addresses for Notices. Any notices to be given hereunder shall be served on a party by prepaid express registered letter (or nearest equivalent) to its address given below or such other address as may from time to time be notified for this purpose.

to the Borrower at:	Tower Semiconductor Ltd. P.O. Box 619 Migdal Haemek, Israel Facsimile: (04) 604 7242 Attention: Oren Shirazi
with a copy to:	Yigal Arnon & Co. 1 Azrieli Center, 46th Floor, The Round Tower Tel-Aviv, Israel 67021 Facsimile: (03) 608 7714 Attention: David H. Schapiro, Adv.
to Bank Hapoalim at:	Bank Hapoalim B.M. Corporate Division Migdal Levenstein 23 Menachem Begin Road Tel-Aviv, Israel Facsimile: (03) 567 2995 Attention: Head of Corporate Division
To Bank Leumi le-Israel at:	Bank Leumi le-Israel B.M. Corporate Division

34 Yehuda Halevi Street
Tel-Aviv, Israel
Facsimile: (03) 514 9278
Attention: Manager of Hi-Tech Industries Section

to the Collateral Trustee at: Bank Hapoalim, New York Branch
Avenue of the America 1177
New York 10036
Tel.: (212) 782-2000
Facsimile: (212) 782-2222

Any notice to be given to a Security Bank or the Collateral Trustee or by a Security Bank or the Collateral Trustee must be given during the normal banking hours of such Security Bank or Collateral Trustee to the person and at the address or facsimile number (as applicable) stated above (or such other address or facsimile number as may from time to time be specified by such Security Bank or Collateral Trustee). If notice is sent by facsimile during normal business hours as aforesaid, it shall be deemed to have been sent when confirmation of receipt by the intended recipient has been received. All notices given by facsimile shall be confirmed by letter dispatched in the manner provided for above within 24 hours of transmission. Any notice given by prepaid express registered letter (or nearest equivalent) so sent shall be deemed to have been sent within five days after the time at which such notice was sent, and, in proving such service, it shall be sufficient to prove that the noticed was properly addressed and posted.

11.7. Cumulative Remedies. No remedy herein is intended to be exclusive of any other remedy, but every such remedy shall be cumulative and shall be in addition to every other remedy herein conferred or now or hereafter existing at law or in equity or by statute. No delay or omission of any Security Bank to exercise any right or remedy arising hereunder shall impair any right or remedy or shall be construed to be a waiver of the Secured Obligations or an acquiescence in the failure or omission to pay or perform the Secured Obligations; and every right and remedy given by this Agreement to the Security Banks may be exercised from time to time and as often as may be deemed expedient by any Security Bank.

11.8. Care of Collateral. Beyond the exercise of reasonable care to assure the safe custody of the Collateral in the physical possession of the Security Banks or the Collateral Trustee pursuant hereto, neither any Security Bank nor the Collateral Trustee shall have any duty or liability to collect any sums due in respect thereof or to ascertain or take action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to the Collateral, whether or not such Security Bank or Collateral Trustee (as applicable) has or is deemed to have knowledge of such matters, or to protect, preserve or exercise any rights pertaining to the Collateral, and shall be relieved of all responsibility for the Collateral upon surrendering it to the Borrower. Each of the Security Banks and the Collateral Trustee shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if it takes such action for that purpose as the Borrower shall request in writing, but the failure of such Security Bank or the Collateral Trustee (as applicable) to comply with any such request shall not of itself be deemed a failure to exercise reasonable care, and no failure of any Security Bank or the Collateral Trustee to preserve or protect any rights with respect to the Collateral against prior parties, or to do any act with respect to preservation of the Collateral not so requested by the Borrower, shall be deemed a failure to exercise reasonable care in the custody or preservation of any Collateral.

11.9 CONSENT TO JURISDICTION. THE BORROWER HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR NEW YORK STATE COURT SITTING IN THE BOROUGH OF MANHATTAN, CITY OF NEW YORK, STATE OF NEW YORK IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT AND THE BORROWER HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE SECURITY BANKS TO BRING PROCEEDINGS AGAINST THE BORROWER IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY THE BORROWER AGAINST ANY SECURITY BANK OR THE COLLATERAL TRUSTEE OR ANY AFFILIATE OF ANY OF THEM INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS AGREEMENT SHALL BE BROUGHT ONLY IN A COURT IN THE BOROUGH OF MANHATTAN, CITY OF NEW YORK, STATE OF NEW YORK.

11.10 WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS AGREEMENT OR THE RELATIONSHIP ESTABLISHED HEREUNDER.

11.11 Survival. All representations, warranties, covenants and agreements herein shall survive the execution and delivery of this Agreement and any amendment, restated, supplement, modification or accession hereto.

11.12 Non-U.S. Security Documents. Without limiting any of the rights, remedies, privileges or benefits provided hereunder to the Security Banks for their respective benefit and the ratable benefit of the Banks, notwithstanding anything to the contrary contained herein, the Borrower and the Security Banks hereby agree that the terms and provisions of this Agreement in respect of any Collateral subject to the pledge or other Lien granted under a pledge or security agreement (or other substantially similar agreement) in respect of the Collateral that is stated therein to be governed by the laws of a jurisdiction other than United States or any state thereof, including, without limitation, the Debenture (collectively, the "Non-U.S. Security Documents") are, and shall be deemed to be, supplemental and in addition to the rights, remedies, privileges and benefits provided to the Security Banks and the Banks under such Non-U.S. Security Documents and under applicable law to the extent consistent with applicable law; provided, that, in the event that the terms of this Pledge Agreement conflict or are inconsistent with the applicable Non-U.S. Security Documents or applicable law governing such Non-U.S. Security Documents, (i) to the extent that the provisions of such Non-U.S. Security Documents or applicable foreign law are, under applicable foreign law, necessary for the creation, perfection or priority of the security interests in the Collateral subject to such Non-U.S. Security Documents, the terms of such Non-U.S. Security Documents or such applicable law shall be controlling and (ii) otherwise, the terms hereof shall be controlling.

11.13 Release. On the date on which the Banks are satisfied that: (i) no Bank is under any commitment, obligation or liability (whether actual or contingent) under the Finance Documents or the Fab 1 Finance Documents and (ii) all the Secured Obligations have been irrevocably paid and discharged in full, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to the Borrower. Upon any such termination, the Security Banks or the Collateral Trustee, on behalf of the Security Banks, will, at the Borrower's expense, execute and deliver to the Borrower such documents as the Borrower shall reasonably request to evidence such termination.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Borrower, the Security Banks and the Collateral Trustee have executed this Agreement as of the date first above written.

TOWER SEMICONDUCTOR LTD.

By: _____

Name: _____

Title: _____

BANK HAPOALIM B.M.

By: _____

Name: _____

Title: _____

BANK LEUMI LE-ISRAEL B.M.

By: _____

Name: _____

Title: _____

BANK HAPOALIM, NEW YORK BRANCH

By: _____

Name: _____

Title: _____

[Pledge Agreement Signature Page]

SCHEDULE I

STOCK

Issuer	Class of Security and Certificate Number	Number of Shares Pledged	Pledged Shares as % of Total Issued and Outstanding Securities
Jazz Technologies, Inc. (as successor by merger to Armstrong Acquisition Corp.)	Common Stock Certificate No. CS-1	100	100%

SCHEDULE II

JURISDICTION OF ORGANIZATION/
LOCATION OF CHIEF EXECUTIVE OFFICE

Jurisdiction of organization: Israel

Chief executive office: Ramat Gavriel Industrial Park
P.O. Box 619

Migdal Haemek
Israel 23105

SCHEDULE III

UCC-1 FINANCING STATEMENT

(attached).

AMENDED AND RESTATED
REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this **"Agreement"**) originally made on September 28, 2006 by and between TOWER SEMICONDUCTOR LTD. (the **"Company"** or **"Tower"**), a company organized under the laws of the State of Israel, and BANK HAPOALIM B.M., a banking corporation organized under the laws of the State of Israel (the **"Bank"**), is hereby amended and restated by the parties on September 25, 2008.

WHEREAS, Tower is an independent manufacturer of wafers whose Ordinary Shares are traded on the Nasdaq Stock Market (**"NASDAQ"**) under the symbol "TSEM" and whose Ordinary Shares and certain other securities are traded on the Tel-Aviv Stock Exchange (**"TASE"**) under the symbol "TSEM"; and

WHEREAS, the Bank and Bank Leumi Le–Israel B.M. (collectively, the **"Banks"**) and Tower are parties to a Facility Agreement dated January 18, 2001, as amended, as amended and restated on August 24, 2006, as further amended by Amendment No. 1 thereto dated September 10, 2007, as amended (the **"Facility Agreement"**); and

WHEREAS, the Bank and the Company are parties to a Conversion Agreement dated September 28, 2006 (the **"2006 Conversion Agreement"**); and

WHEREAS, at the request of Tower, the Banks and Tower have entered into an Amending Agreement to the Facility Agreement dated September 25, 2008 (the **"Amending Agreement"**), the conditions to the effectiveness of which include, *inter alia*, the issuance to each of the Banks or its nominee, of an equity-equivalent convertible capital note which will in turn be convertible, in whole or in part, by the Bank at any time and from time to time into shares of Tower and the entering into by the Bank and Tower of a conversion agreement (the **"2008 Conversion Agreement"**) and the amendment and restatement of this Agreement, in each case, on or prior to the date of the effectiveness of the Amending Agreement (the **"Amendment Closing Date"**); and

WHEREAS, clause 9.4 of the Facility Agreement, including as amended by the Amending Agreement, obligates the Company, under certain circumstances, to make a payment to the Banks which, subject to said clause 9.4 and the 2006 Conversion Agreement, can be paid in the form of shares, capital notes or convertible debentures (the **"Clause 9.4 Equity Issuances"**); and

WHEREAS the parties intend that the registration rights set forth in this Agreement be applicable with respect to all shares issuable upon conversion or exercise of any and all capital notes issued or issuable pursuant to the 2006 and 2008 Conversion Agreements and warrants held by the Bank or its affiliate, as well as with respect to the Clause 9.4 Equity Issuances; and

WHEREAS, the parties wish to amend and restate this Agreement in its entirety,

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Bank hereby agree as follows:

1. DEFINITIONS AND INTERPRETATION.

As used in this Agreement, the following terms shall have the following meanings:

(a) **"Capital Note"** means any capital note that is convertible into shares of Tower.

(b) **"Holder"** means the Bank, Tarshish, any nominee of the Bank to hold the Clause 9.4 Equity Issuances (the **"Nominee"**), any transferee or assignee to whom the Bank or the Nominee assigns its rights, in whole or in part, and any transferee or assignee thereof to whom a transferee or assignee assigns its rights, in accordance with Section 9.

(c) **"ISA"** means the Israel Securities Authority or any similar or successor agency of Israel administering the Israel Securities Law.

(d) **"Israel Securities Law"** means the Israel Securities Law, 5728-1968 (including the regulations promulgated thereunder), as amended.

(e) **"1933 Act"** means the U.S. Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute.

(f) **"1934 Act"** means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, or any similar successor statute.

(g) **"Register"**, **"registered"**, and **"registration"** refer to a registration effected by preparing and filing a registration statement in compliance with the 1933 Act and the effectiveness of such registration statement in accordance with the 1933 Act or the equivalent actions under the laws of another jurisdiction.

(h) **"Registrable Securities"** means: (i) the ordinary shares of the Company issued or issuable upon conversion of any Capital Note by any Holder, (ii) any ordinary shares issued as part of the Clause 9.4 Equity Issuances, including shares issued or issuable upon conversion of Capital Notes or convertible debentures issued as part of the Clause 9.4 Equity Issuances, which are held by any Holder, (iii) ordinary shares of the Company issued or issuable upon exercise of any Warrant, and (iv) any shares of capital stock issued or issuable with respect to the ordinary shares of the Company as a result of any stock split, stock dividend, rights offering, recapitalization, merger, exchange or similar event or otherwise, including as described in any Capital Note.

(i) **"Registration Statement"** means registration statements of the Company covering Registrable Securities filed from time to time with (a) the SEC under the 1933 Act, including the Form F-3 Registration Statement No. 333-131315 previously filed by the Company covering ordinary shares issuable upon the exercise of the 2003 Warrants and the 2005 Warrants, and (b) the ISA under the Israel Securities Law, to the extent required under the Israel Securities Law, so as to allow the Holder to freely resell the Registrable Securities in Israel, including on the TASE.

(j) **"SEC"** means the United States Securities and Exchange Commission or any similar or successor agency of the United States administering the 1933 Act.

(k) **"2003 Warrant"** means the warrant granted in 2003 to Tarshish to purchase 448,298 (subject to adjustment in accordance with such warrant) shares of Tower.

(l) **"2005 Warrant"** means the warrant granted in 2005 to the Bank to purchase 4,132,232 (subject to adjustment in accordance with such warrant) shares of Tower.

(m) **"2007 Warrant"** means the warrant granted in 2007 to the Bank to purchase 1,470,588 (subject to adjustment in accordance with such warrant) shares of Tower.

(n) **"Tarshish"** means Tarshish Hahzakot Vehashkaot Hapoalim Ltd., a company organized under the laws of the State of Israel and an affiliate of the Bank.

(o) **"Warrant"** means the 2003 Warrant, the 2005 Warrant and the 2007 Warrant, or any of them or any portion thereof as any of such Warrants may be amended at any time or from time to time.

In this Agreement:

(a) Words importing the singular shall include the plural and *vice versa* and words importing any gender shall include all other genders and references to persons shall include partnerships, corporations and unincorporated associations.

(b) Any reference in this Agreement to a specific form or to any rule or regulation adopted by the SEC shall also include any successor form or amended or successor rule or regulation subsequently adopted by the SEC, all as the same may be in effect at the time.

(c) Any reference in this Agreement to a statute, act or law shall be construed as a reference to such statute, act or law as the same may have been, or may from time to time be, amended or reenacted.

(d) A **"person"** shall be construed as a reference to any person, firm, company, corporation, government, state or agency of a state or any association or partnership (whether or not having separate legal personality) or two or more of the aforegoing.

(e) **"Including"** and **"includes"** means, including, without limiting the generality of any description preceding such terms.

(f) The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

2. DEMAND REGISTRATION.

(a) The Company shall prepare, and, as soon as practicable but in no event later than 45 days after each date on which the Company receives a written request from the Bank from time to time, file with the SEC a Registration Statement on Form F-3 and make all required filings with the ISA covering the resale of all, or at the request of the Bank, any portion of the then Registrable Securities that are not already registered. The Company shall use its best efforts to have the Registration Statement declared effective by the SEC and the ISA as soon as possible after such filing with the SEC and the ISA.

(b) In the event that Form F-3 shall not be available for the registration of the resale of Registrable Securities hereunder, the Company shall (i) register the resale of the Registrable Securities on another appropriate form reasonably acceptable to the Holders of the Registrable Securities to be registered on such Registration Statement and (ii) undertake to register the Registrable Securities on Form F-3 as soon as such form is available, provided that, in each such event, the Company shall maintain the effectiveness of the Registration Statement then in effect until such time as a Registration Statement on Form F-3 covering the Registrable Securities has been declared effective by the SEC.

3. RELATED OBLIGATIONS.

(a) Following the filing and effectiveness of each Registration Statement with the SEC pursuant to Section 2(a), the Company shall keep the Registration Statement effective pursuant to Rule 415 of the 1933 Act and under the Israel Securities Law at all times until the earlier of (i) the date as of which all of the Holders confirm to the Company in writing that they may sell all of the Registrable Securities covered by such Registration Statement without restriction pursuant to all of the following: (x) Rule 144(k) under the 1933 Act, (y) the Israel Securities Law and (z) other securities or "blue sky" laws of each jurisdiction in which the Company obtained a registration or qualification in accordance with Section 3(d) below or (ii) the date on which the Holders shall have sold all the Registrable Securities covered by such Registration Statement (A) in accordance with such Registration Statement (except to another Holder pursuant to Section 9) or (B) to the public pursuant to Rule 144 under the 1933 Act (the "**Registration Period**"), the Company to ensure that such Registration Statement (including any amendments or supplements thereto and prospectuses contained therein) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, subject to Section 3(e) below.

(b) The Company shall prepare and file with the SEC and the ISA (to the extent required) such amendments (including post-effective amendments) and supplements to each Registration Statement and the prospectus used in connection with such Registration Statement, which prospectus is to be filed pursuant to Rule 424 under the 1933 Act or under the Israel Securities Law, as may be necessary to keep such Registration Statement effective at all times during the Registration Period, and, during such period, comply with the provisions of the 1933 Act and the Israel Securities Law with respect to the disposition of all Registrable Securities of the Company covered by such Registration Statement until such time as all of such Registrable Securities shall have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof as

set forth in such Registration Statement, which, for the avoidance of doubt, shall include sales on the Nasdaq Stock Market and the TASE, as well as sales not made on such exchanges. In the case of amendments and supplements to a Registration Statement which are required to be filed pursuant to the Agreement (including pursuant to this Section 3(b) by reason of the Company filing a report on Form 20-F, Form 6-K or any analogous report under the 1934 Act), the Company shall have incorporated such report by reference into the Registration Statement, if applicable, or shall file such amendments or supplements with the SEC and the ISA on the same day on which the 1934 Act report is filed which created the requirement for the Company to amend or supplement the Registration Statement.

(c) The Company shall furnish each Holder whose Registrable Securities are included in any Registration Statement, without charge, (i) promptly after the same is prepared and filed with the SEC, at least three (3) copies of such Registration Statement and any amendment(s) thereto, including financial statements and schedules, all documents incorporated therein by reference, all exhibits and each preliminary prospectus (or such other number of copies as such Holder may reasonably request), (ii) upon the effectiveness of any Registration Statement, at least ten (10) copies of the prospectus included in such Registration Statement and all amendments and supplements thereto (or such other number of copies as such Holder may reasonably request) and (iii) such other documents, including copies of any preliminary or final prospectus and of any Registration Statements and prospectuses filed with the ISA, as such Holder may reasonably request from time to time in order to facilitate the disposition of the Registrable Securities owned by such Holder.

(d) The Company shall use its best efforts to (i) register and qualify, unless an exemption from registration and qualification applies, the resale by the Holders of the Registrable Securities covered by a Registration Statement under such other securities or "blue sky" laws of all the states of the United States, (ii) prepare and file in those jurisdictions, such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof during the Registration Period, (iii) take such other actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period, and (iv) take all other actions reasonably necessary or advisable to qualify the Registrable Securities for sale in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to (x) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(d), or (y) file a general consent to service of process in any such jurisdiction. The Company shall promptly notify each Holder who holds Registrable Securities of the receipt by the Company of any notification with respect to the suspension of the registration or qualification of any of the Registrable Securities for sale under the securities or "blue sky" laws of any jurisdiction in the United States or its receipt of actual notice of the initiation or threatening of any proceeding for such purpose.

(e) The Company shall notify each Holder in writing of the happening of any event, as promptly as practicable after becoming aware of such event, as a result of which the prospectus included in a Registration Statement, as then in effect, includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The Company shall use its best efforts to minimize the period of time during which a Registration Statement includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The Company shall promptly notify each Holder in writing (i) when a prospectus or any prospectus supplement or post-effective amendment has been filed so that the Registration Statement does not include an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and when a Registration Statement or any post-effective amendment has become effective (notification of such effectiveness shall be delivered to each Holder by facsimile on the same day of such effectiveness and by overnight mail), (ii) of any request by the SEC or the ISA for amendments or supplements to a Registration Statement or related prospectus or related information, and (iii) of the Company's reasonable determination that a post-effective amendment to a Registration Statement would be appropriate.

(f) The Company shall use its best efforts to prevent the issuance of any stop order or other suspension of effectiveness of a Registration Statement, or the suspension of the qualification of any of the Registrable Securities for sale in any jurisdiction and, if such an order or suspension is issued, to obtain the withdrawal of such order or suspension at the earliest possible moment and to notify each Holder who holds Registrable Securities being sold of the issuance of such order and the resolution thereof or its receipt of actual notice of the initiation or threat of any proceeding for such purpose.

(g) The Company shall cause all the Registrable Securities covered by a Registration Statement to be listed on each securities exchange on which securities of the same class or series issued by the Company are then listed, including the NASDAQ and the TASE. The Company shall deliver to the Holders a copy of the approvals of the TASE and the NASDAQ (and/or any other exchange, if applicable) to the listing of the Registrable Securities covered by such Registration Statement on such exchange, in the case of the TASE, by not later than the Amendment Closing Date, and in the case of the NASDAQ (and/or other applicable exchanges) not later than the effective date of such Registration Statement.

(h) The Company shall cooperate with the Holders who hold Registrable Securities being offered and, to the extent applicable, facilitate the timely preparation and delivery of certificates (not bearing any restrictive legend) representing the Registrable Securities to be offered pursuant to a Registration Statement and enable such certificates to be in such denominations or amounts, as the case may be, as the Holders may reasonably request and registered in such names as the Holders may request.

(i) The Company shall provide a transfer agent and registrar of all Registrable Securities and a CUSIP number not later than the effective date of the applicable Registration Statement.

(j) If requested by a Holder, the Company shall (i) as soon as practicable incorporate in a prospectus supplement or post-effective amendment such information as a Holder requests to be included therein, information with respect to the number of Registrable Securities being offered or sold, the purchase price being paid therefor and any other terms of the offering of the Registrable Securities to be sold in such offering; (ii) as soon as practicable make all required filings of such prospectus supplement or post-effective amendment after being notified of the matters to be incorporated in such prospectus supplement or post-effective amendment; and (iii) as soon as practicable, supplement or make amendments to any Registration Statement if reasonably requested by a Holder of such Registrable Securities.

(k) In the event of any underwritten public offering of the Registrable Securities, enter into and perform its obligations under an underwriting agreement with usual and customary terms that are generally satisfactory to the managing underwriter of such offering. The Holder shall also

enter into and perform its obligations under such an agreement (the terms of which must be satisfactory to the Holder if the Holder is to participate in such offering).

(l) The Company shall afford the Holder and its representatives (including counsel) the opportunity at any time and from time to time during the Registration Period to make such examinations of the business affairs and other material financial and corporate documents of the Company and its subsidiaries as the Holder may reasonably deem necessary to satisfy itself as to the accuracy of the Registration Statement (subject to a reasonable confidentiality undertaking on the part of the Holder and its representatives).

(m) The Company shall furnish, at the request of the Holder in connection with the registration of Registrable Shares pursuant to this Agreement, on the date that such Registrable Shares are delivered to the underwriters for sale, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the Registration Statement with respect to such securities becomes effective and on the date of each post-effective amendment thereof: (i) an opinion, dated such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holder; and (ii) a letter, dated such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holder.

(n) The Company shall comply with all applicable rules and regulations of the SEC and shall make generally available to its security holders an earnings statement satisfying the provisions of Section 11(a) of the 1933 Act as soon as practicable after the effective date of the Registration Statement and in any event no later than 45 days after the end of a 12-month period (or 90 days, if such period is a fiscal year) beginning with the first month of the Company's first fiscal quarter commencing after the effective date of the Registration Statement.

4. OBLIGATIONS OF THE HOLDERS.

Each Holder agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in the first sentence of Section 3(e) or the issuance of any stop order or suspension as referred to in Section 3(f), such Holder will immediately discontinue disposition of Registrable Securities pursuant to any Registration Statement(s) covering such Registrable Securities until such Holder's receipt of the copies of the supplemented or amended prospectus contemplated by clause (i) of Section 3(e) or receipt of notice that no supplement or amendment is required.

5. EXPENSES OF REGISTRATION.

All expenses, other than underwriting discounts and commissions, incurred in connection with registrations, filings or qualifications pursuant to Sections 2 and 3, including, without limitation, all registration, listing and qualifications fees, printers and accounting fees, fees and disbursements of counsel to the Company and the Holders, including in connection with such examinations described in Section 3(l) above, shall be paid by the Company.

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6. INDEMNIFICATION.

In the event any Registrable Securities are included in a Registration Statement under this Agreement:

(a) To the fullest extent permitted by law, the Company will, and hereby does, indemnify, hold harmless and defend each Holder, the directors, officers, partners, employees, agents, representatives of, and each Person, if any, who controls any Holder within the meaning of the 1933 Act or 1934 Act (each, an **"Indemnified Person"**), against any losses, claims, damages, liabilities, judgments, fines, penalties, charges, costs, reasonable attorneys' fees, amounts paid in settlement or expenses, joint or several, (collectively, **"Claims"**) incurred in investigating, preparing or defending any action, claim, suit, inquiry, proceeding, investigation or appeal taken from the foregoing by or before any court or governmental, administrative or other regulatory agency, body or the SEC or the ISA, whether pending or threatened, whether or not a person to be indemnified is or may be a party thereto (**"Indemnified Damages"**), to which any of them may become subject insofar as such Claims (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon: (i) any untrue statement or alleged untrue statement of a material fact in a Registration Statement or any post-effective amendment thereto or in any filing made in connection with the qualification of the offering under the securities or other "blue sky" laws of any jurisdiction in which Registrable Securities are offered (**"Blue Sky Filing"**), or the omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement, preliminary prospectus, final prospectus or "free writing prospectus" (as such term is defined in Rule 405 under the 1933 Act) or any amendment or supplement to any such prospectus or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading, (iii) any violation or alleged violation by the Company of the 1933 Act, the 1934 Act, any other law, including, without limitation, any state securities law, the Israel Securities Law or any rule or regulation thereunder relating to the offer or sale of the Registrable Securities pursuant to a Registration Statement or (iv) any material violation of this Agreement (the matters in the foregoing clauses (i) through (iv) being, collectively, "Violations"). Subject to Section 6(c), the Company shall reimburse the Indemnified Persons promptly as such expenses are incurred and are due and payable, for any legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 6(a): (i) shall not apply to a Claim by an Indemnified Person arising out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to the Company by such Indemnified Person expressly for inclusion in any such Registration Statement, preliminary prospectus, final prospectus or free writing prospectus or any such amendment thereof or supplement thereto and (ii) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person and shall survive the transfer of the Registrable Securities by the Holders pursuant to Section 9.

(b) In connection with any Registration Statement in which a Holder is participating, each such Holder agrees, severally and not jointly, to indemnify, hold harmless and defend, to the same extent and in the same manner as is set forth in Section 6(a), the Company, each of its directors, each of its officers who signs the Registration Statement, each Person, if any, who controls the Company within the meaning of the 1933 Act or the 1934 Act (each an **"Indemnified Party"**), against any Claim or Indemnified Damages to which any of them may become subject, under the 1933 Act, the 1934 Act or otherwise, insofar as such Claim or Indemnified Damages arise out of or are based upon any Violation, in each case to the extent, and only to the extent, that such Violation occurs in reliance upon and in conformity with written information furnished to the Company by such

Holder expressly for inclusion in Registration Statement, preliminary prospectus, final prospectus or free writing prospectus and, subject to Section 6(c), such Holder will reimburse any legal or other expenses reasonably incurred by an Indemnified Party in connection with investigating or defending any such Claim; provided, however, that the indemnity agreement contained in this Section 6(b) and the agreement with respect to contribution contained in Section 7 shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of such Holder; provided, further, however, that the Holder shall be liable under this Section 6 for only that amount of a Claim or Indemnified Damages as does not exceed the net proceeds to such Holder as a result of the sale of Registrable Securities pursuant to such Registration Statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnified Party and shall survive the transfer of the Registrable Securities by the Holders pursuant to Section 9.

(c) Promptly after receipt by an Indemnified Person or Indemnified Party under this Section 6 of notice of the commencement of any action or proceeding (including any governmental action or proceeding) involving a Claim, such Indemnified Person or Indemnified Party shall, if a Claim in respect thereof is to be made against any indemnifying party under this Section 6, deliver to the indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the indemnifying party and the Indemnified Person or the Indemnified Party, as the case may be; provided, however, that an Indemnified Person or Indemnified Party shall have the right to retain its own counsel with the fees and expenses of not more than one counsel for such Indemnified Person or Indemnified Party to be paid by the indemnifying party, if, the representation by such counsel of the Indemnified Person or Indemnified Party and the indemnifying party would be inappropriate due to actual or potential differing interests between such Indemnified Person or Indemnified Party and any other party represented by such counsel in such proceeding. In the case of an Indemnified Person, legal counsel referred to in the immediately preceding sentence shall be selected by the Holders holding a majority in interest of the Registrable Securities included in the Registration Statement to which the Claim relates. The Indemnified Party or Indemnified Person shall cooperate with the indemnifying party in connection with any negotiation or defense of any such action or Claim by the indemnifying party and shall furnish to the indemnifying party all information reasonably available to the Indemnified Party or Indemnified Person which relates to such action or Claim. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this Section 6, except to the extent that the indemnifying party is prejudiced in its ability to defend such action but the omission to so notify the indemnifying party will not relieve such indemnifying party of any liability that it may have to any Indemnified Person or Party otherwise than under this Section 6(c), including under Section 6(e).

(d) The indemnification required by this Section 6 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or Indemnified Damages are incurred.

(e) The indemnity agreements contained herein shall be in addition to (i) any cause of action or similar right of the Indemnified Party or Indemnified Person against the indemnifying party or others, and (ii) any liabilities the indemnifying party may be subject to pursuant to the law.

7. CONTRIBUTION.

To the extent any indemnification by an indemnifying party is prohibited or limited by law or insufficient to hold an Indemnified Person or an Indemnified Party, as the case may be, harmless, then the indemnifying party, in lieu of indemnifying such Indemnified Person or Indemnified Party hereunder, shall contribute to the amount paid or payable by such Indemnified Person or Indemnified Party as a result of such Claims and Indemnified Damages (each as defined in Section 6(a) above) in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the Indemnified Person or Indemnified Party, as the case may be, on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the Indemnified Person or Indemnified Party, as the case may be, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the Indemnified Person or Indemnified Party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission.

Notwithstanding the foregoing, (i) no person involved in the sale of Registrable Securities, which person is guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) in connection with such sale, shall be entitled to contribution from any person involved in such sale of Registrable Securities who was not guilty of fraudulent misrepresentation; and (ii) contribution by any seller of Registrable Securities shall be limited in amount to the net amount of proceeds received by such seller from the sale of such Registrable Securities pursuant to such Registration Statement.

8. REPORTS UNDER THE 1934 ACT.

With a view to making available to the Holders the benefits of Rule 144 promulgated under the 1933 Act or any other similar rule or regulation of the SEC that may at any time permit the Holders to sell securities of the Company to the public without registration (**"Rule 144"**), the Company agrees to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144;

(b) file with the SEC in a timely manner all reports and other documents required by the Company under the 1993 Act and the 1934 Act so long as the Company remains subject to such requirements and the filing of such reports and other documents is required for the applicable provisions of Rule 144; and

(c) furnish to each Holder so long as such Holder owns Registrable Securities, promptly upon request, (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144, the 1933 Act and the 1934 Act, (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested to permit the Holders to sell such securities pursuant to any rule or regulation of the SEC allowing the Holder to sell any securities without registration.

9. ASSIGNMENT OF REGISTRATION RIGHTS.

The rights under this Agreement shall be freely assignable, in whole or in part at any time and from time to time during the Registration Period, by the Holder to any transferee of all or any portion of a Capital Note or of the Registrable Securities (provided that, in the case of the transfer of Registrable Securities only, the rights under the Agreement may be transferred only if the Holder reasonably believes that such transferee cannot immediately make a public distribution of such Registrable Securities without restriction under any of the 1933 Act, the Israel Securities Law and other applicable securities laws) if: (i) the Holder agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement is furnished to the Company within a reasonable time after such transfer or assignment; (ii) the Company is, within a reasonable time after such transfer or assignment, furnished with written notice of (a) the name and address of such transferee or assignee, and (b) the securities with respect to which such registration rights are being transferred or assigned; and (iii) within a reasonable period of time after such transfer or assignment, the transferee or assignee agrees in writing with the Company to be bound by all of the provisions contained herein. At the transferee's request, the Company shall promptly prepare and file any required prospectus supplement under Rule 424(b)(3) of the 1933 Act or other applicable provision of the 1933 Act and/or the Israel Securities Law to appropriately amend the list of selling shareholders thereunder to include such transferee.

10. AMENDMENT OF REGISTRATION RIGHTS.

Provisions of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the Holders. Any amendment or waiver effected in accordance with this Section 10 shall be binding upon each Holder and the Company. No such amendment shall be effective to the extent that it applies to less than all of the Holders of the Registrable Securities. No consideration shall be offered or paid to any Person to amend or consent to a waiver or modification of any provision of any of this Agreement unless the same consideration also is offered to all of the parties to this Agreement.

11. OTHER REGISTRATION STATEMENTS; INCIDENTAL REGISTRATIONS; NO CONFLICTING AGREEMENTS.

(a) From and after the time of filing of any Registration Statement filed pursuant hereto and prior to the effectiveness thereof, the Company shall not file a registration statement (including any shelf registration statements) (other than on Form S-8) with the SEC with respect to any securities of the Company, provided that nothing herein shall limit the filing of any registration statement demanded to be filed pursuant to a "demand" right granted by the Company prior to the filing of any such Registration Statement. For the purposes of this Section 11(a) only, Registration Statement shall mean a Registration Statement that is filed for an amount of Registrable Securities, that the Holder believes in good faith can be reasonably sold pursuant to such Registration Statement.

(b) If at any time the Company shall determine to prepare and file with the SEC and/or the ISA a registration statement relating to an underwritten offering for its own account or the account of others under the 1933 Act and/or the Israel Securities Law of any of its equity securities, other than on Form F-4 or Form S-8 (each as promulgated under the 1933 Act) or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, then the Company shall send each Holder written notice of such determination and, if within twenty days after receipt of such notice, any such Holder shall so request in writing, the Company shall include in such registration statement all or any part of such Registrable Securities such Holder requests to be registered, subject to customary underwriter cutbacks applicable on a basis consistent with the Company's obligation to other existing holders of registration rights.

(c) The Company represents and warrants to the Holder that the Company is not a party to any agreement that conflicts in any manner with the Holder's rights to cause the Company to register Registrable Shares pursuant to this Agreement.

12. MISCELLANEOUS.

(a) Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered: (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) three business days after deposit if deposited in the mail for mailing by certified mail, postage prepaid, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

to the Borrower at:	Tower Semiconductor Ltd. P.O. Box 619 Migdal Haemek Israel Facsimile: (04) 604 7242 Attention: Oren Shirazi Acting Chief Financial Officer
with a copy to (which shall not constitute notice):	Yigal Arnon & Co. 1 Azrieli Center 46th Floor, The Round Tower Tel-Aviv 67021 Israel Facsimile: (03) 608 7714 Attention: David H. Schapiro, Adv.
to the Bank at:	Corporate Division Migdal Levenstein 23 Menachem Begin Road Tel-Aviv Israel

Facsimile: (03) 567 2995
Attention: Head of Corporate Division

to any other Holder at: such address as shall be notified to the Company pursuant to Section 9 above.

(b) Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

(c) This Agreement shall be governed by and construed in accordance with the laws of the State of Israel as applicable to contracts between two residents of the State of Israel entered into and to be performed entirely within the State of Israel. Any dispute arising under or in relation to this Agreement shall be resolved in the competent court for Tel Aviv-Jaffa district, and each of the parties hereby submits irrevocably to the jurisdiction of such court.

(d) This Agreement constitutes the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein and therein. This Agreement supersedes all prior agreements and understandings among the parties hereto with respect to the subject matter hereof and thereof.

(e) Neither this Agreement, nor any of Tower's obligations hereunder, may be assigned by Tower, except with the prior written consent of all the Holders. Subject to the requirements of Section 9, this Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties hereto.

(f) The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(g) This Agreement may be executed in identical counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

(h) Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as another party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(i) The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent and no rules of strict construction will be applied against any party.

(j) This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

IN WITNESS WHEREOF, the parties have caused this amended and restated Registration Rights Agreement to be duly executed as of the day and year first above written.

TOWER SEMICONDUCTOR LTD.

By: _____

Name: _____

Title: _____

BANK HAPOALIM B.M.

By: _____

Name: _____

Title: _____

AMENDED AND RESTATED
REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this **"Agreement"**) originally made on September 28, 2006 by and between TOWER SEMICONDUCTOR LTD. (the **"Company"** or **"Tower"**), a company organized under the laws of the State of Israel, and BANK LEUMI LE-ISRAEL B.M., a banking corporation organized under the laws of the State of Israel (the **"Bank"**), is hereby amended and restated by the parties on September 25, 2008.

WHEREAS, Tower is an independent manufacturer of wafers whose Ordinary Shares are traded on the Nasdaq Stock Market (**"NASDAQ"**) under the symbol "TSEM" and whose Ordinary Shares and certain other securities are traded on the Tel-Aviv Stock Exchange (**"TASE"**) under the symbol "TSEM"; and

WHEREAS, the Bank and Bank Hapoalim B.M. (collectively, the **"Banks"**) and Tower are parties to a Facility Agreement dated January 18, 2001, as amended, as amended and restated on August 24, 2006, as further amended by Amendment No. 1 thereto dated September 10, 2007, as amended (the **"Facility Agreement"**); and

WHEREAS, the Bank and the Company are parties to a Conversion Agreement dated September 28, 2006 (the **"2006 Conversion Agreement"**); and

WHEREAS, at the request of Tower, the Banks and Tower have entered into an Amending Agreement to the Facility Agreement dated September 25, 2008 (the **"Amending Agreement"**), the conditions to the effectiveness of which include, *inter alia*, the issuance to each of the Banks or its nominee, of an equity-equivalent convertible capital note which will in turn be convertible, in whole or in part, by the Bank at any time and from time to time into shares of Tower and the entering into by the Bank and Tower of a conversion agreement (the **"2008 Conversion Agreement"**) and the amendment and restatement of this Agreement, in each case, on or prior to the date of the effectiveness of the Amending Agreement (the **"Amendment Closing Date"**); and

WHEREAS, clause 9.4 of the Facility Agreement, including as amended by the Amending Agreement, obligates the Company, under certain circumstances, to make a payment to the Banks which, subject to said clause 9.4 and the 2006 Conversion Agreement, can be paid in the form of shares, capital notes or convertible debentures (the **"Clause 9.4 Equity Issuances"**); and

WHEREAS the parties intend that the registration rights set forth in this Agreement be applicable with respect to all shares issuable upon conversion or exercise of any and all capital notes issued or issuable pursuant to the 2006 and 2008 Conversion Agreements and warrants held by the Bank or its affiliate, as well as with respect to the Clause 9.4 Equity Issuances; and

WHEREAS, the parties wish to amend and restate this Agreement in its entirety,

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Bank hereby agree as follows:

1. DEFINITIONS AND INTERPRETATION.

As used in this Agreement, the following terms shall have the following meanings:

(a) **"Capital Note"** means any capital note that is convertible into shares of Tower.

(b) **"Holder"** means the Bank, any nominee of the Bank to hold the Clause 9.4 Equity Issuances (the **"Nominee"**), any transferee or assignee to whom the Bank or the Nominee assigns its rights, in whole or in part, and any transferee or assignee thereof to whom a transferee or assignee assigns its rights, in accordance with Section 9.

(c) **"ISA"** means the Israel Securities Authority or any similar or successor agency of Israel administering the Israel Securities Law.

(d) **"Israel Securities Law"** means the Israel Securities Law, 5728-1968 (including the regulations promulgated thereunder), as amended.

(e) **"1933 Act"** means the U.S. Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute.

(f) **"1934 Act"** means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, or any similar successor statute.

(g) **"Register"**, **"registered"**, and **"registration"** refer to a registration effected by preparing and filing a registration statement in compliance with the 1933 Act and the effectiveness of such registration statement in accordance with the 1933 Act or the equivalent actions under the laws of another jurisdiction.

(h) **"Registrable Securities"** means: (i) the ordinary shares of the Company issued or issuable upon conversion of any Capital Note by any Holder, (ii) any ordinary shares issued as part of the Clause 9.4 Equity Issuances, including shares issued or issuable upon conversion of Capital Notes or convertible debentures issued as part of the Clause 9.4 Equity Issuances, which are held by any Holder, (iii) ordinary shares of the Company issued or issuable upon exercise of any Warrant, and (iv) any shares of capital stock issued or issuable with respect to the ordinary shares of the Company as a result of any stock split, stock dividend, rights offering, recapitalization, merger, exchange or similar event or otherwise, including as described in any Capital Note.

(i) **"Registration Statement"** means registration statements of the Company covering Registrable Securities filed from time to time with (a) the SEC under the 1933 Act, including the Form F-3 Registration Statement No. 333-131315 previously filed by the Company covering ordinary shares issuable upon the exercise of the 2003 Warrants and the 2005 Warrants, and (b) the ISA under the Israel Securities Law, to the extent required under the Israel Securities Law, so as to allow the Holder to freely resell the Registrable Securities in Israel, including on the TASE.

(j) **"SEC"** means the United States Securities and Exchange Commission or any similar or successor agency of the United States administering the 1933 Act.

(k) **"2003 Warrant"** means the warrant granted in 2003 to the Bank to purchase 448,298 (subject to adjustment in accordance with such warrant) shares of Tower.

(l) **"2005 Warrant"** means the warrant granted in 2005 to the Bank to purchase 4,132,232 (subject to adjustment in accordance with such warrant) shares of Tower.

(m) **"2007 Warrant"** means the warrant granted in 2007 to the Bank to purchase 1,000,000 (subject to adjustment in accordance with such warrant) shares of Tower.

(n) **"Warrant"** means the 2003 Warrant, the 2005 Warrant and the 2007 Warrant, or any of them or any portion thereof as any of such Warrants may be amended at any time or from time to time.

In this Agreement:

(a) Words importing the singular shall include the plural and *vice versa* and words importing any gender shall include all other genders and references to persons shall include partnerships, corporations and unincorporated associations.

(b) Any reference in this Agreement to a specific form or to any rule or regulation adopted by the SEC shall also include any successor form or amended or successor rule or regulation subsequently adopted by the SEC, all as the same may be in effect at the time.

(c) Any reference in this Agreement to a statute, act or law shall be construed as a reference to such statute, act or law as the same may have been, or may from time to time be, amended or reenacted.

(d) A **"person"** shall be construed as a reference to any person, firm, company, corporation, government, state or agency of a state or any association or partnership (whether or not having separate legal personality) or two or more of the aforegoing.

(e) **"Including"** and **"includes"** means, including, without limiting the generality of any description preceding such terms.

(f) The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

2. DEMAND REGISTRATION.

(a) The Company shall prepare, and, as soon as practicable but in no event later than 45 days after each date on which the Company receives a written request from the Bank from time to time, file with the SEC a Registration Statement on Form F-3 and make all required filings with the ISA covering the resale of all, or at the request of the Bank, any portion of the then Registrable Securities that are not already registered. The Company shall use its best efforts to have the Registration Statement declared effective by the SEC and the ISA as soon as possible after such filing with the SEC and the ISA.

(b) In the event that Form F-3 shall not be available for the registration of the resale of Registrable Securities hereunder, the Company shall (i) register the resale of the Registrable Securities on another appropriate form reasonably acceptable to the Holders of the Registrable Securities to be registered on such Registration Statement and (ii) undertake to register the Registrable Securities on Form F-3 as soon as such form is available, provided that, in each such event, the Company shall maintain the effectiveness of the Registration Statement then in effect until such time as a Registration Statement on Form F-3 covering the Registrable Securities has been declared effective by the SEC.

3. RELATED OBLIGATIONS.

(a) Following the filing and effectiveness of each Registration Statement with the SEC pursuant to Section 2(a), the Company shall keep the Registration Statement effective pursuant to Rule 415 of the 1933 Act and under the Israel Securities Law at all times until the earlier of (i) the date as of which all of the Holders confirm to the Company in writing that they may sell all of the Registrable Securities covered by such Registration Statement without restriction pursuant to all of the following: (x) Rule 144(k) under the 1933 Act, (y) the Israel Securities Law and (z) other securities or "blue sky" laws of each jurisdiction in which the Company obtained a registration or qualification in accordance with Section 3(d) below or (ii) the date on which the Holders shall have sold all the Registrable Securities covered by such Registration Statement (A) in accordance with such Registration Statement (except to another Holder pursuant to Section 9) or (B) to the public pursuant to Rule 144 under the 1933 Act (the "**Registration Period"**), the Company to ensure that such Registration Statement (including any amendments or supplements thereto and prospectuses contained therein) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, subject to Section 3(e) below.

(b) The Company shall prepare and file with the SEC and the ISA (to the extent required) such amendments (including post-effective amendments) and supplements to each Registration Statement and the prospectus used in connection with such Registration Statement, which prospectus is to be filed pursuant to Rule 424 under the 1933 Act or under the Israel Securities Law, as may be necessary to keep such Registration Statement effective at all times during the Registration Period, and, during such period, comply with the provisions of the 1933 Act and the Israel Securities Law with respect to the disposition of all Registrable Securities of the Company covered by such Registration Statement until such time as all of such Registrable Securities shall have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof as set forth in such Registration Statement, which, for the avoidance of doubt, shall include sales on the Nasdaq Stock Market and the TASE, as well as sales not made on such exchanges. In the case of amendments and supplements to a Registration Statement which are required to be filed pursuant to the Agreement (including pursuant to this Section 3(b) by reason of the Company filing a report on Form 20-F, Form 6-K or any

analogous report under the 1934 Act), the Company shall have incorporated such report by reference into the Registration Statement, if applicable, or shall file such amendments or supplements with the SEC and the ISA on the same day on which the 1934 Act report is filed which created the requirement for the Company to amend or supplement the Registration Statement.

(c) The Company shall furnish each Holder whose Registrable Securities are included in any Registration Statement, without charge, (i) promptly after the same is prepared and filed with the SEC, at least three (3) copies of such Registration Statement and any amendment(s) thereto, including financial statements and schedules, all documents incorporated therein by reference, all exhibits and each preliminary prospectus (or such other number of copies as such Holder may reasonably request), (ii) upon the effectiveness of any Registration Statement, at least ten (10) copies of the prospectus included in such Registration Statement and all amendments and supplements thereto (or such other number of copies as such Holder may reasonably request) and (iii) such other documents, including copies of any preliminary or final prospectus and of any Registration Statements and prospectuses filed with the ISA, as such Holder may reasonably request from time to time in order to facilitate the disposition of the Registrable Securities owned by such Holder.

(d) The Company shall use its best efforts to (i) register and qualify, unless an exemption from registration and qualification applies, the resale by the Holders of the Registrable Securities covered by a Registration Statement under such other securities or "blue sky" laws of all the states of the United States, (ii) prepare and file in those jurisdictions, such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof during the Registration Period, (iii) take such other actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period, and (iv) take all other actions reasonably necessary or advisable to qualify the Registrable Securities for sale in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to (x) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(d), or (y) file a general consent to service of process in any such jurisdiction. The Company shall promptly notify each Holder who holds Registrable Securities of the receipt by the Company of any notification with respect to the suspension of the registration or qualification of any of the Registrable Securities for sale under the securities or "blue sky" laws of any jurisdiction in the United States or its receipt of actual notice of the initiation or threatening of any proceeding for such purpose.

(e) The Company shall notify each Holder in writing of the happening of any event, as promptly as practicable after becoming aware of such event, as a result of which the prospectus included in a Registration Statement, as then in effect, includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The Company shall use its best efforts to minimize the period of time during which a Registration Statement includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The Company shall promptly notify each Holder in writing (i) when a prospectus or any prospectus supplement or post-effective amendment has been filed so that the Registration Statement does not include an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and when a Registration Statement or any post-effective amendment has become effective (notification of such effectiveness shall be delivered to each Holder by facsimile on the same day of such effectiveness and by overnight mail), (ii) of any request by the SEC or the ISA for amendments or supplements to a Registration Statement or related prospectus or related information, and (iii) of the Company's reasonable determination that a post-effective amendment to a Registration Statement would be appropriate.

(f) The Company shall use its best efforts to prevent the issuance of any stop order or other suspension of effectiveness of a Registration Statement, or the suspension of the qualification of any of the Registrable Securities for sale in any jurisdiction and, if such an order or suspension is issued, to obtain the withdrawal of such order or suspension at the earliest possible moment and to notify each Holder who holds Registrable Securities being sold of the issuance of such order and the resolution thereof or its receipt of actual notice of the initiation or threat of any proceeding for such purpose.

(g) The Company shall cause all the Registrable Securities covered by a Registration Statement to be listed on each securities exchange on which securities of the same class or series issued by the Company are then listed, including the NASDAQ and the TASE. The Company shall deliver to the Holders a copy of the approvals of the TASE and the NASDAQ (and/or any other exchange, if applicable) to the listing of the Registrable Securities covered by such Registration Statement on such exchange, in the case of the TASE, by not later than the Amendment Closing Date, and in the case of the NASDAQ (and/or other applicable exchanges) not later than the effective date of such Registration Statement.

(h) The Company shall cooperate with the Holders who hold Registrable Securities being offered and, to the extent applicable, facilitate the timely preparation and delivery of certificates (not bearing any restrictive legend) representing the Registrable Securities to be offered pursuant to a Registration Statement and enable such certificates to be in such denominations or amounts, as the case may be, as the Holders may reasonably request and registered in such names as the Holders may request.

(i) The Company shall provide a transfer agent and registrar of all Registrable Securities and a CUSIP number not later than the effective date of the applicable Registration Statement.

(j) If requested by a Holder, the Company shall (i) as soon as practicable incorporate in a prospectus supplement or post-effective amendment such information as a Holder requests to be included therein, information with respect to the number of Registrable Securities being offered or sold, the purchase price being paid therefor and any other terms of the offering of the Registrable Securities to be sold in such offering; (ii) as soon as practicable make all required filings of such prospectus supplement or post-effective amendment after being notified of the matters to be incorporated in such prospectus supplement or post-effective amendment; and (iii) as soon as practicable, supplement or make amendments to any Registration Statement if reasonably requested by a Holder of such Registrable Securities.

(k) In the event of any underwritten public offering of the Registrable Securities, enter into and perform its obligations under an underwriting agreement with usual and customary terms that are generally satisfactory to the managing underwriter of such offering. The Holder shall also enter into and perform its obligations under such an agreement (the terms of which must be satisfactory to the Holder if the Holder is to participate in such offering).

(l) The Company shall afford the Holder and its representatives (including counsel) the opportunity at any time and from time to time during the

Registration Period to make such examinations of the business affairs and other material financial and corporate documents of the Company and its subsidiaries as the Holder may reasonably deem necessary to satisfy itself as to the accuracy of the Registration Statement (subject to a reasonable confidentiality undertaking on the part of the Holder and its representatives).

(m) The Company shall furnish, at the request of the Holder in connection with the registration of Registrable Shares pursuant to this Agreement, on the date that such Registrable Shares are delivered to the underwriters for sale, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the Registration Statement with respect to such securities becomes effective and on the date of each post-effective amendment thereof: (i) an opinion, dated such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holder; and (ii) a letter, dated such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holder.

(n) The Company shall comply with all applicable rules and regulations of the SEC and shall make generally available to its security holders an earnings statement satisfying the provisions of Section 11(a) of the 1933 Act as soon as practicable after the effective date of the Registration Statement and in any event no later than 45 days after the end of a 12-month period (or 90 days, if such period is a fiscal year) beginning with the first month of the Company's first fiscal quarter commencing after the effective date of the Registration Statement.

4. OBLIGATIONS OF THE HOLDERS.

Each Holder agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in the first sentence of Section 3(e) or the issuance of any stop order or suspension as referred to in Section 3(f), such Holder will immediately discontinue disposition of Registrable Securities pursuant to any Registration Statement(s) covering such Registrable Securities until such Holder's receipt of the copies of the supplemented or amended prospectus contemplated by clause (i) of Section 3(e) or receipt of notice that no supplement or amendment is required.

5. EXPENSES OF REGISTRATION.

All expenses, other than underwriting discounts and commissions, incurred in connection with registrations, filings or qualifications pursuant to Sections 2 and 3, including, without limitation, all registration, listing and qualifications fees, printers and accounting fees, fees and disbursements of counsel to the Company and the Holders, including in connection with such examinations described in Section 3(l) above, shall be paid by the Company.

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6. INDEMNIFICATION.

In the event any Registrable Securities are included in a Registration Statement under this Agreement:

(a) To the fullest extent permitted by law, the Company will, and hereby does, indemnify, hold harmless and defend each Holder, the directors, officers, partners, employees, agents, representatives of, and each Person, if any, who controls any Holder within the meaning of the 1933 Act or 1934 Act (each, an **"Indemnified Person"**), against any losses, claims, damages, liabilities, judgments, fines, penalties, charges, costs, reasonable attorneys' fees, amounts paid in settlement or expenses, joint or several, (collectively, **"Claims"**) incurred in investigating, preparing or defending any action, claim, suit, inquiry, proceeding, investigation or appeal taken from the foregoing by or before any court or governmental, administrative or other regulatory agency, body or the SEC or the ISA, whether pending or threatened, whether or not a person to be indemnified is or may be a party thereto (**"Indemnified Damages"**), to which any of them may become subject insofar as such Claims (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon: (i) any untrue statement or alleged untrue statement of a material fact in a Registration Statement or any post-effective amendment thereto or in any filing made in connection with the qualification of the offering under the securities or other "blue sky" laws of any jurisdiction in which Registrable Securities are offered (**"Blue Sky Filing"**), or the omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement, preliminary prospectus, final prospectus or "free writing prospectus" (as such term is defined in Rule 405 under the 1933 Act) or any amendment or supplement to any such prospectus or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading, (iii) any violation or alleged violation by the Company of the 1933 Act, the 1934 Act, any other law, including, without limitation, any state securities law, the Israel Securities Law or any rule or regulation thereunder relating to the offer or sale of the Registrable Securities pursuant to a Registration Statement or (iv) any material violation of this Agreement (the matters in the foregoing clauses (i) through (iv) being, collectively, "Violations"). Subject to Section 6(c), the Company shall reimburse the Indemnified Persons promptly as such expenses are incurred and are due and payable, for any legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 6(a): (i) shall not apply to a Claim by an Indemnified Person arising out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to the Company by such Indemnified Person expressly for inclusion in any such Registration Statement, preliminary prospectus, final prospectus or free writing prospectus or any such amendment thereof or supplement thereto and (ii) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person and shall survive the transfer of the Registrable Securities by the Holders pursuant to Section 9.

(b) In connection with any Registration Statement in which a Holder is participating, each such Holder agrees, severally and not jointly, to indemnify, hold harmless and defend, to the same extent and in the same manner as is set forth in Section 6(a), the Company, each of its directors, each of its officers who signs the Registration Statement, each Person, if any, who controls the Company within the meaning of the 1933 Act or the 1934 Act (each an **"Indemnified Party"**), against any Claim or Indemnified Damages to which any of them may become subject, under the 1933 Act, the 1934 Act or otherwise, insofar as such Claim or Indemnified Damages arise out of or are based upon any Violation, in each case to the extent, and only to the extent, that such Violation occurs in reliance upon and in conformity with written information furnished to the Company by such Holder expressly for inclusion in Registration Statement, preliminary prospectus, final prospectus or free writing prospectus and, subject to Section 6(c), such Holder will reimburse any legal or other expenses reasonably incurred by an Indemnified Party in connection with investigating or defending any such Claim; provided, however, that the indemnity agreement contained in this Section 6(b) and the agreement with respect to contribution contained in Section 7 shall not apply to amounts paid in settlement of any Claim if such settlement is effected

without the prior written consent of such Holder; provided, further, however, that the Holder shall be liable under this Section 6 for only that amount of a Claim or Indemnified Damages as does not exceed the net proceeds to such Holder as a result of the sale of Registrable Securities pursuant to such Registration Statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnified Party and shall survive the transfer of the Registrable Securities by the Holders pursuant to Section 9.

(c) Promptly after receipt by an Indemnified Person or Indemnified Party under this Section 6 of notice of the commencement of any action or proceeding (including any governmental action or proceeding) involving a Claim, such Indemnified Person or Indemnified Party shall, if a Claim in respect thereof is to be made against any indemnifying party under this Section 6, deliver to the indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the indemnifying party and the Indemnified Person or the Indemnified Party, as the case may be; provided, however, that an Indemnified Person or Indemnified Party shall have the right to retain its own counsel with the fees and expenses of not more than one counsel for such Indemnified Person or Indemnified Party to be paid by the indemnifying party, if, the representation by such counsel of the Indemnified Person or Indemnified Party and the indemnifying party would be inappropriate due to actual or potential differing interests between such Indemnified Person or Indemnified Party and any other party represented by such counsel in such proceeding. In the case of an Indemnified Person, legal counsel referred to in the immediately preceding sentence shall be selected by the Holders holding a majority in interest of the Registrable Securities included in the Registration Statement to which the Claim relates. The Indemnified Party or Indemnified Person shall cooperate with the indemnifying party in connection with any negotiation or defense of any such action or Claim by the indemnifying party and shall furnish to the indemnifying party all information reasonably available to the Indemnified Party or Indemnified Person which relates to such action or Claim. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this Section 6, except to the extent that the indemnifying party is prejudiced in its ability to defend such action but the omission to so notify the indemnifying party will not relieve such indemnifying party of any liability that it may have to any Indemnified Person or Party otherwise than under this Section 6(c), including under Section 6(e).

(d) The indemnification required by this Section 6 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or Indemnified Damages are incurred.

(e) The indemnity agreements contained herein shall be in addition to (i) any cause of action or similar right of the Indemnified Party or Indemnified Person against the indemnifying party or others, and (ii) any liabilities the indemnifying party may be subject to pursuant to the law.

7. CONTRIBUTION.

To the extent any indemnification by an indemnifying party is prohibited or limited by law or insufficient to hold an Indemnified Person or an Indemnified Party, as the case may be, harmless, then the indemnifying party, in lieu of indemnifying such Indemnified Person or Indemnified Party hereunder, shall contribute to the amount paid or payable by such Indemnified Person or Indemnified Party as a result of such Claims and Indemnified Damages (each as defined in Section 6(a) above) in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the Indemnified Person or Indemnified Party, as the case may be, on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the Indemnified Person or Indemnified Party, as the case may be, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the Indemnified Person or Indemnified Party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission.

Notwithstanding the foregoing, (i) no person involved in the sale of Registrable Securities, which person is guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) in connection with such sale, shall be entitled to contribution from any person involved in such sale of Registrable Securities who was not guilty of fraudulent misrepresentation; and (ii) contribution by any seller of Registrable Securities shall be limited in amount to the net amount of proceeds received by such seller from the sale of such Registrable Securities pursuant to such Registration Statement.

8. REPORTS UNDER THE 1934 ACT.

With a view to making available to the Holders the benefits of Rule 144 promulgated under the 1933 Act or any other similar rule or regulation of the SEC that may at any time permit the Holders to sell securities of the Company to the public without registration (**"Rule 144"**), the Company agrees to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144;

(b) file with the SEC in a timely manner all reports and other documents required by the Company under the 1993 Act and the 1934 Act so long as the Company remains subject to such requirements and the filing of such reports and other documents is required for the applicable provisions of Rule 144; and

(c) furnish to each Holder so long as such Holder owns Registrable Securities, promptly upon request, (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144, the 1933 Act and the 1934 Act, (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested to permit the Holders to sell such securities pursuant to any rule or regulation of the SEC allowing the Holder to sell any securities without registration.

9. ASSIGNMENT OF REGISTRATION RIGHTS.

The rights under this Agreement shall be freely assignable, in whole or in part at any time and from time to time during the Registration Period, by the Holder to any transferee of all or any portion of a Capital Note or of the Registrable Securities (provided that, in the case of the transfer of Registrable Securities only, the rights under the Agreement may be transferred only if the Holder reasonably believes that such transferee cannot immediately make a

public distribution of such Registrable Securities without restriction under any of the 1933 Act, the Israel Securities Law and other applicable securities laws) if: (i) the Holder agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement is furnished to the Company within a reasonable time after such transfer or assignment; (ii) the Company is, within a reasonable time after such transfer or assignment, furnished with written notice of (a) the name and address of such transferee or assignee, and (b) the securities with respect to which such registration rights are being transferred or assigned; and (iii) within a reasonable period of time after such transfer or assignment, the transferee or assignee agrees in writing with the Company to be bound by all of the provisions contained herein. At the transferee's request, the Company shall promptly prepare and file any required prospectus supplement under Rule 424(b)(3) of the 1933 Act or other applicable provision of the 1933 Act and/or the Israel Securities Law to appropriately amend the list of selling shareholders thereunder to include such transferee.

10. AMENDMENT OF REGISTRATION RIGHTS.

Provisions of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the Holders. Any amendment or waiver effected in accordance with this Section 10 shall be binding upon each Holder and the Company. No such amendment shall be effective to the extent that it applies to less than all of the Holders of the Registrable Securities. No consideration shall be offered or paid to any Person to amend or consent to a waiver or modification of any provision of any of this Agreement unless the same consideration also is offered to all of the parties to this Agreement.

11. OTHER REGISTRATION STATEMENTS; INCIDENTAL REGISTRATIONS; NO CONFLICTING AGREEMENTS.

(a) From and after the time of filing of any Registration Statement filed pursuant hereto and prior to the effectiveness thereof, the Company shall not file a registration statement (including any shelf registration statements) (other than on Form S-8) with the SEC with respect to any securities of the Company, provided that nothing herein shall limit the filing of any registration statement demanded to be filed pursuant to a "demand" right granted by the Company prior to the filing of any such Registration Statement. For the purposes of this Section 11(a) only, Registration Statement shall mean a Registration Statement that is filed for an amount of Registrable Securities, that the Holder believes in good faith can be reasonably sold pursuant to such Registration Statement.

(b) If at any time the Company shall determine to prepare and file with the SEC and/or the ISA a registration statement relating to an underwritten offering for its own account or the account of others under the 1933 Act and/or the Israel Securities Law of any of its equity securities, other than on Form F-4 or Form S-8 (each as promulgated under the 1933 Act) or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, then the Company shall send each Holder written notice of such determination and, if within twenty days after receipt of such notice, any such Holder shall so request in writing, the Company shall include in such registration statement all or any part of such Registrable Securities such Holder requests to be registered, subject to customary underwriter cutbacks applicable on a basis consistent with the Company's obligation to other existing holders of registration rights.

(c) The Company represents and warrants to the Holder that the Company is not a party to any agreement that conflicts in any manner with the Holder's rights to cause the Company to register Registrable Shares pursuant to this Agreement.

12. MISCELLANEOUS.

(a) Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered: (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) three business days after deposit if deposited in the mail for mailing by certified mail, postage prepaid, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

to the Borrower at:	Tower Semiconductor Ltd. P.O. Box 619 Migdal Haemek Israel Facsimile: (04) 604 7242 Attention: Oren Shirazi Acting Chief Financial Officer
with a copy to (which shall not constitute notice):	Yigal Arnon & Co. 1 Azrieli Center 46th Floor, The Round Tower Tel-Aviv 67021 Israel Facsimile: (03) 608 7714 Attention: David H. Schapiro, Adv.
to the Bank at:	Corporate Division 34 Yehuda Halevi Street Tel-Aviv Israel Fax: 972-3-5149278 Attn: Head of Corporate Division
to any other Holder at:	such address as shall be notified to the Company pursuant to Section 9 above.

(b) Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

(c) This Agreement shall be governed by and construed in accordance with the laws of the State of Israel as applicable to contracts between two residents of the State of Israel entered into and to be performed entirely within the State of Israel. Any dispute arising under or in relation to this Agreement shall be resolved in the competent court for Tel Aviv-Jaffa district, and each of the parties hereby submits irrevocably to the jurisdiction of such court.

(d) This Agreement constitutes the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein and therein. This Agreement supersedes all prior agreements and understandings among the parties hereto with respect to the subject matter hereof and thereof.

(e) Neither this Agreement, nor any of Tower's obligations hereunder, may be assigned by Tower, except with the prior written consent of all the Holders. Subject to the requirements of Section 9, this Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties hereto.

(f) The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(g) This Agreement may be executed in identical counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

(h) Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as another party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(i) The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent and no rules of strict construction will be applied against any party.

(j) This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

IN WITNESS WHEREOF, the parties have caused this amended and restated Registration Rights Agreement to be duly executed as of the day and year first above written.

TOWER SEMICONDUCTOR LTD.

By: _____

Name: _____

Title: _____

BANK LEUMI LE-ISRAEL B.M.

By: _____

Name: _____

Title: _____

Exhibit 4.93

September 25, 2008

Tower Semiconductor Ltd.

Re: **Undertaking**

1. General Provisions

1.1. This undertaking (hereinafter: **"this Undertaking"**) has been furnished by Israel Corporation Ltd. (hereinafter: the **"Company"** or the **"Safety Net Investor"**) as part of arrangements that were requested by Bank Hapoalim B.M. and Bank Leumi le-Israel B.M. (hereinafter: the "**Banks**") in order to facilitate, and as a condition to, the debt restructuring pursuant to the letter between the Banks, Tower Semiconductor Ltd. (hereinafter: "**Tower**") and the Company, dated August 19, 2008 (the "**MOU**"). This Undertaking shall neither confer any rights or remedies upon, nor create any obligations by, the Company to any person (including, for the avoidance of doubt, any of Tower's shareholders), other than Tower.

1.2. This Undertaking is furnished by the Company in connection with Tower's obligation under the Facility Agreement to raise Additional Capital (as defined in Section 2 below) of US $20 million by no later than December 31, 2009.

1.3. The maximum aggregate amount of the Safety Net Investments (as defined in Section 2 below), that Tower may require from the Company pursuant to this Undertaking is limited to US $20 million. The said maximum aggregate amount of Safety Net Investments by the Company will be decreased by any amount actually raised as Additional Capital by Tower prior to December 31, 2009.

2. Definitions and Interpretation

With regard to this Undertaking, the terms below shall have the following meanings:

2.1. "**Additional Capital**" shall mean US $20 million which Tower is required to raise pursuant to clause 16.27 of the Facility Agreement, a copy of which clause is attached as **Schedule 1** hereto.

2.2. **"Business Day"** means a day (other than Friday or Saturday) on which banks generally are open for trading in Israel in US Dollars.

2.3. **"Capital Notes"** means the Capital Notes (in the same form, *mutatis mutandis*, as those issued to the Company by Tower on or about the date of this Undertaking), that will be convertible into ordinary shares of Tower at a rate equal to the Amount to be Paid (as defined below in Section 3.1) pursuant to each Contribution Notice divided by the lower of: (i) the average closing price of Tower's ordinary shares on the NASDAQ for the last ten trading days prior to the date on which such Safety Net Investment is made, and (ii) US $0.71 per share, representing the average closing price of the ordinary shares of Tower on the NASDAQ for the last ten trading days prior to August 7, 2008.

2.4. **"Contribution Notice"** means a notice substantially in the form set out in **Schedule 2** hereto pursuant to which Tower requests a Safety Net Investment to be made pursuant to Section 3 below.

2.5. **"Expiry Date"** means the earliest of: (i) the date on which Tower shall have fulfilled all of its obligations under clause 16.27 of the Facility Agreement (including, if applicable, by way of any written amendment or written waiver by the Banks (if any) to clause 16.27 that may reduce Tower's obligations thereunder); (ii) December 31, 2009 (subject to Section 4); and (iii) the date on which Safety Net Investments in an amount of US $20 million are made or the Safety Net Investments made plus the Additional Capital raised by Tower equals or exceeds US $20 million.

2.6. "**Facility Agreement**" shall mean the Facility Agreement that was executed between the Banks and Tower on January 18, 2001 including all amendments made from time to time thereto, as amended and restated on August 24, 2006, as further amended by Amendment No. 1 thereto dated September 10, 2007, and as further amended and restated on September 25, 2008.

2.7. **"Net Cash Balance"**, on any date, means the cash balance in the bank accounts of Tower (on a Tower only, unconsolidated, basis) on such date, less outstanding payments to the Banks and to third parties which have fallen due prior to or on such date, exclusive of any payment of interest or payment of principal (other than a mandatory prepayment under clause 8 of the Facility Agreement) by Tower to the Banks under the Facility Agreement. Any such interest or principal payments (other than a mandatory prepayment under clause 8 of the Facility Agreement) actually made by Tower to the Banks after the date hereof under the Facility Agreement but prior to the date of calculation of the Net Cash Balance, shall be deemed to be part of the cash balance.

For the avoidance of doubt, any recordal in the books of any Bank of any "technical"payment by Tower of the principal of its current Loans with the proceeds of "new loans" in order to implement the debt restructuring, as contemplated in the second paragraph of clause 2.1 of the Facility Agreement, shall not be considered a payment of principal.

2.8. **"Paid-in Equity"** shall bear the meaning ascribed to such term in clause 1.1.112 of the Facility Agreement, a copy of which clause is attached as **Schedule 3** hereto;

2.9. **"Project Accounts"** means: (i) account number 545454 at Bank Hapoalim, Migdal Haemek Branch, No. 728, in the name of Tower; and (ii) account number 13030062 at Bank Leumi, Haifa Branch, in the name of Tower.

2.10. **"Safety Net Investments"** means the amount received by Tower from the Safety Net Investor in cash in exchange for Capital Notes, or, in the circumstances referred to in the second paragraph of Section 3.1 below, Paid-in Equity or other securities of Tower, in form and substance satisfactory to Tower, the Company and the Banks (in the case of Paid-in Equity, in the same number of shares, or in the case of other securities

as aforesaid, convertible into the same number of shares, in each case as determined with respect to the Capital Notes in accordance with Section 2.3 above), issued to the Company by Tower.

2.11. **"TIC Amendment Closing Date Investment"** means the investment of US $20 million by way of capital notes made by the Company in Tower on or about the date of this Undertaking.

2.12. In this Undertaking, unless the context otherwise requires:

2.12.1. **"Affiliate"**, with respect to any person, mean any company which controls, is controlled by, or under common control with, such person; **"control"** shall in this clause 2.12.1 and in clause 2.12.5 below bear the meaning assigned to such term in Section 1 of the Securities Law, 1968;

2.12.2. **"including"** means including, without limiting the generality of any description preceding such terms;

2.12.3. **"law"** shall mean any Israeli statute, law, regulation, treaty, rule, official directive, request or guideline of any governmental, fiscal, monetary or regulatory body, agency, department or regulatory, self-regulatory or other authority or organisation;

2.12.4. a **"person"** shall be construed as a reference to any person, firm, company, corporation, government, state or agency of a state or any association or partnership (whether or not having separate legal personality) or two or more of the aforegoing;

2.12.5. **"Subsidiary"** of a person means any company which is directly or indirectly controlled by such person; and

2.12.6. **"US Dollars"** denotes the lawful currency of the United States of America.

2.13. Nothing herein shall deem the Company to be a party to the Facility Agreement.

3. The Undertaking

3.1. If from the date hereof and until the Expiry Date Tower's Net Cash Balance is less than US $10 million (subject to Section 4 below), Tower shall send a Contribution Notice to the Company requiring the Company to make a Safety Net Investment, in an amount equal to the larger of: (i) the amount by which Tower's Net Cash Balance on that date is less than US $10 million; and (ii) the amount of US $2 million (hereinafter: the **"Deficient Amount"**). The Deficient Amount will in no event exceed the difference between: (1) US $20 million and (2) the sum of: (a) the amount of Additional Capital in fact raised by Tower by such date (including Safety Net Investments already made by the Company pursuant to this Undertaking by way of Capital Notes or Paid-in Equity); and (b) Safety Net Investments already made by the Company pursuant to this Undertaking in accordance with the next following paragraph by way of securities of Tower (other than Capital Notes or Paid-in Equity) in form and substance satisfactory to Tower, the Company and the Banks (**"Other Acceptable Securities"**) (the relevant amount as aforesaid as shall be the subject of a Contribution Notice, hereinafter: the **"Amount to be Paid"**). The Company irrevocably undertakes that in the event that a Contribution Notice will be delivered as aforesaid, the Company will make, a Safety Net Investment in Tower in an amount equal to the Amount to be Paid, by no later than two Business Days after the date such Contribution Notice is received by the Company.

Such investment as aforesaid shall be made in Capital Notes unless prevented from doing so, in which event such investment shall be Paid-in Equity or in other Acceptable Securities (in the case of Paid-in Equity, in the same number of shares, or in the case of Other Acceptable Securities as aforesaid, convertible into the same number of shares, in each case as determined with respect to the Capital Notes in accordance with Section 2.3 above). This Undertaking is in addition to the TIC Amendment Closing Date Investment and, for the avoidance of doubt, the TIC Amendment Closing Date Investment shall not be considered a Safety Net Investment or Additional Capital hereunder.

3.2. For the avoidance of doubt, amounts invested by the Safety Net Investor by way of Paid-in Equity in a rights offering or private placement, as the case may be, shall also be counted as Safety Net Investments procured to be made by the Company for purposes of this Undertaking (as well as Additional Capital pursuant to Section 3.1 above).

3.3. Payments made in respect of any Safety Net Investment pursuant to this Section 3 shall be made only by way of cash deposit in US Dollars into one of the Project Accounts.

3.4. Within two Business Days after receipt of each Safety Net Investment, Tower shall issue Capital Notes (or, in the event that the second paragraph of Section 3.1 above shall be applicable, Paid-in Equity or Other Acceptable Securities) to the Company and shall record such issuance of Capital Notes (or Paid-in Equity or Other Acceptable Securities as aforesaid) in the name of the Company in the records of the Tower.

3.5. Tower will use its best efforts to obtain the approval of the Tel-Aviv Stock Exchange for the listing of the shares underlying the Capital Notes (or Paid-in Equity or Other Acceptable Securities as aforesaid).

4. Termination or Suspension of the Undertaking

4.1. This Undertaking shall terminate in the event that: (i) the Banks demand immediate payment of the outstanding amounts due to the Banks under the Facility Agreement; or (ii) the provisions of clause 17.8 of the Facility Agreement become applicable to Tower (other than in the case of a solvent re-organisation or proceedings with respect to less than all of Tower's revenues or assets), as a result of Proceedings instituted by the Banks, provided that such termination shall not apply in the event that the Banks' demand or proceedings as aforesaid was made or were instituted, as applicable, following any Proceedings as referred to in clause 17.8 of the Facility Agreement (including, for the avoidance of doubt, any freeze order *(Hakpa'at Halichim)* instituted by Tower, any Affiliate of Tower, the Company or any Affiliate of the Company.

4.2. In the event that the provisions of clause 17.8 of the Facility Agreement shall be applicable to Tower (other than in the case of a solvent re-organisation or proceedings with respect to less than all of Tower's revenues or assets) due to Proceedings instituted against Tower by a third party (that is , a person other than Tower, any Affiliate of Tower, the Company or any Affiliate of the Company), the Company's obligation to make Safety Net Investments shall be suspended for so long as such provisions of clause 17.8 are still in effect. Notwithstanding the suspension of the Company's obligations as aforesaid, once such suspension is lifted, the Company will be obligated, upon the lifting of such suspension, to make Safety Net Investments in compliance with Contribution Notices given prior to or during the period of such suspension (provided that such suspension is lifted on or prior to December 31, 2009.).

5. Entry of this Undertaking into Effect

This Undertaking will become effective upon:

5.1. the signature of, and fulfillment of the conditions precedent set out in clause 3 of, the Amending Agreement to the Facility Agreement, dated September 25, 2008 (the **"Amendment**") and confirmation thereof by the Banks and Tower pursuant to clause 3.1 of the Amendment; provided that, for the purpose of this Section 5.1, any condition precedent which is waived by the Banks, shall not be considered a condition precedent set out in said clause 3; and

5.2. the Amendment, this Undertaking and the issuance of the Capital Notes have received all necessary approvals of the Tower audit committee, Board of Directors and shareholders.

6. Company Obligation

Subject only to the express provisions of this Undertaking, the obligations of the Company under this Undertaking constitute the irrevocable and unconditional obligations of the Company and, for the avoidance of doubt, neither such obligations nor the rights, powers and remedies conferred upon Tower by this Undertaking or by law shall be discharged or otherwise affected by the failure by Tower to comply with clause 16.27 of the Facility Agreement or with its undertaking as set out in the foot of this Undertaking above Tower's signature.

7. No Set-Off or Counterclaim

All payments required to be made by the Company hereunder shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without deduction for or on account of any set-off or counterclaim.

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8. Representations and Warranties

8.1. The Company makes the representations and warranties set out in Sections 8.2 to 8.6 (inclusive) below on the date hereof and on the date on which this Undertaking becomes effective pursuant to Section 5 above. The Company acknowledges that each of the Banks has entered into the Amendment in reliance on these representations and warranties.

8.2. It is a company limited by shares, duly incorporated and validly existing under the laws of the place of its incorporation and has the power to own its property and assets and carry on its business as it is now being and will be conducted. No administrator, examiner, receiver, liquidator or similar officer has been appointed with respect to it or any material part of its assets nor (so far as it is aware) is any petition or proceeding for such appointment pending.

8.3. It has the power to enter into and perform this Undertaking and the transactions to be implemented pursuant thereto and has taken all necessary action to authorise the entry into and performance thereof. Without derogating from the generality of the foregoing, all authorisations, actions, approvals, consents and other matters required by law or by the Company's constitutional documents for its provision and performance of this Undertaking have been obtained or effected and are in full force and effect.

8.4. This Undertaking constitutes its legal, valid, binding and enforceable obligations of the Company.

8.5. The entry into and performance of this Undertaking and the transactions to be implemented pursuant thereto do not conflict with:

8.5.1. any law or regulation or any official or judicial order applicable to it in any respect, or

8.5.2. its constitutional documents or any of its resolutions (having current effect) in any respect, or

8.5.3. any agreement or instrument to which it is a party or which is binding upon it or on any of its assets.

9. Binding Agreement; No Transfer

Without derogating from the last sentence of Section 1.1, this Undertaking shall be binding on and enure to the benefit of each party hereto. Neither the Company nor Tower shall assign all or any of its rights, benefits and obligations under this Undertaking provided, that nothing herein shall prohibit the Company from procuring that a Subsidiary of the Company makes a Safety Net Investment and receives the Capital Notes related thereto.

10. Remedies and Waivers

No failure to exercise, nor any delay in exercising on the part of Tower, on the one hand, or the Company, on the other hand, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law. No waiver by Tower of any right hereunder shall be effective without the prior written consent of the Banks.

11. Notices

11.1. Notices to be given hereunder shall be in writing and may be given personally, by facsimile or, if not available, as required by Section 11.2 below. Any notice to be given to a party to another party must be given during normal business hours of such recipient party to the person and at the address designated below. If notice is sent by facsimile during normal business hours as aforesaid, it shall be deemed to have been served when confirmation of receipt by the intended recipient has been received. All notices given by facsimile shall be confirmed by letter dispatched in the manner provided in Section 11.2 within 24 (twenty-four) hours of transmission.

11.2. Any other notices to be given hereunder shall be served on an entity by prepaid express registered letter (or nearest equivalent) to its address given below or such other address as may from time to time be notified for this purpose and any notice so served shall be deemed to have been served within five days after the time at which such notice was posted and in proving such service, it shall be sufficient to prove that the notice was properly addressed and posted:

11.2.1.	to the Company:	Israel Corporation Ltd. 23 Arania St. Millennium Tower Tel-Aviv *Facsimile:* *03-684-4574* *Attention:* *Avisar Paz, CFO*
	with a copy to: (which shall not constitute notice)	Gornitzky &Co. 45 Rothschild Blvd. Tel-Aviv 65784 *Facsimile:* *03-560-6555* *Attention:* *Zvi Ephrat, Adv. and Benjamin Waltuch, Adv.*
11.2.2.	to Tower at:	Tower Semiconductor Ltd. P.O. Box 619 Migdal Haemek Israel *Facsimile:* *(04) 654 7788* *Attention:* *Chief Executive Officer*
	with a copy to: (which shall not constitute notice)	Yigal Arnon & Co. 1 Azrieli Center Tel-Aviv 67021 *Facsimile:* *(03) 608 7714* *Attention:* *David H. Schapiro, Adv.*

11.3. A copy of any notices sent under this Section 11 shall be sent:

11.3.1.	to Bank Hapoalim at:	Corporate Division Migdal Levenstein 23 Menachem Begin Road Tel-Aviv *Facsimile:* *(03) 567 2995* *Attention:* *Head of Corporate Division*
11.3.2.	to Bank Leumi at:	Corporate Division 32 Yehuda Halevi Street Tel-Aviv *Facsimile:* *(03) 514 9017* *Attention:* *Manager of Hi-Tech Industries Section*

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12. Amendments

Any addition, variation, modification or amendment to this Undertaking shall not be effective unless any such addition, variation, modification or amendment is in writing and signed by the authorised signatories of the Company and Tower and approved in writing by the Banks.

13. Counterparts

This Undertaking may be executed in any number of counterparts and by facsimile signature and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

14. Governing Law And Jurisdiction

This Undertaking shall be governed by and shall be construed in accordance with Israeli law and the courts of Tel-Aviv-Jaffa shall have exclusive jurisdiction to hear any matters.

15. Entire Agreement

15.1. This Undertaking constitutes the entire agreement between the parties with respect to the subject-matter hereof and supersedes any prior agreement, or arrangement amongst the parties. Drafts of this Undertaking exchanged between the parties shall not be used in interpretation of this Undertaking.

15.2. Nothing in this Undertaking shall in any way derogate from the obligations and undertakings under the outside investment undertaking attached hereto as Schedule 4.

16. Partial Invalidity

If any provision of any of this Undertaking is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

[Signature Page to Safety Net undertaking]

Sincerely,

Israel Corporation Ltd.

_____

By: _____

Title: _____

We hereby confirm and agree to the above and confirm that all corporate action to be taken by us (including by our Board of Directors, Audit Committee and by our shareholders) in order to approve the contents of the above Undertaking has been duly and properly obtained and the terms hereof constitute our legal, valid, binding and enforceable obligations

We undertake to use commercially reasonable efforts to fulfill our obligations to raise the US $20 million of new funds required under clause 16.27 of the Facility Agreement, which clause we will not amend without the prior written consent of Israel Corporation Ltd.

Tower Semiconductor Ltd.

_____

By: _____

Title: _____

S C H E D U L E 1

Clause 16.27 of the Facility Agreement

Investments in the Borrower

The Borrower shall procure the receipt by it by no later than December 31, 2009 of an amount of at least US $20,000,000 (twenty million United States Dollars) in: (a) Paid-in Equity; or (b) capital notes in form and substance the same as those issued to TIC on or about the Amendment Closing Date. For the purposes of the aforegoing, the Borrower's obligation as aforesaid is in addition to the investment of US $20,000,000 (twenty million United States Dollars) in capital notes made by TIC on or about the Amendment Closing Date which shall not be taken into account for this clause 16.27. For the avoidance of doubt, nothing contained in the TIC Safety Net Undertaking shall in any way derogate from the Borrower's obligations under this clause 16.27.

S C H E D U L E 2

Form of Contribution Notice

FROM: Tower Semiconductor Ltd. ("Tower")

To: Israel Corporation Ltd.

DATE: [*insert date, which shall be a date on or prior to the Expiry Date*]

Dear Sirs,

1. We refer to the Undertaking dated September 25, 2008 (**"the Undertaking"**) given by you to Tower. Terms defined in the Undertaking shall have the same meaning in this notice.

2. The Net Cash Balance was calculated as follows:

2.1 Cash Balance:
Tower's cash balance (based on Tower's bank account balances) as of ____ is ____.

2.2 Outstanding Payments due to Third Parties:
[payee]_____ - - US $____ due on ____, for _____.
[payee]_____ - - US $____ due on ____, for _____.

2.3 Outstanding payments due to the Banks (other than payments that would be included in paragraph 2.4 below):
Bank Hapoalim - US $____ due on ____, for _____.
Bank Leumi - US $ ____ due on ____, for _____.

2.4 Actual Principal (other than mandatory prepayment under clause 8 of the Facility Agreement) and Interest Payments made to the Banks since September 29, 2008: _____
Bank Hapoalim - US $____ due on ____, for _____.
Bank Leumi - US $ ____ due on ____, for _____.

3. We hereby give you notice that pursuant to the Undertaking, we require you to make, or procure to be made, a Safety Net Investment in an amount of at least US $_____ (_____) by no later than 2 Business Days following the date hereof, on the terms and conditions contained in the Undertaking.

_____

for and on behalf of
TOWER SEMICONDUCTOR LTD

S C H E D U L E 3

Clause 1.1.112 of the Facility Agreement

"Paid-in Equity" – means the aggregate amount paid-up in cash in respect of irredeemable ordinary share capital of the Borrower or in respect of the sale of warrants by the Borrower where the purchase price of such warrants is registered as owners' equity and is non-refundable and the purchaser or holder of such warrants shall not be entitled to claim refund of such purchase price (or any part thereof) under any circumstances whatsoever. For the removal of doubt: (i) for the purposes of this Agreement, any credit, prepayment or other entitlement granted to any person in respect of any amount paid-up in cash in respect of the irredeemable share capital of the Borrower or in respect of the sale of any warrant pursuant to agreements with such person shall not be regarded as Paid-in Equity and shall be deducted from the amount of such equity; (ii) the subsequent application of the debt of the Borrower represented by such credit, prepayment or other entitlement on account of the purchase price for shares of the Borrower shall not be considered Paid-in Equity at the time of such application; and (iii) the net amount credited in the books of the Borrower as irredeemable share capital as a consequence of the conversion of convertible debentures or any other securities of the Borrower issued or which may be issued by the Borrower shall not be considered Paid-in Equity at the time of such conversion;

S C H E D U L E 4

Outside Investment Undertaking

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (the "**Agreement**") is made and entered into effective as of September 25, 2008 by and between TOWER SEMICONDUCTOR LTD. (the "**Company**" or "**Tower**"), a company organized under the laws of the State of Israel and ISRAEL CORPORATION LTD., a company organized under the laws of the State of Israel (the **"Purchaser**").

WHEREAS, Tower is an independent manufacturer of wafers whose Ordinary Shares are traded on the Nasdaq National Market under the symbol TSEM and whose Ordinary Shares and certain other securities are traded on the Tel-Aviv Stock Exchange ("**TASE**") under the symbol TOWER;

WHEREAS, pursuant to a letter between Bank Hapoalim B.M. and Bank Leumi Le-Israel B.M. (collectively the **"Banks**"), Tower and the Purchaser, dated August 19, 2008 (the "**MOU**"), the Purchaser has committed to the Banks, *inter alia*, subject to certain conditions as provided in the MOU, to invest in the Company a sum of twenty million US Dollars as set forth in this Agreement (the "**Investment**");

WHEREAS, pursuant to the MOU, the Investment in Tower is a condition precedent to the closing of an amendment of the Facility Agreement (as defined in the MOU) and other definitive documentation (the "**Amendment**"); and

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1 Issue and Sale of Securities by the Company.

1.1 Securities. Subject to and in accordance with the terms and conditions of this Agreement, the Company shall issue to the Purchaser, and the Purchaser shall purchase from the Company for an aggregate purchase price of US $20,000,000 in immediately available funds (the "**Note Purchase Price**") an equity convertible capital note, which capital note is convertible into 28,169,014 shares of the Company (subject to adjustments to changes in capital structure, stock splits, etc.), such capital note being fully convertible, at any time, in whole or in part and freely transferable, at any time, in whole or in part in the form attached hereto as Schedule 1 (the "**Capital Note**"). For the avoidance of doubt, the Capital Note issuable hereunder shall not entitle TIC to interest, dividends, early redemption rights (for the removal of doubt, no conversion of capital notes by TIC into shares shall be deemed a redemption or pre-payment of the capital note), anti-dilution rights, or any adjustments due to changes to interest rates, the market price of the Company's shares or indexation of any kind, but shall entitle TIC, as a capital note holder, to participate in rights offerings and shall be subject to certain adjustments, including share splits, combinations and other adjustments and with rights which are at least as good as the capital notes issued to the Banks pursuant to a Conversion Agreement entered into with Tower on the date hereof.

2 Closing.

2.1 Closing Date. The issue and allotment of the Capital Note, the purchase thereof by the Purchaser and the registration of the Capital Note in the name of the Purchaser in the register of the Company, shall take place at a closing (the "**Closing**") to be held on September 25, 2008 simultaneous with its signing in Tel Aviv, Israel at the offices of Yigal Arnon & Co., One Azrieli Center, Tel-Aviv, Israel, or such other time and place as the parties shall mutually agree. In the event that the Closing does not take place prior to September 30, 2008, the Purchaser shall have the right, but not the obligation, to cancel this Agreement unless the Purchaser has caused the Closing not to have occurred in breach of this Agreement. The Company shall use its commercially reasonable best efforts to (i) take or cause to be taken all necessary actions, and do or cause to be done all things, necessary, proper or advisable under this Agreement and applicable laws to consummate and make effective all the transactions contemplated by this Agreement as soon as practicable, including, without limitation, preparing and filing all documentation to effect all necessary filings, notices, petitions, statements, registrations, submissions of information, applications and other documents and (ii) obtain all approvals required to be obtained from any third party necessary, proper or advisable to the transactions contemplated by this Agreement. The Purchaser shall cooperate with the Company in the achieving the above but the primary responsibility (including but not limited to bearing the relevant expenses therefor) shall be the Company's.

2.2 Transactions upon Closing. At the Closing, the following transactions shall occur, which transactions shall be deemed to take place simultaneously and no transaction shall be deemed to have been completed or any document delivered until all such transactions have been completed and all required documents delivered:

a) the Company shall deliver to the Purchaser copies of resolutions of the Company's Audit Committee, the Company's Board of Directors and the Company's shareholders approving the execution and performance of this Agreement, including the issuance of the Capital Note;

b) the Note Purchase Price shall be transferred by the Purchaser to the Company by wire transfer into the account of the Company, in accordance with the written instructions provided by the Company to the Purchaser;

c) the Company shall deliver to the Purchaser a copy of the approval of the TASE for listing the shares issuable upon conversion of the Capital Note (the "**Shares**");

d) the Company shall record such issuance of the Capital Note in the name of the Purchaser on the records of the Company;

e) The Closings of the Amendment and each of the conversion agreements entered into between the Company and the Banks shall take place simultaneously with the Closing under this Agreement; and

f) The Amended and Restated Registration Rights Agreement shall be executed and delivered by the Company, in the form attached hereto as Schedule 2.

g) The Company shall pay the Purchaser US $100,000 as the first installment of the fee of US$300,000 provided for under the MOU.

h) The legal opinion of Yigal Arnon & Co., Advocates, the Company's external legal counsel has been delivered to the Purchaser.

3 Representations and Warranties of the Company.

The Company hereby represents and warrants to the Purchaser, as follows:

3.1 Organization. The Company is duly organized and validly existing under the laws of the State of Israel and has full corporate power and authority to own, lease and operate its properties and assets and to conduct its business as now being conducted and to perform all its obligations under this Agreement.

3.2 Memorandum and Articles of Association. The Company has made available for inspection by the Purchaser complete and correct copies of the Articles of Association of the Company, as amended to the date furnished. Such Articles of Association are in effect as of the date hereof and as will be in effect at the Closing.

3.3 Share Capitalization.

As of September 25, 2008, the authorized share capital of the Company consists of 1,100,000,000 ordinary shares, of which 159,656,318 shares are issued and outstanding, 135,523,401 shares are reserved for issuance upon exercise of outstanding options and warrants (including options granted to employees, officers, directors, related parties, banks, and other public investors), 96,504,214 shares are reserved for issuance upon conversion of outstanding convertible debentures, 321,988,510 shares are reserved for issuance upon conversion of equity equivalent capital notes, and 5,900,000 shares are reserved for future grants of options to employees, officers, consultants and directors. Attached hereto as Schedule 3 is a capitalization table reflecting all shareholdings and holdings of securities (including capital notes, warrants, options and convertible debentures) in the Company after the Closing. All issued and outstanding share capital of the Company has been duly authorized, and is validly issued and outstanding and fully paid and non-assessable. The Capital Note and the Shares issued upon its conversion will be validly issued, fully paid, nonassessable and not subject to any pledge, lien or restriction on transfer, except for restrictions on transfer imposed hereunder and by the applicable securities laws. The Company has reserved for issuance enough ordinary shares to issue the Shares. The issuance of the Capital Note and the Shares issued upon its conversion will not conflict with the Articles of Association of the Company then in effect nor with any outstanding warrant, option, call, preemptive right or commitment of any type relating to the Company's capital stock.

3.4 Authorization; Approvals. Prior to the Closing, all corporate action on the part of the Company necessary for the execution, delivery and performance of this Agreement and the other agreements contemplated to take place at the Closing shall have been taken. Except as set forth in Schedule 4.4, no consent, approval or authorization of, exemption by, or filing with, any governmental or regulatory authority or any third party is required in connection with the execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby. Other than approval by the Company's shareholders, this Agreement when executed and delivered by or on behalf of the Company, shall constitute the valid and legally binding obligations of the Company, legally enforceable against the Company in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other laws relating to creditor's rights generally and general principles of equity.

3.5 No Conflicts. Neither the execution and delivery of this Agreement by Tower, nor the compliance with the terms and provisions of this Agreement on the part of Tower, will: (i) violate any statute or regulation of any governmental authority, domestic or foreign, affecting Tower; (ii) require the issuance of any authorization, license, consent or approval of any governmental agency, or any other person other than as set forth in Schedule 4.4; or (iii) conflict with or result in a breach of any of the terms, conditions or provisions of any judgment, order, injunction, decree, loan agreement or other material agreement or instrument to which Tower is a party, or by which Tower is bound, or constitute a default thereunder, the effect of which might have a material adverse effect on Tower.

3.6 No Litigation. There are no actions, suits, proceedings, or injunctive orders, pending or threatened against or affecting Tower relating to the subject matter of this Agreement or any of the transactions expected to take place simultaneously at the Closing.

3.7 Cross Default. Upon the Closing of the Amendment, the Company will not be in default under the Facility Agreement.

3.8 The Capital Notes shall have rights which are at least as good as the capital notes issued to the Banks pursuant to a Conversion Agreement entered into with Tower on the date hereof.

4 Representations and Warranties of the Purchaser.

The Purchaser hereby represents and warrants to the Company as follows:

4.1 Organizations; Good Standing. The Purchaser is a corporation duly organized, validly existing, and in good standing under the laws of the State of Israel with full corporate power and authority to perform all its obligations under this Agreement.

4.2 Authorization; Approvals. Prior to the Closing, all corporate action on the part of the Purchaser necessary for the execution and delivery of this Agreement and other agreements contemplated hereby has been taken. No consent, approval or authorization of, exemption by, or filing with, any governmental or regulatory authority is required in connection with the execution, delivery and performance by the Purchaser of this Agreement and the consummation by the Purchaser of the transactions contemplated hereby except relating to the filing of an amendment to a Schedule 13D which will be required with the US Securities and Exchange Commission. This Agreement and other agreements contemplated hereby, when executed and delivered by or on behalf of the Purchaser, shall constitute the valid and legally binding obligations of the Purchaser, legally enforceable against the Purchaser in accordance with their respective terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other laws relating to creditor's rights generally and general principles of equity.

4.3 Investment Intent; No Registration

The Purchaser is acquiring the Capital Note and the Shares issued upon its conversion for its own account and not with a view to their distribution within the meaning of Section 2(11) of the Securities Act of 1933 (the "**Securities Act**"). The Purchaser has requisite knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of an investment in the Company and is an accredited investor as defined under Regulation D as promulgated by the United States Securities and Exchange Commission; and

The Purchaser understands that none of the Capital Note or the Shares issued upon its conversion have been registered under the Securities Act, or the laws of any jurisdiction, and agrees that the Capital Note and the Shares issued upon its conversion may not be sold, offered for sale, transferred, pledged, hypothecated or otherwise disposed of except in compliance with the Securities Act, Israeli Securities Law or any applicable securities laws of any jurisdiction (including but not limited to pursuant to an exemption therefrom). The Purchaser also acknowledges that the Capital Note and the Shares issued upon its conversion, upon issuance, will bear the following legend:

THESE SECURITIES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE OR OTHER JURISDICTION'S SECURITIES LAWS. THESE SECURITIES MAY NOT BE SOLD, OFFERED FOR SALE OR PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER THE ACT OR AN OPINION OF COUNSEL (SATISFACTORY IN FORM AND SUBSTANCE TO THE COMPANY) THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF THE ACT.

4.4 No Litigation. There are no actions, suits, proceedings, or injunctive orders, pending or threatened against or affecting the Purchaser relating to the subject matter of this Agreement.

5 Conditions of Closing of the Purchaser.

The obligations of the Purchaser to purchase the Capital Note and to transfer the Note Purchase Price at the Closing are subject to the fulfillment at or before the Closing of the following conditions precedent, any one or more of which may be waived in whole or in part by the Purchaser, which waiver shall be at the sole discretion of the Purchaser:

5.1 Representations and Warranties. The representations and warranties made by the Company in this Agreement shall have been true and correct when made, and, shall be true and correct in all material respects as of the Closing, as if made on the date of the Closing.

5.2 Covenants. All covenants, agreements, and conditions contained in this Agreement to be performed or complied with by the Company prior the Closing shall have been performed or complied with by the Company prior to or at the Closing.

5.3 Consents, etc. The Company shall have secured all permits, consents and authorizations that shall be reasonably necessary or required lawfully for the Company to consummate this Agreement and to issue the Capital Note and the Shares issued upon its conversion to be purchased by the Purchaser at the Closing, including the approval of the Company's Audit Committee, Board of Directors and General Assembly and third party and/or governmental consents.

5.4 Registration Rights Agreement. The Company and the Purchaser shall have entered into a registration rights agreement in form and substance satisfactory to the Purchaser and the Banks and with rights which are at least as good as those provided to the Banks and no worse than those currently enjoyed by the Purchaser and provides a satisfactory arrangement with respect to the registration rights of the Shares of the Company owned by the Purchaser on the date of this Agreement.

5.5 Delivery of Documents. All of the documents to be delivered by the Company, and all actions to be performed or concluded pursuant to Section 2 by the Company, shall be in a form and substance reasonably satisfactory to the Purchaser and its counsel and shall have been delivered to the Purchaser.

5.6 The Amendment. The conditions precedent for the closing of transactions contemplated by the Amendment shall have been satisfied (or waived by the Bank) other than the Investment contemplated by this Agreement which shall take place simultaneously thereto.

6 Conditions of Closing of the Company.

The obligations of the Company to sell and issue the Capital Note at the Closing are subject to the fulfillment at or before the Closing of the following conditions precedent, any one or more of which may be waived in whole or in part by the Company, which waiver shall be at the sole discretion of the Company:

6.1 Representations and Warranties. The representations and warranties made by the Purchaser in this Agreement shall have been true and correct when made, and shall be true and correct in all material respects as of the Closing, as if made on the date of the Closing.

6.2 Covenants. All covenants, agreements, and conditions contained in this Agreement to be performed or complied with by the Purchaser prior the Closing shall have been performed or complied with by the Purchaser prior to or at the Closing.

6.3 Consents, etc. The Purchaser and the Company shall have secured all permits, consents and authorizations, including, without limitations, approval of its corporate organs that shall be reasonably necessary or required lawfully for the Company to consummate this Agreement and to issue the Capital Note and the Shares issued upon its conversion to be purchased by the Purchaser at the Closing.

6.4 Delivery of Documents. All of the documents to be delivered by the Purchaser, and all actions to be performed or concluded pursuant to Section 2 by the Purchaser, shall be in a form and substance reasonably satisfactory to the Company and its counsel.

6.5 Antitrust Approval. To the extent required under law, the unconditional approval of the Comptroller to the consummation of the Closing under this Agreement has been received.

7 Covenants.

7.1 Ordinary Course. Between the date hereof and the Closing Date, the Company will operate in the ordinary course of business as now being conducted and as currently proposed to be conducted , except that the Company may perform its obligations pursuant to the Agreement and Plan of Merger and Reorganization entered into as of May 19, 2008, by and among the Company, Armstrong Acquisition Corp., a wholly owned subsidiary of the Company, and Jazz Technologies, Inc., and the transactions pursuant thereto, including with respect to the closing of the merger transaction.

7.2 Dividends. Between the date hereof and the Closing Date, the Company will not declare, make or pay any dividend or other distribution.

7.3 Actions inconsistent with this Agreement. Between the date hereof and the Closing Date, neither the Purchaser nor the Company will take any action inconsistent with this Agreement. For the avoidance of any doubt, nothing herein shall require the Purchaser to take or refrain from taking any action as a shareholder or investor in the Company.

7.4 Fees. The Company shall pay the Purchaser a fee of US$100,000 on January 1, 2009 and an additional fee of US$100,000 on April 1, 2009.

8 Miscellaneous.

8.1 Further Assurances. Each of the parties hereto shall perform such further acts and execute such further documents as may reasonably be necessary to carry out and give full effect to the provisions of this Agreement and the intentions of the parties as reflected thereby.

8.2 Governing Law; Jurisdiction. This Agreement will be governed by the laws of the State of Israel without regard to conflicts of law principles. Any suit, action or proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the transactions contemplated hereby may be brought in the Courts of Tel Aviv-Jaffa, and each of the parties hereby consents to the jurisdiction of such courts in any such suit, action or proceeding and irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such suit, action or proceeding in any such court or that any such suit, action or proceeding which is brought in any such court has been brought in an inconvenient forum.

8.3 Successors and Assigns; Assignment. Except as otherwise expressly limited herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the parties hereto. This Agreement may not be assigned by any party without the prior written consent of the other party hereto.

8.4 Expenses. Each party to this agreement shall bear its own expenses and costs with respect to this agreement and the transactions contemplated thereby.

8.5 Entire Agreement; Amendment and Waiver. This Agreement and the Schedules hereto constitute the full and entire understanding and agreement between the parties with regard to the subject matters hereof and thereof. Any term of this Agreement may be amended and the observance of any term hereof may be waived (either prospectively or retroactively and either generally or in a particular instance) only with the written consent of the parties to this Agreement.

8.6 Notices, etc. All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed to such party's address as set forth below or at such other address as the party shall have furnished to each other party in writing in accordance with this provision:

If to the Purchaser:	Israel Corporation Ltd. Millennium Tower, 23 Aranha St. Tel Aviv Israel 61070 Fax: 972-3-684-4574 Attn: Chief Financial Officer
with a copy to (which shall not constitute notice):	Gornitzky & Co. 45 Rothschild Blvd., Tel-Aviv 65784 Israel Fax: 972-3-560-6555 Attn: Adv. Zvi Ephrat
if to the Company:	Tower Semiconductor Ltd. Ramat Gavriel Industrial Area P.O. Box 619 Migdal Haemek Israel 23105 Fax. 972-4-6047242 Attn: Oren Shirazi, Acting CFO
with a copy to (which shall not constitute notice):	Yigal Arnon & Co. 1 Azrieli Center 46th Floor Tel Aviv, Israel, 67021 Fax: 03-608-7714 Attn: David Schapiro, Adv.

or such other address with respect to a party as such party shall notify each other party in writing as above provided. Any notice sent in accordance with this Section 8.6 shall be effective (i) if mailed, five (5) business days after mailing, (ii) if sent by messenger, upon delivery, and (iii) if sent via facsimile, one (1) business day following transmission and electronic confirmation of receipt.

8.7 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Agreement, shall be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. Unless provided otherwise herein, all remedies, either under this Agreement or by law or otherwise afforded to any of the parties, shall be cumulative and not alternative.

8.8 Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable under applicable law, then such provision shall be excluded from this Agreement and the remainder of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms; provided, however, that in such event this Agreement shall be interpreted so as to give effect, to the greatest extent consistent with and permitted by applicable law, to the meaning and intention of the excluded provision as determined by such court of competent jurisdiction.

8.9 Counterparts. This Agreement may be executed in any number of counterparts (including facsimile counterparts), each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

8.10 Headings. The headings of the sections and paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction hereof.

[Signature Page to Securities Purchase Agreement]

IN WITNESS WHEREOF, each of the parties has signed this Agreement as of the date first hereinabove set forth.

TOWER SEMICONDUCTOR LTD.	**ISRAEL CORPORATION LTD.**
By:_____	By:_____
Name:_____	Name:_____
Title:_____	Title:_____

THESE SECURITIES **[**(INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO)**]**[1] HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (**"THE ACT"**), OR ANY U.S. STATE OR OTHER JURISDICTION'S SECURITIES LAWS. THESE SECURITIES (INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO) MAY NOT BE SOLD, OFFERED FOR SALE OR PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT UNDER THE ACT WITH RESPECT TO ANY SUCH SECURITIES OR AN OPINION OF COUNSEL (REASONABLY SATISFACTORY TO THE COMPANY) THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF THE ACT OR ON THE TEL-AVIV STOCK EXCHANGE IN COMPLIANCE WITH REGULATIONS UNDER THE ACT.

EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE

(Principal Amount of US $100,000,000)

THIS EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE (**"this Capital Note"**) in the principal amount of US $100,000,000 (**"the Principal Amount"**) has been issued by Tower Semiconductor Ltd., an Israeli company (**"the Company"**), whose shares are currently traded on The Nasdaq National Market (**"NASDAQ"**) and the Tel-Aviv Stock Exchange (**"TASE"**), to Bank Hapoalim B.M. (**"the Holder"**). This Capital Note was originally issued by the Company in exchange for the conversion by the original Holder of this Capital Note of loans to the Company in a principal amount (including certain accrued and unpaid interest) equal to the Principal Amount and represents the obligation of the Company to pay the Principal Amount to the Holder in accordance with and subject to the terms set forth in this Capital Note.

1. DEFINITIONS

In this Capital Note, the following terms have the meanings given to them in this clause 1:

1.1. **"Company"** includes any person that shall succeed to or assume the obligations of the Company under this Capital Note.

1.2. **"Holder"** shall mean any person who at the time shall be the registered holder of this Capital Note or any part thereof.

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1 Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from Capital Notes relating to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder.

1.3. **"Ordinary Shares"** means the ordinary shares, nominal value NIS 1.00 (one New Israel Sheqel) per share, of the Company (and any shares of capital stock substituted for the ordinary shares as a result of any stock split, stock dividend, recapitalisation, rights offering, exchange, merger or similar event or otherwise, including as described in this Capital Note).

2. TERMS

The Principal Amount shall neither bear interest nor be linked to any index and shall be subordinated to all liabilities of the Company having priority over the Ordinary Shares.

The Principal Amount shall only be payable by the Company to the Holder out of distributions made upon the winding-up (whether solvent or insolvent), liquidation or dissolution of the Company and, in such event, on a *pari passu* and pro rata basis with the Ordinary Shares after payment of all liabilities of the Company having priority over the Ordinary Shares. For the purposes only of calculation of the allocation of such distributions between holders of the Capital Note and holders of Ordinary Shares, the holder of this Capital Note shall be deemed to own the number of Ordinary Shares into which this Capital Note may then be converted. The Company shall not be entitled to prepay or redeem this Capital Note.

This Capital Note shall be convertible into Ordinary Shares as set forth below and, for the removal of doubt, no such conversion shall be deemed a redemption or prepayment of this Capital Note.

3. CONVERSION

3.1. Conversion Right

The Holder of this Capital Note has the right, at the Holder's option, at any time and from time to time, to convert this Capital Note, without payment of any additional consideration, in accordance with the provisions of this clause 3, in whole or in part, into fully-paid and non-assessable Ordinary Shares. The number of Ordinary Shares into which this Capital Note may be converted (**"the Conversion Shares"**) shall be determined by dividing the aggregate Principal Amount of this Capital Note by the conversion price in effect at the time of such conversion (**"the Conversion Price"**). The Conversion Price initially shall be US $1.42, as adjusted at any time and from time to time in accordance with clause 7 below.

3.2. Conversion Procedure

This Capital Note may be converted in whole or in part at any time and from time to time by the surrender of this Capital Note to the Company at its principal office together with written notice of the election to convert all or any portion of the Principal Amount thereof, duly signed on behalf of the Holder. The Company shall, on such surrender date or as soon as practicable thereafter, issue irrevocable instructions to its stock transfer agent to deliver to the Holder a certificate or certificates for the number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. Such conversion, the issue and allotment of such Conversion Shares and the registration of the Holder in the

register of members of the Company as the holder of such Conversion Shares shall be deemed to have been made immediately prior to the close of business on the date of such surrender of this Capital Note or portion thereof and the person or persons entitled to receive the Conversion Shares issuable upon such conversion shall be treated for all purposes as the record holder or holders as of such date of such number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. In the event of a partial conversion, the Company shall concurrently issue to the Holder a replacement Capital Note of like tenor as this Capital Note, but representing the Principal Amount remaining after such partial conversion. For the avoidance of doubt, the Company confirms that the terms of this Capital Note, including, without limitation, this clause 3, constitute the issue terms of the Conversion Shares and that, accordingly, the right of the Company pursuant to clauses 16.1 and 16.2 of the Company's Articles of Association to delay the issuance of stock certificates for up to 6 (six) months after the allotment and registration of transfer is inapplicable. For the further removal of doubt, nothing herein shall derogate from the second sentence of clause 16.1 of the Company's Articles of Association.

4. **FRACTIONAL INTEREST**

No fractional shares will be issued in connection with any conversion hereunder. The Company shall round-down, to the nearest whole number, the number of Conversion Shares issuable in connection with any conversion hereunder.

5. **CAPITAL NOTE CONFERS NO RIGHTS OF SHAREHOLDER**

The Holder shall not, by virtue of this Capital Note, have any rights as a shareholder of the Company prior to actual conversion into Conversion Shares in accordance with clause 3.2 above.

6. **ACQUISITION FOR INVESTMENT**

This Capital Note **[**, including the Conversion Shares,[2]**]** has not been registered under the Securities Act of 1933, as amended (**"the Securities Act"**), or any other securities laws. The Holder acknowledges by acceptance of this Capital Note that it has acquired this Capital Note for investment and not with a view to distribution. **[**The Holder agrees that, unless the Conversion Shares have been registered under the Securities Act, any Conversion Shares issuable upon conversion of this Capital Note will be acquired for investment and not with a view to distribution in a manner inconsistent with the registration requirements of the U.S. securities laws and may have to be held indefinitely unless they are subsequently registered under the Securities Act or, based on an opinion of counsel reasonably satisfactory to the Company, an exemption from such registration is available; provided, however, that no opinion shall be required if sold pursuant to Rule 144 of the Securities Act or the transfer will be effected on the TASE and the Holder represents that the applicable conditions under Regulation S under the Securities Act have been satisfied.[3]**]** The Holder, by acceptance hereof, consents to the placement of legend(s) on this Capital Note and also on the Conversion Shares issuable upon conversion of this Capital Note, as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act, unless in the reasonable opinion of counsel for the Company such legend is not required in order to ensure compliance with the Securities Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

Nothing in this clause 6 shall derogate from any obligations of the Company under any Registration Rights Agreement to which the Company and the Holder are parties.

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2 Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from all future Capital Notes to be issued with respect to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder.

3 Following the effective date of any Registration Statement covering the Conversion Shares or any of them,, bracketed language to be replaced with the following: "The Conversion Shares have been registered under the Securities Act on Form F-3 Registration Statement No. **[*insert relevant registration number*]**." on all future Capital Notes to be issued with respect to such Conversion Shares, and, at the request of the Holder, a substitute Capital Note having such replacement language will promptly be delivered to the Holder.

7. **ADJUSTMENT OF CONVERSION PRICE AND NUMBER OF CONVERSION SHARES**

The number and kind of securities issuable initially upon the conversion of this Capital Note and the Conversion Price shall be subject to adjustment at any time and from time to time upon the occurrence of certain events, as follows:

7.1. **Adjustment for Shares Splits and Combinations**

If the Company at any time or from time to time effects a subdivision of the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the subdivision shall be proportionately increased, and conversely, if the Company at any time or from time to time combines the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the combination shall be proportionately decreased. Any adjustment under this clause 7.1 shall become effective at the close of business on the date the subdivision or combination becomes effective.

7.2. **Adjustment for Certain Dividends and Distributions**

In the event the Company at any time, or from time to time, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in additional Ordinary Shares, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be increased as of the time of such issuance or, in the event such a record date is fixed, as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable, plus the number of Ordinary Shares issuable in payment of such dividend or

distribution; and (ii) the denominator of which is the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable; provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be recomputed accordingly as of the close of business on such record date and thereafter the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7.2 as of the time of the actual payment of such dividends or distribution.

7.3. **Adjustments for Other Dividends and Distributions**

In the event the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in securities of the Company other than Ordinary Shares (for the avoidance of doubt, other than in a rights offering as to which clause 7.7 shall be applicable), then in each such event provision shall be made so that the Holder shall receive upon conversion of this Capital Note and for no additional consideration, in addition to the number of Ordinary Shares receivable thereupon, the amount of securities of the Company that the Holder would have received had this Capital Note been converted immediately prior to such event, or the record date for such event, as applicable.

7.4. **Adjustment for Reclassification, Exchange and Substitution**

If the Ordinary Shares issuable upon conversion of this Capital Note are changed into the same or a different number of shares of any class or classes of shares, whether by recapitalization, reclassification, exchange, substitution or otherwise (other than a subdivision or combination of shares, dividends payable in Ordinary Shares or other securities of the Company or a reorganization, merger, consolidation or sale of assets, provided for elsewhere in this clause 7), then and in any such event the Holder shall have the right thereafter to exercise this Capital Note into the kind and amount of shares and other securities receivable upon such recapitalization, reclassification, exchange, substitution or other change, by holders of the number of Ordinary Shares for which this Capital Note might have been converted immediately prior to such recapitalization, reclassification, exchange, substitution or other change (or the record date for such event), all subject to further adjustment as provided herein and under the Company's Articles of Association.

7.5. **Reorganization, Mergers, Consolidations or Sales of Assets**

If at any time or from time to time there is a capital reorganization of the Ordinary Shares (other than a recapitalization, subdivision, combination, reclassification, exchange or substitution of shares as provided for elsewhere in this clause 7), or a merger or consolidation of the Company with or into another corporation, or the sale of all or substantially all of the Company's properties and assets to any other person, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the Holder shall thereafter be entitled to receive upon conversion of this Capital Note and for no additional consideration, the number of shares or other securities or property (including, without limitation, cash) of the Company, or of the successor corporation resulting from such merger or consolidation or sale, to which a holder of the number of Ordinary Shares issuable upon conversion of this Capital Note would have been entitled on such capital reorganization, merger, consolidation or sale.

7.6. **Other Transactions**

In the event that the Company shall issue shares to its shareholders as a result of a split-off, spin-off or the like, then the Company shall only complete such issuance or other action if, as part thereof, allowance is made to protect the economic interest of the Holder either by increasing the number of Conversion Shares or by procuring that the Holder shall be entitled, on terms economically proportionate to those provided to its shareholders, to acquire additional shares of the spun-off or split-off entities.

7.7. **Rights Offerings**

If the Company, at any time and from time to time, shall fix a record date for, or shall make a distribution to, its shareholders of rights or warrants to subscribe for or purchase any security (collectively, **"Rights"**), then, in each such event, the Company will provide the Holder, concurrently with the distribution of the Rights to its shareholders, identical rights, having terms and conditions identical to the Rights (for the avoidance of doubt, exercisable at the same time as the Rights), in such number to which the Holder would be entitled had the Holder converted this Capital Note into Conversion Shares immediately prior to the record date for such distribution, or if no record date shall be fixed, then immediately prior to such distribution , as applicable. Nothing in this clause 7.7 shall require the Company to complete any such distribution of Rights to its shareholders, including following the record date thereof, unless required pursuant to the terms of such distribution and, if such distribution of Rights to its shareholders is not completed in conformity with the terms of such distribution, then the Company shall be entitled not to complete the provision of rights to the Holder pursuant to this clause 7.7 above.

7.8. **Adjustment for Cash Dividends and Distributions**

In the event the Company, at any time or from time to time until September 28, 2023, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a cash dividend or distribution, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted (for the avoidance of doubt, never decreased but either shall remain the same or increased), as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the closing price per share of the Ordinary Shares on the TASE on the determining date ("*Hayom Hakovaya*") for such dividend or distribution; and (ii) the denominator of which shall be the adjusted "ex-dividend" price of the Ordinary Shares as such prices set out in (i) and (ii) are determined in each case by the TASE in accordance with its rules.

7.9. **General Protection**

The Company will not, by amendment of its Articles of Association or other charter document or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the

observance or performance of any of the terms to be observed or performed hereunder, or impair the economic interest of the Holder, but will at all times in good faith assist in the carrying out of all the provisions hereof and in taking of all such actions and making all such adjustments as may be necessary or appropriate in order to protect the rights and the economic interests of the Holder against impairment.

7.10. **Notice of Capital Changes**

If at any time the Company shall declare any dividend or distribution of any kind, or offer for subscription pro rata to the holders of Ordinary Shares any additional shares of any class, other rights or any security of any kind, or there shall be any capital reorganization or reclassification of the capital shares of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to another company or there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company, or other transaction described in this clause 7, then, in any one or more of the said cases, the Company shall give the Holder prior written notice, by registered or certified mail, postage prepaid, of the date on which: (i) a record shall be taken for such dividend, distribution or subscription rights; or (ii) such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up shall take place, as the case may be. Such notice shall also specify the date as of which the holders of record of Ordinary Shares shall participate in such dividend or distribution, subscription rights, or shall be entitled to exchange their Ordinary Shares for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, as the case may be. Such written notice shall be given at least 14 (fourteen) days prior to the action in question and not less than 14 (fourteen) days prior to the record date in respect thereto.

7.11. **Adjustment of Conversion Price**

Upon each adjustment in the number of Ordinary Shares purchasable hereunder, the Conversion Price shall be proportionately increased or decreased, as the case may be, in a manner that is the inverse of the manner in which the number of Ordinary Shares purchasable hereunder shall be adjusted.

7.12. **Notice of Adjustments**

Whenever the Conversion Price or the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7, the Company shall prepare a certificate signed by the chief financial officer of the Company setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Conversion Price and the number of Conversion Shares issuable upon conversion of this Capital Note after giving effect to such adjustment, and shall cause copies of such certificate to be mailed (by first class mail, postage prepaid) to the Holder.

8. OTHER TRANSACTIONS

In the event that the Company or its shareholders receive an offer to transfer all or substantially all of the shares in the Company, or to effect a merger or acquisition or sale of all or substantially all of the assets of the Company, then the Company shall promptly inform the Holder in writing of such offer.

9. TRANSFER OF THIS CAPITAL NOTE BY THE HOLDER

This Capital Note shall be freely transferable or assignable by the Holder in whole or in part, at any time and from time to time, subject to the provisions of this clause 9. With respect to any transfer of this Capital Note, in whole or in part, the Holder shall surrender the Capital Note, together with a written request to transfer all or a portion of the Principal Amount of this Capital Note to the transferee, as well as, if reasonably requested by the Company, a written opinion of such Holder's counsel, to the effect that such offer, sale or other distribution may be effected without registration under the Securities Act. Upon surrender of such Capital Note (and delivery of such opinion, if so requested) by the Holder, the Company shall immediately register such transferee as the Holder of this Capital Note, or the portion thereof, transferred to such transferee, such registration shall be deemed to have been made immediately prior to the close of business on the date of such surrender and delivery (if applicable), and such transferee or transferees shall be treated for all purposes as the record holder or holders as of such date of a Capital Note in that portion of the Principal Amount of this Capital Note so transferred. The Company shall, as promptly as practicable, deliver to the Holder one or more Capital Notes, of like tenor as this Capital Note, except that the Principal Amount thereof shall be the amount transferred to such transferee, for delivery to the transferee or transferees (or, if the Holder requests, deliver such Capital Note directly to such transferee or transferees) and shall, if only a portion of the Principal Amount of this Capital Note is being transferred, concurrently deliver to the Holder one or more replacement Capital Notes to represent the portion of the Principal Amount of this Capital Note not so transferred. For the avoidance of doubt, the Company confirms that no approval by the Board of Directors of the Company of any transfer of this Capital Note or the Conversion Shares is required.

10. REPRESENTATIONS, WARRANTIES AND COVENANTS

The Company represents, warrants and covenants to the Holder as follows:

10.1. this Capital Note has been duly authorized and executed by the Company and is a valid and binding obligation of the Company enforceable in accordance with its terms;

10.2. the Conversion Shares are duly authorized and are, and will be, reserved (for the avoidance of doubt, without the need for further corporate action by the Company) for issuance by the Company and, when issued in accordance with the terms hereof, will be validly issued, fully paid and non-assessable and not subject to any pre-emptive rights;

10.3. the execution and delivery of this Capital Note are not, and the issuance of the Conversion Shares upon conversion of this Capital Note in accordance with the terms hereof will not be, inconsistent with the Company's Certificate of Incorporation, Memorandum of Association or Articles of Association, do not and will not contravene any law, governmental or regulatory rule or regulation, including NASDAQ and TASE rules and regulations, judgment or order applicable to the Company, do not and will not conflict with or contravene any provision of, or constitute

a default under, any indenture, mortgage, contract or other instrument of which the Company is a party or by which it is bound or, except for consents that have already been obtained and filings already made, require the consent or approval of, the giving of notice to, the registration with or the taking of any action in respect of or by, any Israeli or foreign governmental authority or agency or other person; and

10.4. the Conversion Shares have been approved for listing and trading on TASE.

11. **LOSS, THEFT, DESTRUCTION OR MUTILATION OF CAPITAL NOTE**

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Capital Note or Conversion Shares certificate, and in case of loss, theft or destruction, of indemnity, or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of such Capital Note or Conversion Shares certificate, if mutilated, the Company will make and deliver a new Capital Note or Conversion Shares certificate of like tenor and dated as of such cancellation, in lieu of such Capital Note or Conversion Shares certificate.

12. **NOTICES**

All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed to such party's address as set forth below:

If to the Holder:

Bank Hapoalim B.M.
Corporate Division
Migdal Levenstein
23 Menachem Begin Road
Tel Aviv, Israel
Attention: Head of Corporate Division
Facsimile: (03) 567 2995

If to the Company:

Tower Semiconductor Ltd.
P.O. Box 619
Ramat Gabriel Industrial Zone
Migdal Haemek 23105
Attention: Oren Shirazi, Acting Chief Financial Officer
Facsimile: (04) 604 7242

with a copy to:

Yigal Arnon & Co.
1 Azrieli Center
Tel Aviv
Israel
Attention: David H. Schapiro, Adv.
Facsimile: (03) 608 7714

or such other address with respect to a party as such party shall notify each other party in writing as above provided. Any notice sent in accordance with this clause 12 shall be effective: (a) if mailed, 5 (five) business days after mailing; (b) if sent by messenger, upon delivery; and (c) if sent via facsimile, 1 (one) business day following transmission and electronic confirmation of receipt.

13. **APPLICABLE LAW; JURISDICTION**

This Capital Note shall be governed by and construed in accordance with the laws of the State of Israel as applicable to contracts between two residents of the State of Israel entered into and to be performed entirely within the State of Israel. Any dispute arising under or in relation to this Capital Note shall be resolved in the competent court for Tel Aviv-Jaffa district, and the Company and the Holder hereby submits irrevocably to the jurisdiction of such court.

Dated: September 29, 2008

for **TOWER SEMICONDUCTOR LTD.**

By: _____

Title: _____

THESE SECURITIES **[**(INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO)**]**[1] HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (**"THE ACT"**), OR ANY U.S. STATE OR OTHER JURISDICTION'S SECURITIES LAWS. THESE SECURITIES (INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO) MAY NOT BE SOLD, OFFERED FOR SALE OR PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT UNDER THE ACT WITH RESPECT TO ANY SUCH SECURITIES OR AN OPINION OF COUNSEL (REASONABLY SATISFACTORY TO THE COMPANY) THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF THE ACT OR ON THE TEL-AVIV STOCK EXCHANGE IN COMPLIANCE WITH REGULATIONS UNDER THE ACT.

EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE

(Principal Amount of US $100,000,000)

THIS EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE (**"this Capital Note"**) in the principal amount of US $100,000,000 (**"the Principal Amount"**) has been issued by Tower Semiconductor Ltd., an Israeli company (**"the Company"**), whose shares are currently traded on The Nasdaq National Market (**"NASDAQ"**) and the Tel-Aviv Stock Exchange (**"TASE"**), to Bank Leumi Le-Israel B.M. (**"the Holder"**). This Capital Note was originally issued by the Company in exchange for the conversion by the original Holder of this Capital Note of loans to the Company in a principal amount (including certain accrued and unpaid interest) equal to the Principal Amount and represents the obligation of the Company to pay the Principal Amount to the Holder in accordance with and subject to the terms set forth in this Capital Note.

1. DEFINITIONS

In this Capital Note, the following terms have the meanings given to them in this clause 1:

1.1. **"Company"** includes any person that shall succeed to or assume the obligations of the Company under this Capital Note.

1.2. **"Holder"** shall mean any person who at the time shall be the registered holder of this Capital Note or any part thereof.

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1 Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from Capital Notes relating to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder.

1.3. **"Ordinary Shares"** means the ordinary shares, nominal value NIS 1.00 (one New Israel Sheqel) per share, of the Company (and any shares of capital stock substituted for the ordinary shares as a result of any stock split, stock dividend, recapitalisation, rights offering, exchange, merger or similar event or otherwise, including as described in this Capital Note).

2. TERMS

The Principal Amount shall neither bear interest nor be linked to any index and shall be subordinated to all liabilities of the Company having priority over the Ordinary Shares.

The Principal Amount shall only be payable by the Company to the Holder out of distributions made upon the winding-up (whether solvent or insolvent), liquidation or dissolution of the Company and, in such event, on a *pari passu* and pro rata basis with the Ordinary Shares after payment of all liabilities of the Company having priority over the Ordinary Shares. For the purposes only of calculation of the allocation of such distributions between holders of the Capital Note and holders of Ordinary Shares, the holder of this Capital Note shall be deemed to own the number of Ordinary Shares into which this Capital Note may then be converted. The Company shall not be entitled to prepay or redeem this Capital Note.

This Capital Note shall be convertible into Ordinary Shares as set forth below and, for the removal of doubt, no such conversion shall be deemed a redemption or prepayment of this Capital Note.

3. CONVERSION

3.1. Conversion Right

The Holder of this Capital Note has the right, at the Holder's option, at any time and from time to time, to convert this Capital Note, without payment of any additional consideration, in accordance with the provisions of this clause 3, in whole or in part, into fully-paid and non-assessable Ordinary Shares. The number of Ordinary Shares into which this Capital Note may be converted (**"the Conversion Shares"**) shall be determined by dividing the aggregate Principal Amount of this Capital Note by the conversion price in effect at the time of such conversion (**"the Conversion Price"**). The Conversion Price initially shall be US $1.42, as adjusted at any time and from time to time in accordance with clause 7 below.

3.2. Conversion Procedure

This Capital Note may be converted in whole or in part at any time and from time to time by the surrender of this Capital Note to the Company at its principal office together with written notice of the election to convert all or any portion of the Principal Amount thereof, duly signed on behalf of the Holder. The Company shall, on such surrender date or as soon as practicable thereafter, issue irrevocable instructions to its stock transfer agent to deliver to the Holder a certificate or certificates for the number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. Such conversion, the issue and allotment of such Conversion Shares and the registration of the Holder in the

register of members of the Company as the holder of such Conversion Shares shall be deemed to have been made immediately prior to the close of business on the date of such surrender of this Capital Note or portion thereof and the person or persons entitled to receive the Conversion Shares issuable upon such conversion shall be treated for all purposes as the record holder or holders as of such date of such number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. In the event of a partial conversion, the Company shall concurrently issue to the Holder a replacement Capital Note of like tenor as this Capital Note, but representing the Principal Amount remaining after such partial conversion. For the avoidance of doubt, the Company confirms that the terms of this Capital Note, including, without limitation, this clause 3, constitute the issue terms of the Conversion Shares and that, accordingly, the right of the Company pursuant to clauses 16.1 and 16.2 of the Company's Articles of Association to delay the issuance of stock certificates for up to 6 (six) months after the allotment and registration of transfer is inapplicable. For the further removal of doubt, nothing herein shall derogate from the second sentence of clause 16.1 of the Company's Articles of Association.

4. **FRACTIONAL INTEREST**

No fractional shares will be issued in connection with any conversion hereunder. The Company shall round-down, to the nearest whole number, the number of Conversion Shares issuable in connection with any conversion hereunder.

5. **CAPITAL NOTE CONFERS NO RIGHTS OF SHAREHOLDER**

The Holder shall not, by virtue of this Capital Note, have any rights as a shareholder of the Company prior to actual conversion into Conversion Shares in accordance with clause 3.2 above.

6. **ACQUISITION FOR INVESTMENT**

This Capital Note **[**, including the Conversion Shares,[2]**]** has not been registered under the Securities Act of 1933, as amended (**"the Securities Act"**), or any other securities laws. The Holder acknowledges by acceptance of this Capital Note that it has acquired this Capital Note for investment and not with a view to distribution. **[**The Holder agrees that, unless the Conversion Shares have been registered under the Securities Act, any Conversion Shares issuable upon conversion of this Capital Note will be acquired for investment and not with a view to distribution in a manner inconsistent with the registration requirements of the U.S. securities laws and may have to be held indefinitely unless they are subsequently registered under the Securities Act or, based on an opinion of counsel reasonably satisfactory to the Company, an exemption from such registration is available; provided, however, that no opinion shall be required if sold pursuant to Rule 144 of the Securities Act or the transfer will be effected on the TASE and the Holder represents that the applicable conditions under Regulation S under the Securities Act have been satisfied.[3]**]** The Holder, by acceptance hereof, consents to the placement of legend(s) on this Capital Note and also on the Conversion Shares issuable upon conversion of this Capital Note, as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act, unless in the reasonable opinion of counsel for the Company such legend is not required in order to ensure compliance with the Securities Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

Nothing in this clause 6 shall derogate from any obligations of the Company under any Registration Rights Agreement to which the Company and the Holder are parties.

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2 Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from all future Capital Notes to be issued with respect to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder.

3 Following the effective date of any Registration Statement covering the Conversion Shares or any of them,, bracketed language to be replaced with the following: "The Conversion Shares have been registered under the Securities Act on Form F-3 Registration Statement No. **[*insert relevant registration number*]**." on all future Capital Notes to be issued with respect to such Conversion Shares, and, at the request of the Holder, a substitute Capital Note having such replacement language will promptly be delivered to the Holder.

7. **ADJUSTMENT OF CONVERSION PRICE AND NUMBER OF CONVERSION SHARES**

The number and kind of securities issuable initially upon the conversion of this Capital Note and the Conversion Price shall be subject to adjustment at any time and from time to time upon the occurrence of certain events, as follows:

7.1. **Adjustment for Shares Splits and Combinations**

If the Company at any time or from time to time effects a subdivision of the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the subdivision shall be proportionately increased, and conversely, if the Company at any time or from time to time combines the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the combination shall be proportionately decreased. Any adjustment under this clause 7.1 shall become effective at the close of business on the date the subdivision or combination becomes effective.

7.2. **Adjustment for Certain Dividends and Distributions**

In the event the Company at any time, or from time to time, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in additional Ordinary Shares, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be increased as of the time of such issuance or, in the event such a record date is fixed, as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable, plus the number of Ordinary Shares issuable in payment of such dividend or

distribution; and (ii) the denominator of which is the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable; provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be recomputed accordingly as of the close of business on such record date and thereafter the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7.2 as of the time of the actual payment of such dividends or distribution.

7.3. **Adjustments for Other Dividends and Distributions**

In the event the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in securities of the Company other than Ordinary Shares (for the avoidance of doubt, other than in a rights offering as to which clause 7.7 shall be applicable), then in each such event provision shall be made so that the Holder shall receive upon conversion of this Capital Note and for no additional consideration, in addition to the number of Ordinary Shares receivable thereupon, the amount of securities of the Company that the Holder would have received had this Capital Note been converted immediately prior to such event, or the record date for such event, as applicable.

7.4. **Adjustment for Reclassification, Exchange and Substitution**

If the Ordinary Shares issuable upon conversion of this Capital Note are changed into the same or a different number of shares of any class or classes of shares, whether by recapitalization, reclassification, exchange, substitution or otherwise (other than a subdivision or combination of shares, dividends payable in Ordinary Shares or other securities of the Company or a reorganization, merger, consolidation or sale of assets, provided for elsewhere in this clause 7), then and in any such event the Holder shall have the right thereafter to exercise this Capital Note into the kind and amount of shares and other securities receivable upon such recapitalization, reclassification, exchange, substitution or other change, by holders of the number of Ordinary Shares for which this Capital Note might have been converted immediately prior to such recapitalization, reclassification, exchange, substitution or other change (or the record date for such event), all subject to further adjustment as provided herein and under the Company's Articles of Association.

7.5. **Reorganization, Mergers, Consolidations or Sales of Assets**

If at any time or from time to time there is a capital reorganization of the Ordinary Shares (other than a recapitalization, subdivision, combination, reclassification, exchange or substitution of shares as provided for elsewhere in this clause 7), or a merger or consolidation of the Company with or into another corporation, or the sale of all or substantially all of the Company's properties and assets to any other person, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the Holder shall thereafter be entitled to receive upon conversion of this Capital Note and for no additional consideration, the number of shares or other securities or property (including, without limitation, cash) of the Company, or of the successor corporation resulting from such merger or consolidation or sale, to which a holder of the number of Ordinary Shares issuable upon conversion of this Capital Note would have been entitled on such capital reorganization, merger, consolidation or sale.

7.6. **Other Transactions**

In the event that the Company shall issue shares to its shareholders as a result of a split-off, spin-off or the like, then the Company shall only complete such issuance or other action if, as part thereof, allowance is made to protect the economic interest of the Holder either by increasing the number of Conversion Shares or by procuring that the Holder shall be entitled, on terms economically proportionate to those provided to its shareholders, to acquire additional shares of the spun-off or split-off entities.

7.7. **Rights Offerings**

If the Company, at any time and from time to time, shall fix a record date for, or shall make a distribution to, its shareholders of rights or warrants to subscribe for or purchase any security (collectively, **"Rights"**), then, in each such event, the Company will provide the Holder, concurrently with the distribution of the Rights to its shareholders, identical rights, having terms and conditions identical to the Rights (for the avoidance of doubt, exercisable at the same time as the Rights), in such number to which the Holder would be entitled had the Holder converted this Capital Note into Conversion Shares immediately prior to the record date for such distribution, or if no record date shall be fixed, then immediately prior to such distribution , as applicable. Nothing in this clause 7.7 shall require the Company to complete any such distribution of Rights to its shareholders, including following the record date thereof, unless required pursuant to the terms of such distribution and, if such distribution of Rights to its shareholders is not completed in conformity with the terms of such distribution, then the Company shall be entitled not to complete the provision of rights to the Holder pursuant to this clause 7.7 above.

7.8. **Adjustment for Cash Dividends and Distributions**

In the event the Company, at any time or from time to time until September 28, 2023, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a cash dividend or distribution, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted (for the avoidance of doubt, never decreased but either shall remain the same or increased), as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the closing price per share of the Ordinary Shares on the TASE on the determining date ("*Hayom Hakovaya*") for such dividend or distribution; and (ii) the denominator of which shall be the adjusted "ex-dividend" price of the Ordinary Shares as such prices set out in (i) and (ii) are determined in each case by the TASE in accordance with its rules.

7.9. **General Protection**

The Company will not, by amendment of its Articles of Association or other charter document or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the

observance or performance of any of the terms to be observed or performed hereunder, or impair the economic interest of the Holder, but will at all times in good faith assist in the carrying out of all the provisions hereof and in taking of all such actions and making all such adjustments as may be necessary or appropriate in order to protect the rights and the economic interests of the Holder against impairment.

7.10. **Notice of Capital Changes**

If at any time the Company shall declare any dividend or distribution of any kind, or offer for subscription pro rata to the holders of Ordinary Shares any additional shares of any class, other rights or any security of any kind, or there shall be any capital reorganization or reclassification of the capital shares of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to another company or there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company, or other transaction described in this clause 7, then, in any one or more of the said cases, the Company shall give the Holder prior written notice, by registered or certified mail, postage prepaid, of the date on which: (i) a record shall be taken for such dividend, distribution or subscription rights; or (ii) such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up shall take place, as the case may be. Such notice shall also specify the date as of which the holders of record of Ordinary Shares shall participate in such dividend or distribution, subscription rights, or shall be entitled to exchange their Ordinary Shares for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, as the case may be. Such written notice shall be given at least 14 (fourteen) days prior to the action in question and not less than 14 (fourteen) days prior to the record date in respect thereto.

7.11. **Adjustment of Conversion Price**

Upon each adjustment in the number of Ordinary Shares purchasable hereunder, the Conversion Price shall be proportionately increased or decreased, as the case may be, in a manner that is the inverse of the manner in which the number of Ordinary Shares purchasable hereunder shall be adjusted.

7.12. **Notice of Adjustments**

Whenever the Conversion Price or the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7, the Company shall prepare a certificate signed by the chief financial officer of the Company setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Conversion Price and the number of Conversion Shares issuable upon conversion of this Capital Note after giving effect to such adjustment, and shall cause copies of such certificate to be mailed (by first class mail, postage prepaid) to the Holder.

8. OTHER TRANSACTIONS

In the event that the Company or its shareholders receive an offer to transfer all or substantially all of the shares in the Company, or to effect a merger or acquisition or sale of all or substantially all of the assets of the Company, then the Company shall promptly inform the Holder in writing of such offer.

9. TRANSFER OF THIS CAPITAL NOTE BY THE HOLDER

This Capital Note shall be freely transferable or assignable by the Holder in whole or in part, at any time and from time to time, subject to the provisions of this clause 9. With respect to any transfer of this Capital Note, in whole or in part, the Holder shall surrender the Capital Note, together with a written request to transfer all or a portion of the Principal Amount of this Capital Note to the transferee, as well as, if reasonably requested by the Company, a written opinion of such Holder's counsel, to the effect that such offer, sale or other distribution may be effected without registration under the Securities Act. Upon surrender of such Capital Note (and delivery of such opinion, if so requested) by the Holder, the Company shall immediately register such transferee as the Holder of this Capital Note, or the portion thereof, transferred to such transferee, such registration shall be deemed to have been made immediately prior to the close of business on the date of such surrender and delivery (if applicable), and such transferee or transferees shall be treated for all purposes as the record holder or holders as of such date of a Capital Note in that portion of the Principal Amount of this Capital Note so transferred. The Company shall, as promptly as practicable, deliver to the Holder one or more Capital Notes, of like tenor as this Capital Note, except that the Principal Amount thereof shall be the amount transferred to such transferee, for delivery to the transferee or transferees (or, if the Holder requests, deliver such Capital Note directly to such transferee or transferees) and shall, if only a portion of the Principal Amount of this Capital Note is being transferred, concurrently deliver to the Holder one or more replacement Capital Notes to represent the portion of the Principal Amount of this Capital Note not so transferred. For the avoidance of doubt, the Company confirms that no approval by the Board of Directors of the Company of any transfer of this Capital Note or the Conversion Shares is required.

10. REPRESENTATIONS, WARRANTIES AND COVENANTS

The Company represents, warrants and covenants to the Holder as follows:

10.1. this Capital Note has been duly authorized and executed by the Company and is a valid and binding obligation of the Company enforceable in accordance with its terms;

10.2. the Conversion Shares are duly authorized and are, and will be, reserved (for the avoidance of doubt, without the need for further corporate action by the Company) for issuance by the Company and, when issued in accordance with the terms hereof, will be validly issued, fully paid and non-assessable and not subject to any pre-emptive rights;

10.3. the execution and delivery of this Capital Note are not, and the issuance of the Conversion Shares upon conversion of this Capital Note in accordance with the terms hereof will not be, inconsistent with the Company's Certificate of Incorporation, Memorandum of Association or Articles of Association, do not and will not contravene any law, governmental or regulatory rule or regulation, including NASDAQ and TASE rules and regulations, judgment or order applicable to the Company, do not and will not conflict with or contravene any provision of, or constitute

a default under, any indenture, mortgage, contract or other instrument of which the Company is a party or by which it is bound or, except for consents that have already been obtained and filings already made, require the consent or approval of, the giving of notice to, the registration with or the taking of any action in respect of or by, any Israeli or foreign governmental authority or agency or other person; and

10.4. the Conversion Shares have been approved for listing and trading on TASE.

11. **LOSS, THEFT, DESTRUCTION OR MUTILATION OF CAPITAL NOTE**

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Capital Note or Conversion Shares certificate, and in case of loss, theft or destruction, of indemnity, or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of such Capital Note or Conversion Shares certificate, if mutilated, the Company will make and deliver a new Capital Note or Conversion Shares certificate of like tenor and dated as of such cancellation, in lieu of such Capital Note or Conversion Shares certificate.

12. **NOTICES**

All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed to such party's address as set forth below:

If to the Holder:

Bank Leumi Le-Israel B.M.
Corporate Division
32 Yehuda Halevi Street
Tel Aviv, Israel
Attention: Manager of Hi-Tech Industries Section
Facsimile: (03) 514 9017

with a copy to (which shall not constitute notice):

Leumi and Co. Investment House Ltd.
25 Kalisher Street
Tel-Aviv 65165
Israel
Attention: Head of Investment Sector
Facsimile: (03) 5141 215

If to the Company:

Tower Semiconductor Ltd.
P.O. Box 619
Ramat Gabriel Industrial Zone
Migdal Haemek 23105
Attention: Oren Shirazi, Acting Chief Financial Officer
Facsimile: (04) 604 7242

with a copy to:

Yigal Arnon & Co.
1 Azrieli Center
Tel Aviv
Israel
Attention: David H. Schapiro, Adv.
Facsimile: (03) 608 7714

or such other address with respect to a party as such party shall notify each other party in writing as above provided. Any notice sent in accordance with this clause 12 shall be effective: (a) if mailed, 5 (five) business days after mailing; (b) if sent by messenger, upon delivery; and (c) if sent via facsimile, 1 (one) business day following transmission and electronic confirmation of receipt.

13. **APPLICABLE LAW; JURISDICTION**

This Capital Note shall be governed by and construed in accordance with the laws of the State of Israel as applicable to contracts between two residents of the State of Israel entered into and to be performed entirely within the State of Israel. Any dispute arising under or in relation to this Capital Note shall be resolved in the competent court for Tel Aviv-Jaffa district, and the Company and the Holder hereby submits irrevocably to the jurisdiction of such court.

Dated: September 29, 2008

for **TOWER SEMICONDUCTOR LTD.**

By: _____

Title:_____

THESE SECURITIES **[**(INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO)**]**[1] HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (**"THE ACT"**), OR ANY U.S. STATE OR OTHER JURISDICTION'S SECURITIES LAWS. THESE SECURITIES (INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO) MAY NOT BE SOLD, OFFERED FOR SALE OR PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT UNDER THE ACT WITH RESPECT TO ANY SUCH SECURITIES OR AN OPINION OF COUNSEL (REASONABLY SATISFACTORY TO THE COMPANY) THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF THE ACT OR ON THE TEL-AVIV STOCK EXCHANGE IN COMPLIANCE WITH REGULATIONS UNDER THE ACT.

EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE

(Principal Amount of US $30,000,000)

THIS EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE (**"this Capital Note"**) in the principal amount of US $30,000,000 (**"the Principal Amount"**) has been issued by Tower Semiconductor Ltd., an Israeli company (**"the Company"**), whose shares are currently traded on The Nasdaq National Market (**"NASDAQ"**) and the Tel-Aviv Stock Exchange (**"TASE"**), to Israel Corporation Ltd. (**"the Holder"**). This Capital Note was originally issued by the Company in exchange for the conversion by the original Holder of this Capital Note of loans to the Company in a principal amount (including certain accrued and unpaid interest) equal to the Principal Amount and represents the obligation of the Company to pay the Principal Amount to the Holder in accordance with and subject to the terms set forth in this Capital Note.

1. DEFINITIONS

In this Capital Note, the following terms have the meanings given to them in this clause 1:

1.1. **"Company"** includes any person that shall succeed to or assume the obligations of the Company under this Capital Note.

1.2. **"Holder"** shall mean any person who at the time shall be the registered holder of this Capital Note or any part thereof.

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1 Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from Capital Notes relating to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder.

1.3. **"Ordinary Shares"** means the ordinary shares, nominal value NIS 1.00 (one New Israel Sheqel) per share, of the Company (and any shares of capital stock substituted for the ordinary shares as a result of any stock split, stock dividend, recapitalisation, rights offering, exchange, merger or similar event or otherwise, including as described in this Capital Note).

2. TERMS

The Principal Amount shall neither bear interest nor be linked to any index and shall be subordinated to all liabilities of the Company having priority over the Ordinary Shares.

The Principal Amount shall only be payable by the Company to the Holder out of distributions made upon the winding-up (whether solvent or insolvent), liquidation or dissolution of the Company and, in such event, on a *pari passu* and pro rata basis with the Ordinary Shares after payment of all liabilities of the Company having priority over the Ordinary Shares. For the purposes only of calculation of the allocation of such distributions between holders of the Capital Note and holders of Ordinary Shares, the holder of this Capital Note shall be deemed to own the number of Ordinary Shares into which this Capital Note may then be converted. The Company shall not be entitled to prepay or redeem this Capital Note.

This Capital Note shall be convertible into Ordinary Shares as set forth below and, for the removal of doubt, no such conversion shall be deemed a redemption or prepayment of this Capital Note.

3. CONVERSION

3.1. Conversion Right

The Holder of this Capital Note has the right, at the Holder's option, at any time and from time to time, to convert this Capital Note, without payment of any additional consideration, in accordance with the provisions of this clause 3, in whole or in part, into fully-paid and non-assessable Ordinary Shares. The number of Ordinary Shares into which this Capital Note may be converted (**"the Conversion Shares"**) shall be determined by dividing the aggregate Principal Amount of this Capital Note by the conversion price in effect at the time of such conversion (**"the Conversion Price"**). The Conversion Price initially shall be US $1.42, as adjusted at any time and from time to time in accordance with clause 7 below.

3.2. Conversion Procedure

This Capital Note may be converted in whole or in part at any time and from time to time by the surrender of this Capital Note to the Company at its principal office together with written notice of the election to convert all or any portion of the Principal Amount thereof, duly signed on behalf of the Holder. The Company shall, on such surrender date or as soon as practicable thereafter, issue irrevocable instructions to its stock transfer agent to deliver to the Holder a certificate or certificates for the number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. Such conversion, the issue and allotment of such Conversion Shares and the registration of the Holder in the

register of members of the Company as the holder of such Conversion Shares shall be deemed to have been made immediately prior to the close of business on the date of such surrender of this Capital Note or portion thereof and the person or persons entitled to receive the Conversion Shares issuable upon such conversion shall be treated for all purposes as the record holder or holders as of such date of such number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. In the event of a partial conversion, the Company shall concurrently issue to the Holder a replacement Capital Note of like tenor as this Capital Note, but representing the Principal Amount remaining after such partial conversion. For the avoidance of doubt, the Company confirms that the terms of this Capital Note, including, without limitation, this clause 3, constitute the issue terms of the Conversion Shares and that, accordingly, the right of the Company pursuant to clauses 16.1 and 16.2 of the Company's Articles of Association to delay the issuance of stock certificates for up to 6 (six) months after the allotment and registration of transfer is inapplicable. For the further removal of doubt, nothing herein shall derogate from the second sentence of clause 16.1 of the Company's Articles of Association.

4. **FRACTIONAL INTEREST**

No fractional shares will be issued in connection with any conversion hereunder. The Company shall round-down, to the nearest whole number, the number of Conversion Shares issuable in connection with any conversion hereunder.

5. **CAPITAL NOTE CONFERS NO RIGHTS OF SHAREHOLDER**

The Holder shall not, by virtue of this Capital Note, have any rights as a shareholder of the Company prior to actual conversion into Conversion Shares in accordance with clause 3.2 above.

6. **ACQUISITION FOR INVESTMENT**

This Capital Note **[**, including the Conversion Shares,[2]**]** has not been registered under the Securities Act of 1933, as amended (**"the Securities Act"**), or any other securities laws. The Holder acknowledges by acceptance of this Capital Note that it has acquired this Capital Note for investment and not with a view to distribution. **[**The Holder agrees that, unless the Conversion Shares have been registered under the Securities Act, any Conversion Shares issuable upon conversion of this Capital Note will be acquired for investment and not with a view to distribution in a manner inconsistent with the registration requirements of the U.S. securities laws and may have to be held indefinitely unless they are subsequently registered under the Securities Act or, based on an opinion of counsel reasonably satisfactory to the Company, an exemption from such registration is available; provided, however, that no opinion shall be required if sold pursuant to Rule 144 of the Securities Act or the transfer will be effected on the TASE and the Holder represents that the applicable conditions under Regulation S under the Securities Act have been satisfied.[3]**]** The Holder, by acceptance hereof, consents to the placement of legend(s) on this Capital Note and also on the Conversion Shares issuable upon conversion of this Capital Note, as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act, unless in the reasonable opinion of counsel for the Company such legend is not required in order to ensure compliance with the Securities Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

Nothing in this clause 6 shall derogate from any obligations of the Company under any Registration Rights Agreement to which the Company and the Holder are parties.

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2 Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from all future Capital Notes to be issued with respect to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder.

3 Following the effective date of any Registration Statement covering the Conversion Shares or any of them,, bracketed language to be replaced with the following: "The Conversion Shares have been registered under the Securities Act on Form F-3 Registration Statement No. **[*insert relevant registration number*]**." on all future Capital Notes to be issued with respect to such Conversion Shares, and, at the request of the Holder, a substitute Capital Note having such replacement language will promptly be delivered to the Holder.

7. **ADJUSTMENT OF CONVERSION PRICE AND NUMBER OF CONVERSION SHARES**

The number and kind of securities issuable initially upon the conversion of this Capital Note and the Conversion Price shall be subject to adjustment at any time and from time to time upon the occurrence of certain events, as follows:

7.1. **Adjustment for Shares Splits and Combinations**

If the Company at any time or from time to time effects a subdivision of the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the subdivision shall be proportionately increased, and conversely, if the Company at any time or from time to time combines the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the combination shall be proportionately decreased. Any adjustment under this clause 7.1 shall become effective at the close of business on the date the subdivision or combination becomes effective.

7.2. **Adjustment for Certain Dividends and Distributions**

In the event the Company at any time, or from time to time, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in additional Ordinary Shares, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be increased as of the time of such issuance or, in the event such a record date is fixed, as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable, plus the number of Ordinary Shares issuable in payment of such dividend or

distribution; and (ii) the denominator of which is the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable; provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be recomputed accordingly as of the close of business on such record date and thereafter the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7.2 as of the time of the actual payment of such dividends or distribution.

7.3. **Adjustments for Other Dividends and Distributions**

In the event the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in securities of the Company other than Ordinary Shares (for the avoidance of doubt, other than in a rights offering as to which clause 7.7 shall be applicable), then in each such event provision shall be made so that the Holder shall receive upon conversion of this Capital Note and for no additional consideration, in addition to the number of Ordinary Shares receivable thereupon, the amount of securities of the Company that the Holder would have received had this Capital Note been converted immediately prior to such event, or the record date for such event, as applicable.

7.4. **Adjustment for Reclassification, Exchange and Substitution**

If the Ordinary Shares issuable upon conversion of this Capital Note are changed into the same or a different number of shares of any class or classes of shares, whether by recapitalization, reclassification, exchange, substitution or otherwise (other than a subdivision or combination of shares, dividends payable in Ordinary Shares or other securities of the Company or a reorganization, merger, consolidation or sale of assets, provided for elsewhere in this clause 7), then and in any such event the Holder shall have the right thereafter to exercise this Capital Note into the kind and amount of shares and other securities receivable upon such recapitalization, reclassification, exchange, substitution or other change, by holders of the number of Ordinary Shares for which this Capital Note might have been converted immediately prior to such recapitalization, reclassification, exchange, substitution or other change (or the record date for such event), all subject to further adjustment as provided herein and under the Company's Articles of Association.

7.5. **Reorganization, Mergers, Consolidations or Sales of Assets**

If at any time or from time to time there is a capital reorganization of the Ordinary Shares (other than a recapitalization, subdivision, combination, reclassification, exchange or substitution of shares as provided for elsewhere in this clause 7), or a merger or consolidation of the Company with or into another corporation, or the sale of all or substantially all of the Company's properties and assets to any other person, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the Holder shall thereafter be entitled to receive upon conversion of this Capital Note and for no additional consideration, the number of shares or other securities or property (including, without limitation, cash) of the Company, or of the successor corporation resulting from such merger or consolidation or sale, to which a holder of the number of Ordinary Shares issuable upon conversion of this Capital Note would have been entitled on such capital reorganization, merger, consolidation or sale.

7.6. **Other Transactions**

In the event that the Company shall issue shares to its shareholders as a result of a split-off, spin-off or the like, then the Company shall only complete such issuance or other action if, as part thereof, allowance is made to protect the economic interest of the Holder either by increasing the number of Conversion Shares or by procuring that the Holder shall be entitled, on terms economically proportionate to those provided to its shareholders, to acquire additional shares of the spun-off or split-off entities.

7.7. **Rights Offerings**

If the Company, at any time and from time to time, shall fix a record date for, or shall make a distribution to, its shareholders of rights or warrants to subscribe for or purchase any security (collectively, **"Rights"**), then, in each such event, the Company will provide the Holder, concurrently with the distribution of the Rights to its shareholders, identical rights, having terms and conditions identical to the Rights (for the avoidance of doubt, exercisable at the same time as the Rights), in such number to which the Holder would be entitled had the Holder converted this Capital Note into Conversion Shares immediately prior to the record date for such distribution, or if no record date shall be fixed, then immediately prior to such distribution, as applicable. Nothing in this clause 7.7 shall require the Company to complete any such distribution of Rights to its shareholders, including following the record date thereof, unless required pursuant to the terms of such distribution and, if such distribution of Rights to its shareholders is not completed in conformity with the terms of such distribution, then the Company shall be entitled not to complete the provision of rights to the Holder pursuant to this clause 7.7 above.

7.8. **Adjustment for Cash Dividends and Distributions**

In the event the Company, at any time or from time to time until September 28, 2023, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a cash dividend or distribution, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted (for the avoidance of doubt, never decreased but either shall remain the same or increased), as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the closing price per share of the Ordinary Shares on the TASE on the determining date ("*Hayom Hakovaya*") for such dividend or distribution; and (ii) the denominator of which shall be the adjusted "ex-dividend" price of the Ordinary Shares as such prices set out in (i) and (ii) are determined in each case by the TASE in accordance with its rules.

7.9. **General Protection**

The Company will not, by amendment of its Articles of Association or other charter document or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the

observance or performance of any of the terms to be observed or performed hereunder, or impair the economic interest of the Holder, but will at all times in good faith assist in the carrying out of all the provisions hereof and in taking of all such actions and making all such adjustments as may be necessary or appropriate in order to protect the rights and the economic interests of the Holder against impairment.

7.10. **Notice of Capital Changes**

If at any time the Company shall declare any dividend or distribution of any kind, or offer for subscription pro rata to the holders of Ordinary Shares any additional shares of any class, other rights or any security of any kind, or there shall be any capital reorganization or reclassification of the capital shares of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to another company or there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company, or other transaction described in this clause 7, then, in any one or more of the said cases, the Company shall give the Holder prior written notice, by registered or certified mail, postage prepaid, of the date on which: (i) a record shall be taken for such dividend, distribution or subscription rights; or (ii) such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up shall take place, as the case may be. Such notice shall also specify the date as of which the holders of record of Ordinary Shares shall participate in such dividend or distribution, subscription rights, or shall be entitled to exchange their Ordinary Shares for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, as the case may be. Such written notice shall be given at least 14 (fourteen) days prior to the action in question and not less than 14 (fourteen) days prior to the record date in respect thereto.

7.11. **Adjustment of Conversion Price**

Upon each adjustment in the number of Ordinary Shares purchasable hereunder, the Conversion Price shall be proportionately increased or decreased, as the case may be, in a manner that is the inverse of the manner in which the number of Ordinary Shares purchasable hereunder shall be adjusted.

7.12. **Notice of Adjustments**

Whenever the Conversion Price or the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7, the Company shall prepare a certificate signed by the chief financial officer of the Company setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Conversion Price and the number of Conversion Shares issuable upon conversion of this Capital Note after giving effect to such adjustment, and shall cause copies of such certificate to be mailed (by first class mail, postage prepaid) to the Holder.

8. **OTHER TRANSACTIONS**

In the event that the Company or its shareholders receive an offer to transfer all or substantially all of the shares in the Company, or to effect a merger or acquisition or sale of all or substantially all of the assets of the Company, then the Company shall promptly inform the Holder in writing of such offer.

9. **TRANSFER OF THIS CAPITAL NOTE BY THE HOLDER**

This Capital Note shall be freely transferable or assignable by the Holder in whole or in part, at any time and from time to time, subject to the provisions of this clause 9. With respect to any transfer of this Capital Note, in whole or in part, the Holder shall surrender the Capital Note, together with a written request to transfer all or a portion of the Principal Amount of this Capital Note to the transferee, as well as, if reasonably requested by the Company, a written opinion of such Holder's counsel, to the effect that such offer, sale or other distribution may be effected without registration under the Securities Act. Upon surrender of such Capital Note (and delivery of such opinion, if so requested) by the Holder, the Company shall immediately register such transferee as the Holder of this Capital Note, or the portion thereof, transferred to such transferee, such registration shall be deemed to have been made immediately prior to the close of business on the date of such surrender and delivery (if applicable), and such transferee or transferees shall be treated for all purposes as the record holder or holders as of such date of a Capital Note in that portion of the Principal Amount of this Capital Note so transferred. The Company shall, as promptly as practicable, deliver to the Holder one or more Capital Notes, of like tenor as this Capital Note, except that the Principal Amount thereof shall be the amount transferred to such transferee, for delivery to the transferee or transferees (or, if the Holder requests, deliver such Capital Note directly to such transferee or transferees) and shall, if only a portion of the Principal Amount of this Capital Note is being transferred, concurrently deliver to the Holder one or more replacement Capital Notes to represent the portion of the Principal Amount of this Capital Note not so transferred. For the avoidance of doubt, the Company confirms that no approval by the Board of Directors of the Company of any transfer of this Capital Note or the Conversion Shares is required.

10. **REPRESENTATIONS, WARRANTIES AND COVENANTS**

The Company represents, warrants and covenants to the Holder as follows:

10.1. this Capital Note has been duly authorized and executed by the Company and is a valid and binding obligation of the Company enforceable in accordance with its terms;

10.2. the Conversion Shares are duly authorized and are, and will be, reserved (for the avoidance of doubt, without the need for further corporate action by the Company) for issuance by the Company and, when issued in accordance with the terms hereof, will be validly issued, fully paid and non-assessable and not subject to any pre-emptive rights;

10.3. the execution and delivery of this Capital Note are not, and the issuance of the Conversion Shares upon conversion of this Capital Note in accordance with the terms hereof will not be, inconsistent with the Company's Certificate of Incorporation, Memorandum of Association or Articles of Association, do not and will not contravene any law, governmental or regulatory rule or regulation, including NASDAQ and TASE rules and regulations, judgment or order applicable to the Company, do not and will not conflict with or contravene any provision of, or constitute a default under, any indenture, mortgage, contract or other instrument of which the Company is a party or by which it is bound or, except for

consents that have already been obtained and filings already made, require the consent or approval of, the giving of notice to, the registration with or the taking of any action in respect of or by, any Israeli or foreign governmental authority or agency or other person; and

10.4. the Conversion Shares have been approved for listing and trading on TASE.

11. **LOSS, THEFT, DESTRUCTION OR MUTILATION OF CAPITAL NOTE**

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Capital Note or Conversion Shares certificate, and in case of loss, theft or destruction, of indemnity, or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of such Capital Note or Conversion Shares certificate, if mutilated, the Company will make and deliver a new Capital Note or Conversion Shares certificate of like tenor and dated as of such cancellation, in lieu of such Capital Note or Conversion Shares certificate.

12. **NOTICES**

All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed to such party's address as set forth below:

If to the Holder:
Israel Coropration Ltd.
Milennium Tower
23 Aranha St.
Tel-Aviv, Israel 61070
Attention: Chief Financial Officer
Facsimile: 972-3-684-4574

with a copy to:
Gornitzky & Co.
45 Rothschild Blvd.
Tel Aviv, Israel 65784
Attention: Zvi Ephrat, Adv.
Facsimile: (03) 560 6555

If to the Company:
Tower Semiconductor Ltd.
P.O. Box 619
Ramat Gabriel Industrial Zone
Migdal Haemek 23105
Israel
Attention: Oren Shirazi, Acting Chief Financial Officer
Facsimile: (04) 604 7242

with a copy to:
Yigal Arnon & Co.
1 Azrieli Center
Tel Aviv
Israel
Attention: David H. Schapiro, Adv.
Facsimile: (03) 608 7714

or such other address with respect to a party as such party shall notify each other party in writing as above provided. Any notice sent in accordance with this clause 12 shall be effective: (a) if mailed, 5 (five) business days after mailing; (b) if sent by messenger, upon delivery; and (c) if sent via facsimile, 1 (one) business day following transmission and electronic confirmation of receipt.

13. **APPLICABLE LAW; JURISDICTION**

This Capital Note shall be governed by and construed in accordance with the laws of the State of Israel as applicable to contracts between two residents of the State of Israel entered into and to be performed entirely within the State of Israel. Any dispute arising under or in relation to this Capital Note shall be resolved in the competent court for Tel Aviv-Jaffa district, and the Company and the Holder hereby submits irrevocably to the jurisdiction of such court.

Dated: September 25, 2008

for **TOWER SEMICONDUCTOR LTD.**

By: _____

Title: _____

THESE SECURITIES **[**(INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO)**]**[1] HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (**"THE ACT"**), OR ANY U.S. STATE OR OTHER JURISDICTION'S SECURITIES LAWS. THESE SECURITIES (INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO) MAY NOT BE SOLD, OFFERED FOR SALE OR PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT UNDER THE ACT WITH RESPECT TO ANY SUCH SECURITIES OR AN OPINION OF COUNSEL (REASONABLY SATISFACTORY TO THE COMPANY) THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF THE ACT OR ON THE TEL-AVIV STOCK EXCHANGE IN COMPLIANCE WITH REGULATIONS UNDER THE ACT.

EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE

(Principal Amount of US $20,000,000)

THIS EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE (**"this Capital Note"**) in the principal amount of US $20,000,000 (**"the Principal Amount"**) has been issued by Tower Semiconductor Ltd., an Israeli company (**"the Company"**), whose shares are currently traded on The Nasdaq National Market (**"NASDAQ"**) and the Tel-Aviv Stock Exchange (**"TASE"**), to Israel Corporation Ltd. (**"the Holder"**). This Capital Note was originally issued by the Company in exchange for the conversion by the original Holder of this Capital Note of loans to the Company in a principal amount (including certain accrued and unpaid interest) equal to the Principal Amount and represents the obligation of the Company to pay the Principal Amount to the Holder in accordance with and subject to the terms set forth in this Capital Note.

1. DEFINITIONS

In this Capital Note, the following terms have the meanings given to them in this clause 1:

1.1. **"Company"** includes any person that shall succeed to or assume the obligations of the Company under this Capital Note.

1.2. **"Holder"** shall mean any person who at the time shall be the registered holder of this Capital Note or any part thereof.

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1 Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from Capital Notes relating to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder.

1.3. **"Ordinary Shares"** means the ordinary shares, nominal value NIS 1.00 (one New Israel Sheqel) per share, of the Company (and any shares of capital stock substituted for the ordinary shares as a result of any stock split, stock dividend, recapitalisation, rights offering, exchange, merger or similar event or otherwise, including as described in this Capital Note).

2. TERMS

The Principal Amount shall neither bear interest nor be linked to any index and shall be subordinated to all liabilities of the Company having priority over the Ordinary Shares.

The Principal Amount shall only be payable by the Company to the Holder out of distributions made upon the winding-up (whether solvent or insolvent), liquidation or dissolution of the Company and, in such event, on a *pari passu* and pro rata basis with the Ordinary Shares after payment of all liabilities of the Company having priority over the Ordinary Shares. For the purposes only of calculation of the allocation of such distributions between holders of the Capital Note and holders of Ordinary Shares, the holder of this Capital Note shall be deemed to own the number of Ordinary Shares into which this Capital Note may then be converted. The Company shall not be entitled to prepay or redeem this Capital Note.

This Capital Note shall be convertible into Ordinary Shares as set forth below and, for the removal of doubt, no such conversion shall be deemed a redemption or prepayment of this Capital Note.

3. CONVERSION

3.1. Conversion Right

The Holder of this Capital Note has the right, at the Holder's option, at any time and from time to time, to convert this Capital Note, without payment of any additional consideration, in accordance with the provisions of this clause 3, in whole or in part, into fully-paid and non-assessable Ordinary Shares. The number of Ordinary Shares into which this Capital Note may be converted (**"the Conversion Shares"**) shall be determined by dividing the aggregate Principal Amount of this Capital Note by the conversion price in effect at the time of such conversion (**"the Conversion Price"**). The Conversion Price initially shall be US $1.42, as adjusted at any time and from time to time in accordance with clause 7 below.

3.2. Conversion Procedure

This Capital Note may be converted in whole or in part at any time and from time to time by the surrender of this Capital Note to the Company at its principal office together with written notice of the election to convert all or any portion of the Principal Amount thereof, duly signed on behalf of the Holder. The Company shall, on such surrender date or as soon as practicable thereafter, issue irrevocable instructions to its stock transfer agent to deliver to the Holder a certificate or certificates for the number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. Such conversion, the issue and allotment of such Conversion Shares and the registration of the Holder in the

register of members of the Company as the holder of such Conversion Shares shall be deemed to have been made immediately prior to the close of business on the date of such surrender of this Capital Note or portion thereof and the person or persons entitled to receive the Conversion Shares issuable upon such conversion shall be treated for all purposes as the record holder or holders as of such date of such number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. In the event of a partial conversion, the Company shall concurrently issue to the Holder a replacement Capital Note of like tenor as this Capital Note, but representing the Principal Amount remaining after such partial conversion. For the avoidance of doubt, the Company confirms that the terms of this Capital Note, including, without limitation, this clause 3, constitute the issue terms of the Conversion Shares and that, accordingly, the right of the Company pursuant to clauses 16.1 and 16.2 of the Company's Articles of Association to delay the issuance of stock certificates for up to 6 (six) months after the allotment and registration of transfer is inapplicable. For the further removal of doubt, nothing herein shall derogate from the second sentence of clause 16.1 of the Company's Articles of Association.

4. **FRACTIONAL INTEREST**

No fractional shares will be issued in connection with any conversion hereunder. The Company shall round-down, to the nearest whole number, the number of Conversion Shares issuable in connection with any conversion hereunder.

5. **CAPITAL NOTE CONFERS NO RIGHTS OF SHAREHOLDER**

The Holder shall not, by virtue of this Capital Note, have any rights as a shareholder of the Company prior to actual conversion into Conversion Shares in accordance with clause 3.2 above.

6. **ACQUISITION FOR INVESTMENT**

This Capital Note **[**, including the Conversion Shares,[2]**]** has not been registered under the Securities Act of 1933, as amended (**"the Securities Act"**), or any other securities laws. The Holder acknowledges by acceptance of this Capital Note that it has acquired this Capital Note for investment and not with a view to distribution. **[**The Holder agrees that, unless the Conversion Shares have been registered under the Securities Act, any Conversion Shares issuable upon conversion of this Capital Note will be acquired for investment and not with a view to distribution in a manner inconsistent with the registration requirements of the U.S. securities laws and may have to be held indefinitely unless they are subsequently registered under the Securities Act or, based on an opinion of counsel reasonably satisfactory to the Company, an exemption from such registration is available; provided, however, that no opinion shall be required if sold pursuant to Rule 144 of the Securities Act or the transfer will be effected on the TASE and the Holder represents that the applicable conditions under Regulation S under the Securities Act have been satisfied.[3]**]** The Holder, by acceptance hereof, consents to the placement of legend(s) on this Capital Note and also on the Conversion Shares issuable upon conversion of this Capital Note, as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act, unless in the reasonable opinion of counsel for the Company such legend is not required in order to ensure compliance with the Securities Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

Nothing in this clause 6 shall derogate from any obligations of the Company under any Registration Rights Agreement to which the Company and the Holder are parties.

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2 Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from all future Capital Notes to be issued with respect to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder.

3 Following the effective date of any Registration Statement covering the Conversion Shares or any of them,, bracketed language to be replaced with the following: "The Conversion Shares have been registered under the Securities Act on Form F-3 Registration Statement No. **[*insert relevant registration number*]**." on all future Capital Notes to be issued with respect to such Conversion Shares, and, at the request of the Holder, a substitute Capital Note having such replacement language will promptly be delivered to the Holder.

7. **ADJUSTMENT OF CONVERSION PRICE AND NUMBER OF CONVERSION SHARES**

The number and kind of securities issuable initially upon the conversion of this Capital Note and the Conversion Price shall be subject to adjustment at any time and from time to time upon the occurrence of certain events, as follows:

7.1. **Adjustment for Shares Splits and Combinations**

If the Company at any time or from time to time effects a subdivision of the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the subdivision shall be proportionately increased, and conversely, if the Company at any time or from time to time combines the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the combination shall be proportionately decreased. Any adjustment under this clause 7.1 shall become effective at the close of business on the date the subdivision or combination becomes effective.

7.2. **Adjustment for Certain Dividends and Distributions**

In the event the Company at any time, or from time to time, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in additional Ordinary Shares, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be increased as of the time of such issuance or, in the event such a record date is fixed, as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable, plus the number of Ordinary Shares issuable in payment of such dividend or

distribution; and (ii) the denominator of which is the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable; provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be recomputed accordingly as of the close of business on such record date and thereafter the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7.2 as of the time of the actual payment of such dividends or distribution.

7.3. **Adjustments for Other Dividends and Distributions**

In the event the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in securities of the Company other than Ordinary Shares (for the avoidance of doubt, other than in a rights offering as to which clause 7.7 shall be applicable), then in each such event provision shall be made so that the Holder shall receive upon conversion of this Capital Note and for no additional consideration, in addition to the number of Ordinary Shares receivable thereupon, the amount of securities of the Company that the Holder would have received had this Capital Note been converted immediately prior to such event, or the record date for such event, as applicable.

7.4. **Adjustment for Reclassification, Exchange and Substitution**

If the Ordinary Shares issuable upon conversion of this Capital Note are changed into the same or a different number of shares of any class or classes of shares, whether by recapitalization, reclassification, exchange, substitution or otherwise (other than a subdivision or combination of shares, dividends payable in Ordinary Shares or other securities of the Company or a reorganization, merger, consolidation or sale of assets, provided for elsewhere in this clause 7), then and in any such event the Holder shall have the right thereafter to exercise this Capital Note into the kind and amount of shares and other securities receivable upon such recapitalization, reclassification, exchange, substitution or other change, by holders of the number of Ordinary Shares for which this Capital Note might have been converted immediately prior to such recapitalization, reclassification, exchange, substitution or other change (or the record date for such event), all subject to further adjustment as provided herein and under the Company's Articles of Association.

7.5. **Reorganization, Mergers, Consolidations or Sales of Assets**

If at any time or from time to time there is a capital reorganization of the Ordinary Shares (other than a recapitalization, subdivision, combination, reclassification, exchange or substitution of shares as provided for elsewhere in this clause 7), or a merger or consolidation of the Company with or into another corporation, or the sale of all or substantially all of the Company's properties and assets to any other person, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the Holder shall thereafter be entitled to receive upon conversion of this Capital Note and for no additional consideration, the number of shares or other securities or property (including, without limitation, cash) of the Company, or of the successor corporation resulting from such merger or consolidation or sale, to which a holder of the number of Ordinary Shares issuable upon conversion of this Capital Note would have been entitled on such capital reorganization, merger, consolidation or sale.

7.6. **Other Transactions**

In the event that the Company shall issue shares to its shareholders as a result of a split-off, spin-off or the like, then the Company shall only complete such issuance or other action if, as part thereof, allowance is made to protect the economic interest of the Holder either by increasing the number of Conversion Shares or by procuring that the Holder shall be entitled, on terms economically proportionate to those provided to its shareholders, to acquire additional shares of the spun-off or split-off entities.

7.7. **Rights Offerings**

If the Company, at any time and from time to time, shall fix a record date for, or shall make a distribution to, its shareholders of rights or warrants to subscribe for or purchase any security (collectively, **"Rights"**), then, in each such event, the Company will provide the Holder, concurrently with the distribution of the Rights to its shareholders, identical rights, having terms and conditions identical to the Rights (for the avoidance of doubt, exercisable at the same time as the Rights), in such number to which the Holder would be entitled had the Holder converted this Capital Note into Conversion Shares immediately prior to the record date for such distribution, or if no record date shall be fixed, then immediately prior to such distribution, as applicable. Nothing in this clause 7.7 shall require the Company to complete any such distribution of Rights to its shareholders, including following the record date thereof, unless required pursuant to the terms of such distribution and, if such distribution of Rights to its shareholders is not completed in conformity with the terms of such distribution, then the Company shall be entitled not to complete the provision of rights to the Holder pursuant to this clause 7.7 above.

7.8. **Adjustment for Cash Dividends and Distributions**

In the event the Company, at any time or from time to time until September 28, 2023, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a cash dividend or distribution, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted (for the avoidance of doubt, never decreased but either shall remain the same or increased), as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the closing price per share of the Ordinary Shares on the TASE on the determining date ("*Hayom Hakovaya*") for such dividend or distribution; and (ii) the denominator of which shall be the adjusted "ex-dividend" price of the Ordinary Shares as such prices set out in (i) and (ii) are determined in each case by the TASE in accordance with its rules.

7.9. **General Protection**

The Company will not, by amendment of its Articles of Association or other charter document or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the

observance or performance of any of the terms to be observed or performed hereunder, or impair the economic interest of the Holder, but will at all times in good faith assist in the carrying out of all the provisions hereof and in taking of all such actions and making all such adjustments as may be necessary or appropriate in order to protect the rights and the economic interests of the Holder against impairment.

7.10. **Notice of Capital Changes**

If at any time the Company shall declare any dividend or distribution of any kind, or offer for subscription pro rata to the holders of Ordinary Shares any additional shares of any class, other rights or any security of any kind, or there shall be any capital reorganization or reclassification of the capital shares of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to another company or there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company, or other transaction described in this clause 7, then, in any one or more of the said cases, the Company shall give the Holder prior written notice, by registered or certified mail, postage prepaid, of the date on which: (i) a record shall be taken for such dividend, distribution or subscription rights; or (ii) such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up shall take place, as the case may be. Such notice shall also specify the date as of which the holders of record of Ordinary Shares shall participate in such dividend or distribution, subscription rights, or shall be entitled to exchange their Ordinary Shares for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, as the case may be. Such written notice shall be given at least 14 (fourteen) days prior to the action in question and not less than 14 (fourteen) days prior to the record date in respect thereto.

7.11. **Adjustment of Conversion Price**

Upon each adjustment in the number of Ordinary Shares purchasable hereunder, the Conversion Price shall be proportionately increased or decreased, as the case may be, in a manner that is the inverse of the manner in which the number of Ordinary Shares purchasable hereunder shall be adjusted.

7.12. **Notice of Adjustments**

Whenever the Conversion Price or the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7, the Company shall prepare a certificate signed by the chief financial officer of the Company setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Conversion Price and the number of Conversion Shares issuable upon conversion of this Capital Note after giving effect to such adjustment, and shall cause copies of such certificate to be mailed (by first class mail, postage prepaid) to the Holder.

8. **OTHER TRANSACTIONS**

In the event that the Company or its shareholders receive an offer to transfer all or substantially all of the shares in the Company, or to effect a merger or acquisition or sale of all or substantially all of the assets of the Company, then the Company shall promptly inform the Holder in writing of such offer.

9. **TRANSFER OF THIS CAPITAL NOTE BY THE HOLDER**

This Capital Note shall be freely transferable or assignable by the Holder in whole or in part, at any time and from time to time, subject to the provisions of this clause 9. With respect to any transfer of this Capital Note, in whole or in part, the Holder shall surrender the Capital Note, together with a written request to transfer all or a portion of the Principal Amount of this Capital Note to the transferee, as well as, if reasonably requested by the Company, a written opinion of such Holder's counsel, to the effect that such offer, sale or other distribution may be effected without registration under the Securities Act. Upon surrender of such Capital Note (and delivery of such opinion, if so requested) by the Holder, the Company shall immediately register such transferee as the Holder of this Capital Note, or the portion thereof, transferred to such transferee, such registration shall be deemed to have been made immediately prior to the close of business on the date of such surrender and delivery (if applicable), and such transferee or transferees shall be treated for all purposes as the record holder or holders as of such date of a Capital Note in that portion of the Principal Amount of this Capital Note so transferred. The Company shall, as promptly as practicable, deliver to the Holder one or more Capital Notes, of like tenor as this Capital Note, except that the Principal Amount thereof shall be the amount transferred to such transferee, for delivery to the transferee or transferees (or, if the Holder requests, deliver such Capital Note directly to such transferee or transferees) and shall, if only a portion of the Principal Amount of this Capital Note is being transferred, concurrently deliver to the Holder one or more replacement Capital Notes to represent the portion of the Principal Amount of this Capital Note not so transferred. For the avoidance of doubt, the Company confirms that no approval by the Board of Directors of the Company of any transfer of this Capital Note or the Conversion Shares is required.

10. **REPRESENTATIONS, WARRANTIES AND COVENANTS**

The Company represents, warrants and covenants to the Holder as follows:

10.1. this Capital Note has been duly authorized and executed by the Company and is a valid and binding obligation of the Company enforceable in accordance with its terms;

10.2. the Conversion Shares are duly authorized and are, and will be, reserved (for the avoidance of doubt, without the need for further corporate action by the Company) for issuance by the Company and, when issued in accordance with the terms hereof, will be validly issued, fully paid and non-assessable and not subject to any pre-emptive rights;

10.3. the execution and delivery of this Capital Note are not, and the issuance of the Conversion Shares upon conversion of this Capital Note in accordance with the terms hereof will not be, inconsistent with the Company's Certificate of Incorporation, Memorandum of Association or Articles of Association, do not and will not contravene any law, governmental or regulatory rule or regulation, including NASDAQ and TASE rules and regulations, judgment or order applicable to the Company, do not and will not conflict with or contravene any provision of, or constitute a default under, any indenture, mortgage, contract or other instrument of which the Company is a party or by which it is bound or, except for

consents that have already been obtained and filings already made, require the consent or approval of, the giving of notice to, the registration with or the taking of any action in respect of or by, any Israeli or foreign governmental authority or agency or other person; and

10.4. the Conversion Shares have been approved for listing and trading on TASE.

11. **LOSS, THEFT, DESTRUCTION OR MUTILATION OF CAPITAL NOTE**

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Capital Note or Conversion Shares certificate, and in case of loss, theft or destruction, of indemnity, or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of such Capital Note or Conversion Shares certificate, if mutilated, the Company will make and deliver a new Capital Note or Conversion Shares certificate of like tenor and dated as of such cancellation, in lieu of such Capital Note or Conversion Shares certificate.

12. **NOTICES**

All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed to such party's address as set forth below:

If to the Holder:
Israel Coropration Ltd.
Milennium Tower
23 Aranha St.
Tel-Aviv, Israel 61070
Attention: Chief Financial Officer
Facsimile: 972-3-684-4574

with a copy to:
Gornitzky & Co.
45 Rothschild Blvd.
Tel Aviv, Israel 65784
Attention: Zvi Ephrat, Adv.
Facsimile: (03) 560 6555

If to the Company:
Tower Semiconductor Ltd.
P.O. Box 619
Ramat Gabriel Industrial Zone
Migdal Haemek 23105
Israel
Attention: Oren Shirazi, Acting Chief Financial Officer
Facsimile: (04) 604 7242

with a copy to:
Yigal Arnon & Co.
1 Azrieli Center
Tel Aviv
Israel
Attention: David H. Schapiro, Adv.
Facsimile: (03) 608 7714

or such other address with respect to a party as such party shall notify each other party in writing as above provided. Any notice sent in accordance with this clause 12 shall be effective: (a) if mailed, 5 (five) business days after mailing; (b) if sent by messenger, upon delivery; and (c) if sent via facsimile, 1 (one) business day following transmission and electronic confirmation of receipt.

13. **APPLICABLE LAW; JURISDICTION**

This Capital Note shall be governed by and construed in accordance with the laws of the State of Israel as applicable to contracts between two residents of the State of Israel entered into and to be performed entirely within the State of Israel. Any dispute arising under or in relation to this Capital Note shall be resolved in the competent court for Tel Aviv-Jaffa district, and the Company and the Holder hereby submits irrevocably to the jurisdiction of such court.

Dated: September 25, 2008

for **TOWER SEMICONDUCTOR LTD.**

By: _____

Title: _____

THESE SECURITIES **[**(INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO)**]**[1] HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (**"THE ACT"**), OR ANY U.S. STATE OR OTHER JURISDICTION'S SECURITIES LAWS. THESE SECURITIES (INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO) MAY NOT BE SOLD, OFFERED FOR SALE OR PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT UNDER THE ACT WITH RESPECT TO ANY SUCH SECURITIES OR AN OPINION OF COUNSEL (REASONABLY SATISFACTORY TO THE COMPANY) THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF THE ACT OR ON THE TEL-AVIV STOCK EXCHANGE IN COMPLIANCE WITH REGULATIONS UNDER THE ACT.

EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE

(Principal Amount of US $20,000,000)

THIS EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE (**"this Capital Note"**) in the principal amount of US $20,000,000 (**"the Principal Amount"**) has been issued by Tower Semiconductor Ltd., an Israeli company (**"the Company"**), whose shares are currently traded on The Nasdaq National Market (**"NASDAQ"**) and the Tel-Aviv Stock Exchange (**"TASE"**), to Israel Corporation Ltd. (**"the Holder"**). This Capital Note was originally issued by the Company pursuant to a Securities Purchase Agreement between the Company and the original Holder, dated September 25, 2008, in a principal amount equal to the Principal Amount and represents the obligation of the Company to pay the Principal Amount to the Holder in accordance with and subject to the terms set forth in this Capital Note.

1. DEFINITIONS

In this Capital Note, the following terms have the meanings given to them in this clause 1:

1.1. **"Company"** includes any person that shall succeed to or assume the obligations of the Company under this Capital Note.

1.2. **"Holder"** shall mean any person who at the time shall be the registered holder of this Capital Note or any part thereof.

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[1] Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from Capital Notes relating to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder.

1.3. **"Ordinary Shares"** means the ordinary shares, nominal value NIS 1.00 (one New Israel Sheqel) per share, of the Company (and any shares of capital stock substituted for the ordinary shares as a result of any stock split, stock dividend, recapitalisation, rights offering, exchange, merger or similar event or otherwise, including as described in this Capital Note).

2. TERMS

The Principal Amount shall neither bear interest nor be linked to any index and shall be subordinated to all liabilities of the Company having priority over the Ordinary Shares.

The Principal Amount shall only be payable by the Company to the Holder out of distributions made upon the winding-up (whether solvent or insolvent), liquidation or dissolution of the Company and, in such event, on a *pari passu* and pro rata basis with the Ordinary Shares after payment of all liabilities of the Company having priority over the Ordinary Shares. For the purposes only of calculation of the allocation of such distributions between holders of the Capital Note and holders of Ordinary Shares, the holder of this Capital Note shall be deemed to own the number of Ordinary Shares into which this Capital Note may then be converted. The Company shall not be entitled to prepay or redeem this Capital Note.

This Capital Note shall be convertible into Ordinary Shares as set forth below and, for the removal of doubt, no such conversion shall be deemed a redemption or prepayment of this Capital Note.

3. CONVERSION

3.1. Conversion Right

The Holder of this Capital Note has the right, at the Holder's option, at any time and from time to time, to convert this Capital Note, without payment of any additional consideration, in accordance with the provisions of this clause 3, in whole or in part, into fully-paid and non-assessable Ordinary Shares. The number of Ordinary Shares into which this Capital Note may be converted (**"the Conversion Shares"**) shall be determined by dividing the aggregate Principal Amount of this Capital Note by the conversion price in effect at the time of such conversion (**"the Conversion Price"**). The Conversion Price initially shall be US $0.71, as adjusted at any time and from time to time in accordance with clause 7 below.

3.2. Conversion Procedure

This Capital Note may be converted in whole or in part at any time and from time to time by the surrender of this Capital Note to the Company at its principal office together with written notice of the election to convert all or any portion of the Principal Amount thereof, duly signed on behalf of the Holder. The Company shall, on such surrender date or as soon as practicable thereafter, issue irrevocable instructions to its stock transfer agent to deliver to the Holder a certificate or certificates for the number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. Such conversion, the issue and allotment of such Conversion Shares and the registration of the Holder in the

register of members of the Company as the holder of such Conversion Shares shall be deemed to have been made immediately prior to the close of business on the date of such surrender of this Capital Note or portion thereof and the person or persons entitled to receive the Conversion Shares issuable upon such conversion shall be treated for all purposes as the record holder or holders as of such date of such number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. In the event of a partial conversion, the Company shall concurrently issue to the Holder a replacement Capital Note of like tenor as this Capital Note, but representing the Principal Amount remaining after such partial conversion. For the avoidance of doubt, the Company confirms that the terms of this Capital Note, including, without limitation, this clause 3, constitute the issue terms of the Conversion Shares and that, accordingly, the right of the Company pursuant to clauses 16.1 and 16.2 of the Company's Articles of Association to delay the issuance of stock certificates for up to 6 (six) months after the allotment and registration of transfer is inapplicable. For the further removal of doubt, nothing herein shall derogate from the second sentence of clause 16.1 of the Company's Articles of Association.

4. **FRACTIONAL INTEREST**

No fractional shares will be issued in connection with any conversion hereunder. The Company shall round-down, to the nearest whole number, the number of Conversion Shares issuable in connection with any conversion hereunder.

5. **CAPITAL NOTE CONFERS NO RIGHTS OF SHAREHOLDER**

The Holder shall not, by virtue of this Capital Note, have any rights as a shareholder of the Company prior to actual conversion into Conversion Shares in accordance with clause 3.2 above.

6. **ACQUISITION FOR INVESTMENT**

This Capital Note **[**, including the Conversion Shares,[2]**]** has not been registered under the Securities Act of 1933, as amended (**"the Securities Act"**), or any other securities laws. The Holder acknowledges by acceptance of this Capital Note that it has acquired this Capital Note for investment and not with a view to distribution. **[**The Holder agrees that, unless the Conversion Shares have been registered under the Securities Act, any Conversion Shares issuable upon conversion of this Capital Note will be acquired for investment and not with a view to distribution in a manner inconsistent with the registration requirements of the U.S. securities laws and may have to be held indefinitely unless they are subsequently registered under the Securities Act or, based on an opinion of counsel reasonably satisfactory to the Company, an exemption from such registration is available; provided, however, that no opinion shall be required if sold pursuant to Rule 144 of the Securities Act or the transfer will be effected on the TASE and the Holder represents that the applicable conditions under Regulation S under the Securities Act have been satisfied.[3]**]** The Holder, by acceptance hereof, consents to the placement of legend(s) on this Capital Note and also on the Conversion Shares issuable upon conversion of this Capital Note, as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act, unless in the reasonable opinion of counsel for the Company such legend is not required in order to ensure compliance with the Securities Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

Nothing in this clause 6 shall derogate from any obligations of the Company under any Registration Rights Agreement to which the Company and the Holder are parties.

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2 Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from all future Capital Notes to be issued with respect to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder.

3 Following the effective date of any Registration Statement covering the Conversion Shares or any of them,, bracketed language to be replaced with the following: "The Conversion Shares have been registered under the Securities Act on Form F-3 Registration Statement No. **[*insert relevant registration number*]**." on all future Capital Notes to be issued with respect to such Conversion Shares, and, at the request of the Holder, a substitute Capital Note having such replacement language will promptly be delivered to the Holder.

7. **ADJUSTMENT OF CONVERSION PRICE AND NUMBER OF CONVERSION SHARES**

The number and kind of securities issuable initially upon the conversion of this Capital Note and the Conversion Price shall be subject to adjustment at any time and from time to time upon the occurrence of certain events, as follows:

7.1. **Adjustment for Shares Splits and Combinations**

If the Company at any time or from time to time effects a subdivision of the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the subdivision shall be proportionately increased, and conversely, if the Company at any time or from time to time combines the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the combination shall be proportionately decreased. Any adjustment under this clause 7.1 shall become effective at the close of business on the date the subdivision or combination becomes effective.

7.2. **Adjustment for Certain Dividends and Distributions**

In the event the Company at any time, or from time to time, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in additional Ordinary Shares, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be increased as of the time of such issuance or, in the event such a record date is fixed, as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable, plus the number of Ordinary Shares issuable in payment of such dividend or

distribution; and (ii) the denominator of which is the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable; provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be recomputed accordingly as of the close of business on such record date and thereafter the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7.2 as of the time of the actual payment of such dividends or distribution.

7.3. **Adjustments for Other Dividends and Distributions**

In the event the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in securities of the Company other than Ordinary Shares (for the avoidance of doubt, other than in a rights offering as to which clause 7.7 shall be applicable), then in each such event provision shall be made so that the Holder shall receive upon conversion of this Capital Note and for no additional consideration, in addition to the number of Ordinary Shares receivable thereupon, the amount of securities of the Company that the Holder would have received had this Capital Note been converted immediately prior to such event, or the record date for such event, as applicable.

7.4. **Adjustment for Reclassification, Exchange and Substitution**

If the Ordinary Shares issuable upon conversion of this Capital Note are changed into the same or a different number of shares of any class or classes of shares, whether by recapitalization, reclassification, exchange, substitution or otherwise (other than a subdivision or combination of shares, dividends payable in Ordinary Shares or other securities of the Company or a reorganization, merger, consolidation or sale of assets, provided for elsewhere in this clause 7), then and in any such event the Holder shall have the right thereafter to exercise this Capital Note into the kind and amount of shares and other securities receivable upon such recapitalization, reclassification, exchange, substitution or other change, by holders of the number of Ordinary Shares for which this Capital Note might have been converted immediately prior to such recapitalization, reclassification, exchange, substitution or other change (or the record date for such event), all subject to further adjustment as provided herein and under the Company's Articles of Association.

7.5. **Reorganization, Mergers, Consolidations or Sales of Assets**

If at any time or from time to time there is a capital reorganization of the Ordinary Shares (other than a recapitalization, subdivision, combination, reclassification, exchange or substitution of shares as provided for elsewhere in this clause 7), or a merger or consolidation of the Company with or into another corporation, or the sale of all or substantially all of the Company's properties and assets to any other person, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the Holder shall thereafter be entitled to receive upon conversion of this Capital Note and for no additional consideration, the number of shares or other securities or property (including, without limitation, cash) of the Company, or of the successor corporation resulting from such merger or consolidation or sale, to which a holder of the number of Ordinary Shares issuable upon conversion of this Capital Note would have been entitled on such capital reorganization, merger, consolidation or sale.

7.6. **Other Transactions**

In the event that the Company shall issue shares to its shareholders as a result of a split-off, spin-off or the like, then the Company shall only complete such issuance or other action if, as part thereof, allowance is made to protect the economic interest of the Holder either by increasing the number of Conversion Shares or by procuring that the Holder shall be entitled, on terms economically proportionate to those provided to its shareholders, to acquire additional shares of the spun-off or split-off entities.

7.7. **Rights Offerings**

If the Company, at any time and from time to time, shall fix a record date for, or shall make a distribution to, its shareholders of rights or warrants to subscribe for or purchase any security (collectively, **"Rights"**), then, in each such event, the Company will provide the Holder, concurrently with the distribution of the Rights to its shareholders, identical rights, having terms and conditions identical to the Rights (for the avoidance of doubt, exercisable at the same time as the Rights), in such number to which the Holder would be entitled had the Holder converted this Capital Note into Conversion Shares immediately prior to the record date for such distribution, or if no record date shall be fixed, then immediately prior to such distribution, as applicable. Nothing in this clause 7.7 shall require the Company to complete any such distribution of Rights to its shareholders, including following the record date thereof, unless required pursuant to the terms of such distribution and, if such distribution of Rights to its shareholders is not completed in conformity with the terms of such distribution, then the Company shall be entitled not to complete the provision of rights to the Holder pursuant to this clause 7.7 above.

7.8. **Adjustment for Cash Dividends and Distributions**

In the event the Company, at any time or from time to time until September 28, 2023, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a cash dividend or distribution, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted (for the avoidance of doubt, never decreased but either shall remain the same or increased), as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the closing price per share of the Ordinary Shares on the TASE on the determining date ("*Hayom Hakovaya*") for such dividend or distribution; and (ii) the denominator of which shall be the adjusted "ex-dividend" price of the Ordinary Shares as such prices set out in (i) and (ii) are determined in each case by the TASE in accordance with its rules.

7.9. **General Protection**

The Company will not, by amendment of its Articles of Association or other charter document or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the

observance or performance of any of the terms to be observed or performed hereunder, or impair the economic interest of the Holder, but will at all times in good faith assist in the carrying out of all the provisions hereof and in taking of all such actions and making all such adjustments as may be necessary or appropriate in order to protect the rights and the economic interests of the Holder against impairment.

7.10. **Notice of Capital Changes**

If at any time the Company shall declare any dividend or distribution of any kind, or offer for subscription pro rata to the holders of Ordinary Shares any additional shares of any class, other rights or any security of any kind, or there shall be any capital reorganization or reclassification of the capital shares of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to another company or there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company, or other transaction described in this clause 7, then, in any one or more of the said cases, the Company shall give the Holder prior written notice, by registered or certified mail, postage prepaid, of the date on which: (i) a record shall be taken for such dividend, distribution or subscription rights; or (ii) such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up shall take place, as the case may be. Such notice shall also specify the date as of which the holders of record of Ordinary Shares shall participate in such dividend or distribution, subscription rights, or shall be entitled to exchange their Ordinary Shares for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, as the case may be. Such written notice shall be given at least 14 (fourteen) days prior to the action in question and not less than 14 (fourteen) days prior to the record date in respect thereto.

7.11. **Adjustment of Conversion Price**

Upon each adjustment in the number of Ordinary Shares purchasable hereunder, the Conversion Price shall be proportionately increased or decreased, as the case may be, in a manner that is the inverse of the manner in which the number of Ordinary Shares purchasable hereunder shall be adjusted.

7.12. **Notice of Adjustments**

Whenever the Conversion Price or the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7, the Company shall prepare a certificate signed by the chief financial officer of the Company setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Conversion Price and the number of Conversion Shares issuable upon conversion of this Capital Note after giving effect to such adjustment, and shall cause copies of such certificate to be mailed (by first class mail, postage prepaid) to the Holder.

8. **OTHER TRANSACTIONS**

In the event that the Company or its shareholders receive an offer to transfer all or substantially all of the shares in the Company, or to effect a merger or acquisition or sale of all or substantially all of the assets of the Company, then the Company shall promptly inform the Holder in writing of such offer.

9. **TRANSFER OF THIS CAPITAL NOTE BY THE HOLDER**

This Capital Note shall be freely transferable or assignable by the Holder in whole or in part, at any time and from time to time, subject to the provisions of this clause 9. With respect to any transfer of this Capital Note, in whole or in part, the Holder shall surrender the Capital Note, together with a written request to transfer all or a portion of the Principal Amount of this Capital Note to the transferee, as well as, if reasonably requested by the Company, a written opinion of such Holder's counsel, to the effect that such offer, sale or other distribution may be effected without registration under the Securities Act. Upon surrender of such Capital Note (and delivery of such opinion, if so requested) by the Holder, the Company shall immediately register such transferee as the Holder of this Capital Note, or the portion thereof, transferred to such transferee, such registration shall be deemed to have been made immediately prior to the close of business on the date of such surrender and delivery (if applicable), and such transferee or transferees shall be treated for all purposes as the record holder or holders as of such date of a Capital Note in that portion of the Principal Amount of this Capital Note so transferred. The Company shall, as promptly as practicable, deliver to the Holder one or more Capital Notes, of like tenor as this Capital Note, except that the Principal Amount thereof shall be the amount transferred to such transferee, for delivery to the transferee or transferees (or, if the Holder requests, deliver such Capital Note directly to such transferee or transferees) and shall, if only a portion of the Principal Amount of this Capital Note is being transferred, concurrently deliver to the Holder one or more replacement Capital Notes to represent the portion of the Principal Amount of this Capital Note not so transferred. For the avoidance of doubt, the Company confirms that no approval by the Board of Directors of the Company of any transfer of this Capital Note or the Conversion Shares is required.

10. **REPRESENTATIONS, WARRANTIES AND COVENANTS**

The Company represents, warrants and covenants to the Holder as follows:

10.1. this Capital Note has been duly authorized and executed by the Company and is a valid and binding obligation of the Company enforceable in accordance with its terms;

10.2. the Conversion Shares are duly authorized and are, and will be, reserved (for the avoidance of doubt, without the need for further corporate action by the Company) for issuance by the Company and, when issued in accordance with the terms hereof, will be validly issued, fully paid and non-assessable and not subject to any pre-emptive rights;

10.3. the execution and delivery of this Capital Note are not, and the issuance of the Conversion Shares upon conversion of this Capital Note in accordance with the terms hereof will not be, inconsistent with the Company's Certificate of Incorporation, Memorandum of Association or Articles of Association, do not and will not contravene any law, governmental or regulatory rule or regulation, including NASDAQ and TASE rules and regulations, judgment or order applicable to the Company, do not and will not conflict with or contravene any provision of, or constitute a default under, any indenture, mortgage, contract or other instrument of which the Company is a party or by which it is bound or, except for

consents that have already been obtained and filings already made, require the consent or approval of, the giving of notice to, the registration with or the taking of any action in respect of or by, any Israeli or foreign governmental authority or agency or other person; and

10.4. the Conversion Shares have been approved for listing and trading on TASE.

11. **LOSS, THEFT, DESTRUCTION OR MUTILATION OF CAPITAL NOTE**

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Capital Note or Conversion Shares certificate, and in case of loss, theft or destruction, of indemnity, or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of such Capital Note or Conversion Shares certificate, if mutilated, the Company will make and deliver a new Capital Note or Conversion Shares certificate of like tenor and dated as of such cancellation, in lieu of such Capital Note or Conversion Shares certificate.

12. **NOTICES**

All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed to such party's address as set forth below:

If to the Holder:
Israel Coropration Ltd.
Milennium Tower
23 Aranha St.
Tel-Aviv, Israel 61070
Attention: Chief Financial Officer
Facsimile: 972-3-684-4574

with a copy to:
Gornitzky & Co.
45 Rothschild Blvd.
Tel Aviv, Israel 65784
Attention: Zvi Ephrat, Adv.
Facsimile: (03) 560 6555

If to the Company:
Tower Semiconductor Ltd.
P.O. Box 619
Ramat Gabriel Industrial Zone
Migdal Haemek 23105
Israel
Attention: Oren Shirazi, Acting Chief Financial Officer
Facsimile: (04) 604 7242

with a copy to:
Yigal Arnon & Co.
1 Azrieli Center
Tel Aviv
Israel
Attention: David H. Schapiro, Adv.
Facsimile: (03) 608 7714

or such other address with respect to a party as such party shall notify each other party in writing as above provided. Any notice sent in accordance with this clause 12 shall be effective: (a) if mailed, 5 (five) business days after mailing; (b) if sent by messenger, upon delivery; and (c) if sent via facsimile, 1 (one) business day following transmission and electronic confirmation of receipt.

13. **APPLICABLE LAW; JURISDICTION**

This Capital Note shall be governed by and construed in accordance with the laws of the State of Israel as applicable to contracts between two residents of the State of Israel entered into and to be performed entirely within the State of Israel. Any dispute arising under or in relation to this Capital Note shall be resolved in the competent court for Tel Aviv-Jaffa district, and the Company and the Holder hereby submits irrevocably to the jurisdiction of such court.

Dated: September 25, 2008

for **TOWER SEMICONDUCTOR LTD.**

By: _____

Title: _____

THESE SECURITIES **[**(INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO)**]**[1] HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (**"THE ACT"**), OR ANY U.S. STATE OR OTHER JURISDICTION'S SECURITIES LAWS. THESE SECURITIES (INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO) MAY NOT BE SOLD, OFFERED FOR SALE OR PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT UNDER THE ACT WITH RESPECT TO ANY SUCH SECURITIES OR AN OPINION OF COUNSEL (REASONABLY SATISFACTORY TO THE COMPANY) THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF THE ACT OR ON THE TEL-AVIV STOCK EXCHANGE IN COMPLIANCE WITH REGULATIONS UNDER THE ACT.

EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE

(Principal Amount of US $20,000,000)

THIS EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE (**"this Capital Note"**) in the principal amount of US $20,000,000 (**"the Principal Amount"**) has been issued by Tower Semiconductor Ltd., an Israeli company **("the Company")**, whose shares are currently traded on The Nasdaq National Market (**"NASDAQ"**) and the Tel-Aviv Stock Exchange (**"TASE"**), to Israel Corporation Ltd. (**"the Holder"**). This Capital Note was originally issued by the Company pursuant to an undertaking furnished by Israel Corporation Ltd. to the Company on September 25, 2008, in a principal amount equal to the Principal Amount and represents the obligation of the Company to pay the Principal Amount to the Holder in accordance with and subject to the terms set forth in this Capital Note.

1. DEFINITIONS

In this Capital Note, the following terms have the meanings given to them in this clause 1:

1.1. **"Company"** includes any person that shall succeed to or assume the obligations of the Company under this Capital Note.

1.2. **"Holder"** shall mean any person who at the time shall be the registered holder of this Capital Note or any part thereof.

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1 Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from Capital Notes relating to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder.

1.3. **"Ordinary Shares"** means the ordinary shares, nominal value NIS 1.00 (one New Israel Sheqel) per share, of the Company (and any shares of capital stock substituted for the ordinary shares as a result of any stock split, stock dividend, recapitalisation, rights offering, exchange, merger or similar event or otherwise, including as described in this Capital Note).

2. TERMS

The Principal Amount shall neither bear interest nor be linked to any index and shall be subordinated to all liabilities of the Company having priority over the Ordinary Shares.

The Principal Amount shall only be payable by the Company to the Holder out of distributions made upon the winding-up (whether solvent or insolvent), liquidation or dissolution of the Company and, in such event, on a *pari passu* and pro rata basis with the Ordinary Shares after payment of all liabilities of the Company having priority over the Ordinary Shares. For the purposes only of calculation of the allocation of such distributions between holders of the Capital Note and holders of Ordinary Shares, the holder of this Capital Note shall be deemed to own the number of Ordinary Shares into which this Capital Note may then be converted. The Company shall not be entitled to prepay or redeem this Capital Note.

This Capital Note shall be convertible into Ordinary Shares as set forth below and, for the removal of doubt, no such conversion shall be deemed a redemption or prepayment of this Capital Note.

3. CONVERSION

3.1. Conversion Right

The Holder of this Capital Note has the right, at the Holder's option, at any time and from time to time, to convert this Capital Note, without payment of any additional consideration, in accordance with the provisions of this clause 3, in whole or in part, into fully-paid and non-assessable Ordinary Shares. The number of Ordinary Shares into which this Capital Note may be converted (**"the Conversion Shares"**) shall be determined by dividing the aggregate Principal Amount of this Capital Note by the conversion price in effect at the time of such conversion (**"the Conversion Price"**). The Conversion Price initially shall be US $0.26, as adjusted at any time and from time to time in accordance with clause 7 below.

3.2. Conversion Procedure

This Capital Note may be converted in whole or in part at any time and from time to time by the surrender of this Capital Note to the Company at its principal office together with written notice of the election to convert all or any portion of the Principal Amount thereof, duly signed on behalf of the Holder. The Company shall, on such surrender date or as soon as practicable thereafter, issue irrevocable instructions to its stock transfer agent to deliver to the Holder a certificate or certificates for the number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. Such conversion, the issue and allotment of such Conversion Shares and the registration of the Holder in the

register of members of the Company as the holder of such Conversion Shares shall be deemed to have been made immediately prior to the close of business on the date of such surrender of this Capital Note or portion thereof and the person or persons entitled to receive the Conversion Shares issuable upon such conversion shall be treated for all purposes as the record holder or holders as of such date of such number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. In the event of a partial conversion, the Company shall concurrently issue to the Holder a replacement Capital Note of like tenor as this Capital Note, but representing the Principal Amount remaining after such partial conversion. For the avoidance of doubt, the Company confirms that the terms of this Capital Note, including, without limitation, this clause 3, constitute the issue terms of the Conversion Shares and that, accordingly, the right of the Company pursuant to clauses 16.1 and 16.2 of the Company's Articles of Association to delay the issuance of stock certificates for up to 6 (six) months after the allotment and registration of transfer is inapplicable. For the further removal of doubt, nothing herein shall derogate from the second sentence of clause 16.1 of the Company's Articles of Association.

4. **FRACTIONAL INTEREST**

No fractional shares will be issued in connection with any conversion hereunder. The Company shall round-down, to the nearest whole number, the number of Conversion Shares issuable in connection with any conversion hereunder.

5. **CAPITAL NOTE CONFERS NO RIGHTS OF SHAREHOLDER**

The Holder shall not, by virtue of this Capital Note, have any rights as a shareholder of the Company prior to actual conversion into Conversion Shares in accordance with clause 3.2 above.

6. **ACQUISITION FOR INVESTMENT**

This Capital Note **[**, including the Conversion Shares,[2]**]** has not been registered under the Securities Act of 1933, as amended (**"the Securities Act"**), or any other securities laws. The Holder acknowledges by acceptance of this Capital Note that it has acquired this Capital Note for investment and not with a view to distribution. **[**The Holder agrees that, unless the Conversion Shares have been registered under the Securities Act, any Conversion Shares issuable upon conversion of this Capital Note will be acquired for investment and not with a view to distribution in a manner inconsistent with the registration requirements of the U.S. securities laws and may have to be held indefinitely unless they are subsequently registered under the Securities Act or, based on an opinion of counsel reasonably satisfactory to the Company, an exemption from such registration is available; provided, however, that no opinion shall be required if sold pursuant to Rule 144 of the Securities Act or the transfer will be effected on the TASE and the Holder represents that the applicable conditions under Regulation S under the Securities Act have been satisfied.[3]**]** The Holder, by acceptance hereof, consents to the placement of legend(s) on this Capital Note and also on the Conversion Shares issuable upon conversion of this Capital Note, as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act, unless in the reasonable opinion of counsel for the Company such legend is not required in order to ensure compliance with the Securities Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

Nothing in this clause 6 shall derogate from any obligations of the Company under any Registration Rights Agreement to which the Company and the Holder are parties.

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2 Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from all future Capital Notes to be issued with respect to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder.

3 Following the effective date of any Registration Statement covering the Conversion Shares or any of them,, bracketed language to be replaced with the following: "The Conversion Shares have been registered under the Securities Act on Form F-3 Registration Statement No. **[*insert relevant registration number*]**." on all future Capital Notes to be issued with respect to such Conversion Shares, and, at the request of the Holder, a substitute Capital Note having such replacement language will promptly be delivered to the Holder.

7. **ADJUSTMENT OF CONVERSION PRICE AND NUMBER OF CONVERSION SHARES**

The number and kind of securities issuable initially upon the conversion of this Capital Note and the Conversion Price shall be subject to adjustment at any time and from time to time upon the occurrence of certain events, as follows:

7.1. **Adjustment for Shares Splits and Combinations**

If the Company at any time or from time to time effects a subdivision of the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the subdivision shall be proportionately increased, and conversely, if the Company at any time or from time to time combines the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the combination shall be proportionately decreased. Any adjustment under this clause 7.1 shall become effective at the close of business on the date the subdivision or combination becomes effective.

7.2. **Adjustment for Certain Dividends and Distributions**

In the event the Company at any time, or from time to time, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in additional Ordinary Shares, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be increased as of the time of such issuance or, in the event such a record date is fixed, as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable, plus the number of Ordinary Shares issuable in payment of such dividend or

distribution; and (ii) the denominator of which is the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable; provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be recomputed accordingly as of the close of business on such record date and thereafter the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7.2 as of the time of the actual payment of such dividends or distribution.

7.3. **Adjustments for Other Dividends and Distributions**

In the event the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in securities of the Company other than Ordinary Shares (for the avoidance of doubt, other than in a rights offering as to which clause 7.7 shall be applicable), then in each such event provision shall be made so that the Holder shall receive upon conversion of this Capital Note and for no additional consideration, in addition to the number of Ordinary Shares receivable thereupon, the amount of securities of the Company that the Holder would have received had this Capital Note been converted immediately prior to such event, or the record date for such event, as applicable.

7.4. **Adjustment for Reclassification, Exchange and Substitution**

If the Ordinary Shares issuable upon conversion of this Capital Note are changed into the same or a different number of shares of any class or classes of shares, whether by recapitalization, reclassification, exchange, substitution or otherwise (other than a subdivision or combination of shares, dividends payable in Ordinary Shares or other securities of the Company or a reorganization, merger, consolidation or sale of assets, provided for elsewhere in this clause 7), then and in any such event the Holder shall have the right thereafter to exercise this Capital Note into the kind and amount of shares and other securities receivable upon such recapitalization, reclassification, exchange, substitution or other change, by holders of the number of Ordinary Shares for which this Capital Note might have been converted immediately prior to such recapitalization, reclassification, exchange, substitution or other change (or the record date for such event), all subject to further adjustment as provided herein and under the Company's Articles of Association.

7.5. **Reorganization, Mergers, Consolidations or Sales of Assets**

If at any time or from time to time there is a capital reorganization of the Ordinary Shares (other than a recapitalization, subdivision, combination, reclassification, exchange or substitution of shares as provided for elsewhere in this clause 7), or a merger or consolidation of the Company with or into another corporation, or the sale of all or substantially all of the Company's properties and assets to any other person, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the Holder shall thereafter be entitled to receive upon conversion of this Capital Note and for no additional consideration, the number of shares or other securities or property (including, without limitation, cash) of the Company, or of the successor corporation resulting from such merger or consolidation or sale, to which a holder of the number of Ordinary Shares issuable upon conversion of this Capital Note would have been entitled on such capital reorganization, merger, consolidation or sale.

7.6. **Other Transactions**

In the event that the Company shall issue shares to its shareholders as a result of a split-off, spin-off or the like, then the Company shall only complete such issuance or other action if, as part thereof, allowance is made to protect the economic interest of the Holder either by increasing the number of Conversion Shares or by procuring that the Holder shall be entitled, on terms economically proportionate to those provided to its shareholders, to acquire additional shares of the spun-off or split-off entities.

7.7. **Rights Offerings**

If the Company, at any time and from time to time, shall fix a record date for, or shall make a distribution to, its shareholders of rights or warrants to subscribe for or purchase any security (collectively, **"Rights"**), then, in each such event, the Company will provide the Holder, concurrently with the distribution of the Rights to its shareholders, identical rights, having terms and conditions identical to the Rights (for the avoidance of doubt, exercisable at the same time as the Rights), in such number to which the Holder would be entitled had the Holder converted this Capital Note into Conversion Shares immediately prior to the record date for such distribution, or if no record date shall be fixed, then immediately prior to such distribution, as applicable. Nothing in this clause 7.7 shall require the Company to complete any such distribution of Rights to its shareholders, including following the record date thereof, unless required pursuant to the terms of such distribution and, if such distribution of Rights to its shareholders is not completed in conformity with the terms of such distribution, then the Company shall be entitled not to complete the provision of rights to the Holder pursuant to this clause 7.7 above.

7.8. **Adjustment for Cash Dividends and Distributions**

In the event the Company, at any time or from time to time until September 28, 2023, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a cash dividend or distribution, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted (for the avoidance of doubt, never decreased but either shall remain the same or increased), as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the closing price per share of the Ordinary Shares on the TASE on the determining date ("*Hayom Hakovaya*") for such dividend or distribution; and (ii) the denominator of which shall be the adjusted "ex-dividend" price of the Ordinary Shares as such prices set out in (i) and (ii) are determined in each case by the TASE in accordance with its rules.

7.9. **General Protection**

The Company will not, by amendment of its Articles of Association or other charter document or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the

observance or performance of any of the terms to be observed or performed hereunder, or impair the economic interest of the Holder, but will at all times in good faith assist in the carrying out of all the provisions hereof and in taking of all such actions and making all such adjustments as may be necessary or appropriate in order to protect the rights and the economic interests of the Holder against impairment.

7.10. **Notice of Capital Changes**

If at any time the Company shall declare any dividend or distribution of any kind, or offer for subscription pro rata to the holders of Ordinary Shares any additional shares of any class, other rights or any security of any kind, or there shall be any capital reorganization or reclassification of the capital shares of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to another company or there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company, or other transaction described in this clause 7, then, in any one or more of the said cases, the Company shall give the Holder prior written notice, by registered or certified mail, postage prepaid, of the date on which: (i) a record shall be taken for such dividend, distribution or subscription rights; or (ii) such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up shall take place, as the case may be. Such notice shall also specify the date as of which the holders of record of Ordinary Shares shall participate in such dividend or distribution, subscription rights, or shall be entitled to exchange their Ordinary Shares for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, as the case may be. Such written notice shall be given at least 14 (fourteen) days prior to the action in question and not less than 14 (fourteen) days prior to the record date in respect thereto.

7.11. **Adjustment of Conversion Price**

Upon each adjustment in the number of Ordinary Shares purchasable hereunder, the Conversion Price shall be proportionately increased or decreased, as the case may be, in a manner that is the inverse of the manner in which the number of Ordinary Shares purchasable hereunder shall be adjusted.

7.12. **Notice of Adjustments**

Whenever the Conversion Price or the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7, the Company shall prepare a certificate signed by the chief financial officer of the Company setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Conversion Price and the number of Conversion Shares issuable upon conversion of this Capital Note after giving effect to such adjustment, and shall cause copies of such certificate to be mailed (by first class mail, postage prepaid) to the Holder.

8. **OTHER TRANSACTIONS**

In the event that the Company or its shareholders receive an offer to transfer all or substantially all of the shares in the Company, or to effect a merger or acquisition or sale of all or substantially all of the assets of the Company, then the Company shall promptly inform the Holder in writing of such offer.

9. **TRANSFER OF THIS CAPITAL NOTE BY THE HOLDER**

This Capital Note shall be freely transferable or assignable by the Holder in whole or in part, at any time and from time to time, subject to the provisions of this clause 9. With respect to any transfer of this Capital Note, in whole or in part, the Holder shall surrender the Capital Note, together with a written request to transfer all or a portion of the Principal Amount of this Capital Note to the transferee, as well as, if reasonably requested by the Company, a written opinion of such Holder's counsel, to the effect that such offer, sale or other distribution may be effected without registration under the Securities Act. Upon surrender of such Capital Note (and delivery of such opinion, if so requested) by the Holder, the Company shall immediately register such transferee as the Holder of this Capital Note, or the portion thereof, transferred to such transferee, such registration shall be deemed to have been made immediately prior to the close of business on the date of such surrender and delivery (if applicable), and such transferee or transferees shall be treated for all purposes as the record holder or holders as of such date of a Capital Note in that portion of the Principal Amount of this Capital Note so transferred. The Company shall, as promptly as practicable, deliver to the Holder one or more Capital Notes, of like tenor as this Capital Note, except that the Principal Amount thereof shall be the amount transferred to such transferee, for delivery to the transferee or transferees (or, if the Holder requests, deliver such Capital Note directly to such transferee or transferees) and shall, if only a portion of the Principal Amount of this Capital Note is being transferred, concurrently deliver to the Holder one or more replacement Capital Notes to represent the portion of the Principal Amount of this Capital Note not so transferred. For the avoidance of doubt, the Company confirms that no approval by the Board of Directors of the Company of any transfer of this Capital Note or the Conversion Shares is required.

10. **REPRESENTATIONS, WARRANTIES AND COVENANTS**

The Company represents, warrants and covenants to the Holder as follows:

10.1. this Capital Note has been duly authorized and executed by the Company and is a valid and binding obligation of the Company enforceable in accordance with its terms;

10.2. the Conversion Shares are duly authorized and are, and will be, reserved (for the avoidance of doubt, without the need for further corporate action by the Company) for issuance by the Company and, when issued in accordance with the terms hereof, will be validly issued, fully paid and non-assessable and not subject to any pre-emptive rights;

10.3. the execution and delivery of this Capital Note are not, and the issuance of the Conversion Shares upon conversion of this Capital Note in accordance with the terms hereof will not be, inconsistent with the Company's Certificate of Incorporation, Memorandum of Association or Articles of Association, do not and will not contravene any law, governmental or regulatory rule or regulation, including NASDAQ and TASE rules and regulations, judgment or order applicable to the Company, do not and will not conflict with or contravene any provision of, or constitute a default under, any indenture, mortgage, contract or other instrument of which the Company is a party or by which it is bound or, except for

consents that have already been obtained and filings already made, require the consent or approval of, the giving of notice to, the registration with or the taking of any action in respect of or by, any Israeli or foreign governmental authority or agency or other person; and

10.4. the Conversion Shares have been approved for listing and trading on TASE.

11. **LOSS, THEFT, DESTRUCTION OR MUTILATION OF CAPITAL NOTE**

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Capital Note or Conversion Shares certificate, and in case of loss, theft or destruction, of indemnity, or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of such Capital Note or Conversion Shares certificate, if mutilated, the Company will make and deliver a new Capital Note or Conversion Shares certificate of like tenor and dated as of such cancellation, in lieu of such Capital Note or Conversion Shares certificate.

12. **NOTICES**

All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed to such party's address as set forth below:

If to the Holder:
Israel Coropration Ltd.
Milennium Tower
23 Aranha St.
Tel-Aviv, Israel 61070
Attention: Chief Financial Officer
Facsimile: 972-3-684-4574

with a copy to:
Gornitzky & Co.
45 Rothschild Blvd.
Tel Aviv, Israel 65784
Attention: Zvi Ephrat, Adv.
Facsimile: (03) 560 6555

If to the Company:
Tower Semiconductor Ltd.
P.O. Box 619
Ramat Gabriel Industrial Zone
Migdal Haemek 23105
Israel
Attention: Oren Shirazi, Acting Chief Financial Officer
Facsimile: (04) 604 7242

with a copy to:
Yigal Arnon & Co.
1 Azrieli Center
Tel Aviv
Israel
Attention: David H. Schapiro, Adv.
Facsimile: (03) 608 7714

or such other address with respect to a party as such party shall notify each other party in writing as above provided. Any notice sent in accordance with this clause 12 shall be effective: (a) if mailed, 5 (five) business days after mailing; (b) if sent by messenger, upon delivery; and (c) if sent via facsimile, 1 (one) business day following transmission and electronic confirmation of receipt.

13. **APPLICABLE LAW; JURISDICTION**

This Capital Note shall be governed by and construed in accordance with the laws of the State of Israel as applicable to contracts between two residents of the State of Israel entered into and to be performed entirely within the State of Israel. Any dispute arising under or in relation to this Capital Note shall be resolved in the competent court for Tel Aviv-Jaffa district, and the Company and the Holder hereby submits irrevocably to the jurisdiction of such court.

Dated: January 7, 2009

for **TOWER SEMICONDUCTOR LTD.**

By: _____

Title: _____

AMENDED AND RESTATED
REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this **"Agreement"**) was made on September 28, 2006 by and between TOWER SEMICONDUCTOR LTD. (the **"Company"** or **"Tower"**), a company organized under the laws of the State of Israel, and ISRAEL CORPORATION LTD., a corporation organized under the laws of the State of Israel (**"TIC"** or the **"Investor"**) and is hereby amended and restated by the parties on September 25, 2008.

WHEREAS, Tower is an independent manufacturer of wafers whose Ordinary Shares are traded on the Nasdaq Stock Market (**"NASDAQ"**) under the symbol "TSEM" and whose Ordinary Shares and certain other securities are traded on the Tel-Aviv Stock Exchange (**"TASE"**) under the symbol "TSEM";

WHEREAS, TIC and Tower have entered into a Securities Purchase Agreement dated August 24, 2006, the conditions to the effectiveness of which included, *inter alia*, the issuance to TIC of an equity-equivalent convertible capital note which will in turn be convertible, in whole or in part, by the Investor at any time and from time to time into shares of Tower;

WHEREAS, TIC and Tower have entered into a Securities Purchase Agreement dated September 25, 2008 (the **"Purchase Agreement"**), the conditions to the effectiveness of which include, *inter alia*, the issuance to TIC of an equity-equivalent convertible capital note which will in turn be convertible, in whole or in part, by the Investor at any time and from time to time into shares of Tower;

WHEREAS, Tower, TIC and certain other shareholders of Tower entered into a Registration Rights Agreement, dated January 18, 2001 (the **"2001 Registration Rights Agreement"**); for the avoidance of doubt, nothing herein shall derogate from or limit the registration rights granted to TIC pursuant to the 2001 Registration Rights Agreement.

WHEREAS the parties intend that the registration rights set forth in this Agreement be applicable with respect to all shares issuable upon conversion or exercise of any and all capital notes issued to TIC on September 28, 2006 or issuable pursuant to (i) that certain Conversion Agreement between Tower and TIC of even date herewith, (ii) that certain Undertaking made by TIC to the Company of even date herewith (the "Undertaking"), and (iii) warrants held by TIC; and

WHEREAS, the parties wish to amend and restate this Agreement in its entirety;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Bank hereby agree as follows:

1. DEFINITIONS AND INTERPRETATION.

As used in this Agreement, the following terms shall have the following meanings:

(a) **"Capital Note"** means any capital note that is convertible into shares of Tower.

(b) **"Holder"** means TIC, any transferee or assignee to whom TIC, assigns its rights, in whole or in part, and any transferee or assignee thereof to whom a transferee or assignee assigns its rights, in accordance with Section 9.

(c) **"ISA"** means the Israel Securities Authority or any similar or successor agency of Israel administering the Israel Securities Law.

(d) **"Israel Securities Law"** means the Israel Securities Law, 5728-1968 (including the regulations promulgated thereunder), as amended.

(e) **"1933 Act"** means the U.S. Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute.

(f) **"1934 Act"** means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, or any similar successor statute.

(g) **"Register"**, **"registered"**, and **"registration"** refer to a registration effected by preparing and filing a registration statement in compliance with the 1933 Act and the effectiveness of such registration statement in accordance with the 1933 Act or the equivalent actions under the laws of another jurisdiction.

(h) **"Registrable Securities"** means (i) the ordinary shares of the Company issued or issuable upon conversion of any Capital Note by any Holder, and (ii) the ordinary shares of the Company issued or issuable upon exercise of a Warrant, (iii) the ordinary shares of the Company issuable upon conversion of any Capital Note issued to TIC pursuant to the Undertaking, and (iv) any shares of capital stock issued or issuable with respect to the ordinary shares of the Company as a result of any stock split, stock dividend, rights offering, recapitalization, merger, exchange or similar event or otherwise, including as described in any Capital Note.

(i) **"Registration Statement"** means registration statements of the Company covering Registrable Securities filed with (a) the SEC under the 1933 Act, and (b) the ISA under the Israel Securities Law, to the extent required under the Israel Securities Law, so as to allow the Holder to freely resell the Registrable Securities in Israel, including on the TASE.

(j) **"SEC"** means the United States Securities and Exchange Commission or any similar or successor agency of the United States administering the 1933 Act.

(k) **"Warrant"** means the warrants issued to TIC by the Company prior to the date hereof and which are amended on the date hereof.

In this Agreement:

(a) Words importing the singular shall include the plural and *vice versa* and words importing any gender shall include all other genders and references to persons shall include partnerships, corporations and unincorporated associations.

(b) Any reference in this Agreement to a specific form or to any rule or regulation adopted by the SEC shall also include any successor form or amended or successor rule or regulation subsequently adopted by the SEC, all as the same may be in effect at the time.

(c) Any reference in this Agreement to a statute, act or law shall be construed as a reference to such statute, act or law as the same may have been, or may from time to time be, amended or reenacted.

(d) A **"person"**shall be construed as a reference to any person, firm, company, corporation, government, state or agency of a state or any association or partnership (whether or not having separate legal personality) or two or more of the aforegoing.

(e) **"Including"** and **"includes"** means, including, without limiting the generality of any description preceding such terms.

(f) The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

2. DEMAND REGISTRATION.

(a) The Company shall prepare, no later than 45 days after the date on which the Company receives a written request from TIC from time to time file with the SEC a Registration Statement on Form F-3 and make all required filings with the ISA covering the resale of all, or at the request of TIC, any portion of the then Registrable Securities that are not already registered. The Company shall use its best efforts to have the Registration Statement declared effective by the SEC and the ISA as soon as possible after such filing with the SEC and the ISA.

(b) In the event that Form F-3 shall not be available for the registration of the resale of Registrable Securities hereunder, the Company shall (i) register the resale of the Registrable Securities on another appropriate form reasonably acceptable to the Holders of the Registrable Securities to be registered on such Registration Statement and (ii) undertake to register the Registrable Securities on Form F-3 as soon as such form is available, provided that, in each such event, the Company shall maintain the effectiveness of the Registration Statement then in effect until such time as a Registration Statement on Form F-3 covering the Registrable Securities has been declared effective by the SEC.

3. RELATED OBLIGATIONS.

(a) Following the filing and effectiveness of each Registration Statement with the SEC pursuant to Section 2(a), the Company shall keep the Registration Statement effective pursuant to Rule 415 of the 1933 Act and under the Israel Securities Law at all times until the earlier of (i) the date as of which all of the Holders confirm to the Company in writing that they may sell all of the Registrable Securities covered by such Registration Statement without restriction pursuant to all of the following: (x) Rule 144(k) under the 1933 Act, (y) the Israel Securities Law and (z) other securities or "blue sky" laws of each jurisdiction in which the Company obtained a registration or qualification in accordance with Section 3(d) below or (ii) the date on which the Holders shall have sold all the Registrable Securities covered by such Registration Statement (A) in accordance with such Registration Statement (except to another Holder pursuant to Section 9) or (B) to the public pursuant to Rule 144 under the 1933 Act (the "**Registration Period**") the Company to ensure that such Registration Statement (including any amendments or supplements thereto and prospectuses contained therein) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, subject to Section 3(e) below.

(b) The Company shall prepare and file with the SEC and the ISA (to the extent required) such amendments (including post-effective amendments) and supplements to each Registration Statement and the prospectus used in connection with such Registration Statement, which prospectus is to be filed pursuant to Rule 424 under the 1933 Act or under the Israel Securities Law, as may be necessary to keep such Registration Statement effective at all times during the Registration Period, and, during such period, comply with the provisions of the 1933 Act and the Israel Securities Law with respect to the disposition of all Registrable Securities of the Company covered by such Registration Statement until such time as all of such Registrable Securities shall have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof as set forth in such Registration Statement, which, for the avoidance of doubt, shall include sales on the Nasdaq Stock Market and the TASE, as well as sales not made on such exchanges. In the case of amendments and supplements to a Registration Statement which are required to be filed pursuant to the Agreement (including pursuant to this Section 3(b) by reason of the Company filing a report on Form 20-F, Form 6-K or any analogous report under the 1934 Act), the Company shall have incorporated such report by reference into the Registration Statement, if applicable, or shall file such amendments or supplements with the SEC and the ISA on the same day on which the 1934 Act report is filed which created the requirement for the Company to amend or supplement the Registration Statement.

(c) The Company shall furnish each Holder whose Registrable Securities are included in any Registration Statement, without charge, (i) promptly after the same is prepared and filed with the SEC, at least three (3) copies of such Registration Statement and any amendment(s) thereto, including financial statements and schedules, all documents incorporated therein by reference, all exhibits and each preliminary prospectus (or such other number of copies as such Holder may reasonably request), (ii) upon the effectiveness of any Registration Statement, at least ten (10) copies of the prospectus included in such Registration Statement and all amendments and supplements thereto (or such other number of copies as such Holder may reasonably request) and (iii) such other documents, including copies of any preliminary or final prospectus and of any Registration Statements and prospectuses filed with the ISA, as such Holder may reasonably request from time to time in order to facilitate the disposition of the Registrable Securities owned by such Holder.

(d) The Company shall use its best efforts to (i) register and qualify, unless an exemption from registration and qualification applies, the resale by the Holders of the Registrable Securities covered by a Registration Statement under such other securities or "blue sky" laws of all the states of the United States, (ii) prepare and file in those jurisdictions, such amendments (including post-effective amendments) and supplements to such

registrations and qualifications as may be necessary to maintain the effectiveness thereof during the Registration Period, (iii) take such other actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period, and (iv) take all other actions reasonably necessary or advisable to qualify the Registrable Securities for sale in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to (x) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(d), or (y) file a general consent to service of process in any such jurisdiction. The Company shall promptly notify each Holder who holds Registrable Securities of the receipt by the Company of any notification with respect to the suspension of the registration or qualification of any of the Registrable Securities for sale under the securities or "blue sky" laws of any jurisdiction in the United States or its receipt of actual notice of the initiation or threatening of any proceeding for such purpose.

(e) The Company shall notify each Holder in writing of the happening of any event, as promptly as practicable after becoming aware of such event, as a result of which the prospectus included in a Registration Statement, as then in effect, includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The Company shall use its best efforts to minimize the period of time during which a Registration Statement includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The Company shall promptly notify each Holder in writing (i) when a prospectus or any prospectus supplement or post-effective amendment has been filed so that the Registration Statement does not include an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and when a Registration Statement or any post-effective amendment has become effective (notification of such effectiveness shall be delivered to each Holder by facsimile on the same day of such effectiveness and by overnight mail), (ii) of any request by the SEC or the ISA for amendments or supplements to a Registration Statement or related prospectus or related information, and (iii) of the Company's reasonable determination that a post-effective amendment to a Registration Statement would be appropriate.

(f) The Company shall use its best efforts to prevent the issuance of any stop order or other suspension of effectiveness of a Registration Statement, or the suspension of the qualification of any of the Registrable Securities for sale in any jurisdiction and, if such an order or suspension is issued, to obtain the withdrawal of such order or suspension at the earliest possible moment and to notify each Holder who holds Registrable Securities being sold of the issuance of such order and the resolution thereof or its receipt of actual notice of the initiation or threat of any proceeding for such purpose.

(g) The Company shall cause all the Registrable Securities covered by a Registration Statement to be listed on each securities exchange on which securities of the same class or series issued by the Company are then listed, including the NASDAQ and the TASE. The Company shall deliver to the Holders a copy of the approvals of the TASE and the NASDAQ (and/or any other exchange, if applicable) to the listing of the Registrable Securities covered by such Registration Statement on such exchange, in the case of the TASE, by not later than the date hereof, and in the case of the NASDAQ (and/or other applicable exchanges) not later than the effective date of such Registration Statement .

(h) The Company shall cooperate with the Holders who hold Registrable Securities being offered and, to the extent applicable, facilitate the timely preparation and delivery of certificates (not bearing any restrictive legend) representing the Registrable Securities to be offered pursuant to a Registration Statement and enable such certificates to be in such denominations or amounts, as the case may be, as the Holders may reasonably request and registered in such names as the Holders may request.

(i) The Company shall provide a transfer agent and registrar of all Registrable Securities and a CUSIP number not later than the effective date of the applicable Registration Statement.

(j) If requested by a Holder, the Company shall (i) as soon as practicable incorporate in a prospectus supplement or post-effective amendment such information as a Holder requests to be included therein, information with respect to the number of Registrable Securities being offered or sold, the purchase price being paid therefor and any other terms of the offering of the Registrable Securities to be sold in such offering; (ii) as soon as practicable make all required filings of such prospectus supplement or post-effective amendment after being notified of the matters to be incorporated in such prospectus supplement or post-effective amendment; and (iii) as soon as practicable, supplement or make amendments to any Registration Statement if reasonably requested by a Holder of such Registrable Securities.

(k) In the event of any underwritten public offering of the Registrable Securities, enter into and perform its obligations under an underwriting agreement with usual and customary terms that are generally satisfactory to the managing underwriter of such offering. The Holder shall also enter into and perform its obligations under such an agreement (the terms of which must be satisfactory to the Holder if the Holder is to participate in such offering).

(l) The Company shall afford the Holder and its representatives (including counsel) the opportunity at any time and from time to time during the Registration Period to make such examinations of the business affairs and other material financial and corporate documents of the Company and its subsidiaries as the Holder may reasonably deem necessary to satisfy itself as to the accuracy of the registration statement (subject to a reasonable confidentiality undertaking on the part of the Holder and its representatives).

(m) The Company shall furnish, at the request of the Holder in connection with the registration of Registrable Shares pursuant to this Agreement, on the date that such Registrable Shares are delivered to the underwriters for sale, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the Registration Statement with respect to such securities becomes effective and on the date of each post-effective amendment thereof: (i) an opinion, dated such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holder; and (ii) a letter, dated such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holder.

(n) The Company shall comply with all applicable rules and regulations of the SEC and shall make generally available to its security holders an earnings statement satisfying the provisions of Section 11(a) of the 1933 Act as soon as practicable after the effective date of the Registration

Statement and in any event no later than 45 days after the end of a 12-month period (or 90 days, if such period is a fiscal year) beginning with the first month of the Company's first fiscal quarter commencing after the effective date of the Registration Statement.

4. OBLIGATIONS OF THE HOLDERS.

Each Holder agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in the first sentence of Section 3(e) or the issuance of any stop order or suspension as referred to in Section 3(f), such Holder will immediately discontinue disposition of Registrable Securities pursuant to any Registration Statement(s) covering such Registrable Securities until such Holder's receipt of the copies of the supplemented or amended prospectus contemplated by clause (i) of Section 3(e) or receipt of notice that no supplement or amendment is required.

5. EXPENSES OF REGISTRATION.

All expenses, other than underwriting discounts and commissions, incurred in connection with registrations, filings or qualifications pursuant to Sections 2 and 3, including, without limitation, all registration, listing and qualifications fees, printers and accounting fees, fees and disbursements of counsel to the Company and the Holders, including in connection with such examinations described in Section 3(l) above, shall be paid by the Company.

6. INDEMNIFICATION.

In the event any Registrable Securities are included in a Registration Statement under this Agreement:

(a) To the fullest extent permitted by law, the Company will, and hereby does, indemnify, hold harmless and defend each Holder, the directors, officers, partners, employees, agents, representatives of, and each Person, if any, who controls any Holder within the meaning of the 1933 Act or 1934 Act (each, an **"Indemnified Person"**), against any losses, claims, damages, liabilities, judgments, fines, penalties, charges, costs, reasonable attorneys' fees, amounts paid in settlement or expenses, joint or several, (collectively, **"Claims"**) incurred in investigating, preparing or defending any action, claim, suit, inquiry, proceeding, investigation or appeal taken from the foregoing by or before any court or governmental, administrative or other regulatory agency, body or the SEC or the ISA, whether pending or threatened, whether or not a person to be indemnified is or may be a party thereto (**"Indemnified Damages"**), to which any of them may become subject insofar as such Claims (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon: (i) any untrue statement or alleged untrue statement of a material fact in a Registration Statement or any post-effective amendment thereto or in any filing made in connection with the qualification of the offering under the securities or other "blue sky" laws of any jurisdiction in which Registrable Securities are offered (**"Blue Sky Filing"**), or the omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement, preliminary prospectus, final prospectus or "free writing prospectus" (as such term is defined in Rule 405 under the 1933 Act) or any amendment or supplement to any such prospectus or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading, (iii) any violation or alleged violation by the Company of the 1933 Act, the 1934 Act, any other law, including, without limitation, any state securities law, the Israel Securities Law or any rule or regulation thereunder relating to the offer or sale of the Registrable Securities pursuant to a Registration Statement or (iv) any material violation of this Agreement (the matters in the foregoing clauses (i) through (iv) being, collectively, "**Violations**"). Subject to Section 6(c), the Company shall reimburse the Indemnified Persons promptly as such expenses are incurred and are due and payable, for any legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 6(a): (i) shall not apply to a Claim by an Indemnified Person arising out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to the Company by such Indemnified Person expressly for inclusion in any such Registration Statement, preliminary prospectus, final prospectus or free writing prospectus or any such amendment thereof or supplement thereto and (ii) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person and shall survive the transfer of the Registrable Securities by the Holders pursuant to Section 9.

(b) In connection with any Registration Statement in which a Holder is participating, each such Holder agrees, severally and not jointly, to indemnify, hold harmless and defend, to the same extent and in the same manner as is set forth in Section 6(a), the Company, each of its directors, each of its officers who signs the Registration Statement, each Person, if any, who controls the Company within the meaning of the 1933 Act or the 1934 Act (each an **"Indemnified Party"**), against any Claim or Indemnified Damages to which any of them may become subject, under the 1933 Act, the 1934 Act or otherwise, insofar as such Claim or Indemnified Damages arise out of or are based upon any Violation, in each case to the extent, and only to the extent, that such Violation occurs in reliance upon and in conformity with written information furnished to the Company by such Holder expressly for inclusion in Registration Statement, preliminary prospectus, final prospectus or free writing prospectus and, subject to Section 6(c), such Holder will reimburse any legal or other expenses reasonably incurred by an Indemnified Party in connection with investigating or defending any such Claim; provided, however, that the indemnity agreement contained in this Section 6(b) and the agreement with respect to contribution contained in Section 7 shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of such Holder; provided, further, however, that the Holder shall be liable under this Section 6 for only that amount of a Claim or Indemnified Damages as does not exceed the net proceeds to such Holder as a result of the sale of Registrable Securities pursuant to such Registration Statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnified Party and shall survive the transfer of the Registrable Securities by the Holders pursuant to Section 9.

(c) Promptly after receipt by an Indemnified Person or Indemnified Party under this Section 6 of notice of the commencement of any action or proceeding (including any governmental action or proceeding) involving a Claim, such Indemnified Person or Indemnified Party shall, if a Claim in respect thereof is to be made against any indemnifying party under this Section 6, deliver to the indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the indemnifying party and the Indemnified Person or the Indemnified Party, as the case may be; provided, however, that an Indemnified Person or Indemnified Party shall have the right to retain its own counsel with the fees and expenses of not more than one counsel for such Indemnified Person or Indemnified Party to be paid by the indemnifying party, if, the representation by such counsel of the Indemnified Person or Indemnified Party and the indemnifying party would be inappropriate due to actual or potential differing interests between such Indemnified Person or

Indemnified Party and any other party represented by such counsel in such proceeding. In the case of an Indemnified Person, legal counsel referred to in the immediately preceding sentence shall be selected by the Holders holding a majority in interest of the Registrable Securities included in the Registration Statement to which the Claim relates. The Indemnified Party or Indemnified Person shall cooperate with the indemnifying party in connection with any negotiation or defense of any such action or Claim by the indemnifying party and shall furnish to the indemnifying party all information reasonably available to the Indemnified Party or Indemnified Person which relates to such action or Claim. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this Section 6, except to the extent that the indemnifying party is prejudiced in its ability to defend such action but the omission to so notify the indemnifying party will not relieve such indemnifying party of any liability that it may have to any Indemnified Person or Party otherwise than under this Section 6(c), including under Section 6(e).

(d) The indemnification required by this Section 6 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or Indemnified Damages are incurred.

(e) The indemnity agreements contained herein shall be in addition to (i) any cause of action or similar right of the Indemnified Party or Indemnified Person against the indemnifying party or others, and (ii) any liabilities the indemnifying party may be subject to pursuant to the law.

7. CONTRIBUTION.

To the extent any indemnification by an indemnifying party is prohibited or limited by law or insufficient to hold an Indemnified Person or an Indemnified Party, as the case may be, harmless, then the indemnifying party, in lieu of indemnifying such Indemnified Person or Indemnified Party hereunder, shall contribute to the amount paid or payable by such Indemnified Person or Indemnified Party as a result of such Claims and Indemnified Damages (each as defined in Section 6(a) above) in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the Indemnified Person or Indemnified Party, as the case may be, on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the Indemnified Person or Indemnified Party, as the case may be, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the Indemnified Person or Indemnified Party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission.

Notwithstanding the foregoing, (i) no person involved in the sale of Registrable Securities, which person is guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) in connection with such sale, shall be entitled to contribution from any person involved in such sale of Registrable Securities who was not guilty of fraudulent misrepresentation; and (ii) contribution by any seller of Registrable Securities shall be limited in amount to the net amount of proceeds received by such seller from the sale of such Registrable Securities pursuant to such Registration Statement.

8. REPORTS UNDER THE 1934 ACT.

With a view to making available to the Holders the benefits of Rule 144 promulgated under the 1933 Act or any other similar rule or regulation of the SEC that may at any time permit the Holders to sell securities of the Company to the public without registration (**"Rule 144"**), the Company agrees to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144;

(b) file with the SEC in a timely manner all reports and other documents required by the Company under the 1993 Act and the 1934 Act so long as the Company remains subject to such requirements and the filing of such reports and other documents is required for the applicable provisions of Rule 144; and

(c) furnish to each Holder so long as such Holder owns Registrable Securities, promptly upon request, (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144, the 1933 Act and the 1934 Act, (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested to permit the Holders to sell such securities pursuant to any rule or regulation of the SEC allowing the Holder to sell any securities without registration.

9. ASSIGNMENT OF REGISTRATION RIGHTS.

The rights under this Agreement shall be freely assignable, in whole or in part at any time and from time to time during the Registration Period, by the Holder to any transferee of all or any portion of a Capital Note or of the Registrable Securities (provided that, in the case of the transfer of Registrable Securities only, the rights under the Agreement may be transferred only if the Holder reasonably believes that such transferee cannot immediately make a public distribution of such Registrable Securities without restriction under the 1933 Act, the Israel Securities Law or other applicable securities laws) if: (i) the Holder agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement is furnished to the Company within a reasonable time after such transfer or assignment; (ii) the Company is, within a reasonable time after such transfer or assignment, furnished with written notice of (a) the name and address of such transferee or assignee, and (b) the securities with respect to which such registration rights are being transferred or assigned; and (iii) within a reasonable period of time after such transfer or assignment, the transferee or assignee agrees in writing with the Company to be bound by all of the provisions contained herein. At the transferee's request, the Company shall promptly prepare and file any required prospectus supplement under Rule 424(b)(3) of the 1933 Act or other applicable provision of the 1933 Act and/or the Israel Securities Law to appropriately amend the list of selling shareholders thereunder to include such transferee.

10. AMENDMENT OF REGISTRATION RIGHTS.

Provisions of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the Holders. Any amendment or waiver effected in accordance with this Section 10 shall be binding upon each Holder and the Company. No such amendment shall be effective to the extent that it applies to less than all of the Holders of the Registrable Securities. No consideration shall be offered or paid to any Person to amend or consent to a waiver or modification of any provision of any of this Agreement unless the same consideration also is offered to all of the parties to this Agreement.

11. OTHER REGISTRATION STATEMENTS; INCIDENTAL REGISTRATIONS; NO CONFLICTING AGREEMENTS.

(a) From and after the time of filing of any Registration Statement filed pursuant hereto and prior to the effectiveness thereof, the Company shall not file a registration statement (including any shelf registration statements) (other than on Form S-8) with the SEC with respect to any securities of the Company, provided that nothing herein shall limit the filing of any registration statement demanded to be filed pursuant to a "demand" right granted by the Company prior to the filing of any such Registration Statement. For the purposes of this Section 11(a) only, Registration Statement shall mean a Registration Statement that is filed for an amount of Registrable Securities, that the Holder believes in good faith can be reasonably sold pursuant to such Registration Statement.

(b) If at any time the Company shall determine to prepare and file with the SEC and/or the ISA a registration statement relating to an underwritten offering for its own account or the account of others under the 1933 Act and/or the Israel Securities Law of any of its equity securities, other than on Form F-4 or Form S-8 (each as promulgated under the 1933 Act) or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, then the Company shall send each Holder written notice of such determination and, if within twenty days after receipt of such notice, any such Holder shall so request in writing, the Company shall include in such registration statement all or any part of such Registrable Securities such Holder requests to be registered, subject to customary underwriter cutbacks applicable on a basis consistent with the Company's obligation to other existing holders of registration rights.

(c) The Company represents and warrants to the Holder that the Company is not a party to any agreement that conflicts in any manner with the Holder's rights to cause the Company to register Registrable Shares pursuant to this Agreement.

12. MISCELLANEOUS.

(a) Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered: (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) three business days after deposit if deposited in the mail for mailing by certified mail, postage prepaid, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

to Tower at:
Tower Semiconductor Ltd.
P.O. Box 619
Migdal Haemek
Israel
Facsimile: (04) 604 7242
Attention: Oren Shirazi
Acting Chief Financial Officer

with a copy to:
Yigal Arnon & Co.
1 Azrieli Center
46th Floor, The Round Tower
Tel-Aviv, Israel 67021
Facsimile: (03) 608 7714
Attention: David H. Schapiro, Adv.

to TIC at:
Israel Corporation Ltd.
Milennium Tower
23 Aranha St.
Tel Aviv Israel 61070
Facsimile: (03) 684 4574
Attention: Chief Financial Officer

with a copy to:
Gornitzky & Co.
45 Rothschild Blvd.
Tel Aviv, Israel 65784
Facsimile: (03) 560 6555
Attention: Zvi Ephrat, Adv.

to any other Holder at: such address as shall be notified to the Company pursuant to Section 9 above.

(b) Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

(c) This Agreement shall be governed by and construed in accordance with the laws of the State of Israel as applicable to contracts between two residents of the State of Israel entered into and to be performed entirely within the State of Israel. Any dispute arising under or in relation to this

Agreement shall be resolved in the competent court for Tel Aviv-Jaffa district, and each of the parties hereby submits irrevocably to the jurisdiction of such court.

(d) This Agreement constitutes the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein and therein. This Agreement supersedes all prior agreements and understandings among the parties hereto with respect to the subject matter hereof and thereof.

(e) Neither this Agreement, nor any of Tower's obligations hereunder, may be assigned by Tower, except with the prior written consent of all the Holders. Subject to the requirements of Section 9, this Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties hereto.

(f) The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(g) This Agreement may be executed in identical counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

(h) Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as another party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(i) The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent and no rules of strict construction will be applied against any party.

(j) This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

[Remainder of page intentionally left blank]

[*Signature Page to TIC Amended and Restated Registration Rights Agreement*]

IN WITNESS WHEREOF, the parties have caused this amended and restated Registration Rights Agreement to be duly executed as of the day and year first above written.

TOWER SEMICONDUCTOR LTD.

By: _____

Name: _____
Its: _____

ISRAEL CORPORATION LTD.:

By: _____

Name: _____
Its: _____

Exhibit 4.102

January 6, 2008

Tower Semiconductor Ltd.

Re: **Amendment to Undertaking**

Reference is made to the Undertaking dated September 25, 2008 (the "**Undertaking**"), furnished by Israel Corporation Ltd. (hereinafter: the "**Company**" or the "**Safety Net Investor**") to Tower Semiconductor Ltd. (hereinafter: "**Tower**"). Each of the undersigned agrees and consents that the Undertaking shall be amended as follows:

1. The following shall be added to the end of the definition of Capital Notes in Section 2.3 of the Undertaking:

   "provided that such amount per share shall not be lower than the par value per share of Tower's ordinary shares as converted to US Dollars on the date on which such Safety Net Investment is made at the representative rate of exchange of New Israeli Shekels to US Dollars, last published by the Bank of Israel."

2. Capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Undertaking.

3. Other than the amendments to the Undertaking specifically mentioned herein, all other provisions of the Undertaking shall remain unchanged and in full force and effect.

4. This Amendment may be executed in any number of counterparts and by facsimile signature, each of which so executed shall be deemed to be an original, but all of such counterparts shall together constitute but one and the same instrument.

ISRAEL CORPORATION LTD.

_____
By: _____
Title: _____

We hereby confirm and agree to the above

TOWER SEMICONDUCTOR LTD.

_____
By: _____
Title: _____

We hereby consent to the above amendment

for **BANK HAPOALIM B.M.**

_____
By: _____
Title: _____

for **BANK LEUMI LE-ISRAEL B.M.**

_____
By: _____
Title: _____

Exhibit 12.1

Certification

I, Russell C. Ellwanger, certify that:

1. I have reviewed this annual report on Form 20-F of Tower Semiconductor Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

June 30, 2009

/s/ Russell C. Ellwanger

Russell C. Ellwanger
Chief Executive Officer
Tower Semiconductor Ltd.

Exhibit 12.2

CERTIFICATION

I, Oren Shirazi, certify that:

1. I have reviewed this annual report on Form 20-F of Tower Semiconductor Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

June 30, 2009

/s/ Oren Shirazi

Oren Shirazi
Chief Financial Officer
Tower Semiconductor Ltd.

Exhibit 13.1

Certification Pursuant To
18 US C Section 1350,
As Adopted Pursuant To
Section 906 Of The Sarbanes-Oxley Act Of 2002

In connection with the Annual Report of Tower Semiconductor Ltd. (the "Registrant") on Form 20-F for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Russell C. Ellwanger, Chief Executive Officer of the Registrant, certify, pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. the Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and section 13 (a).

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Russell C. Ellwanger
_____
Russell C. Ellwanger
Chief Executive Officer

June 30, 2009

A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 13.2

Certification Pursuant To
18 US C Section 1350,
As Adopted Pursuant To
Section 906 Of The Sarbanes-Oxley Act Of 2002

In connection with the Annual Report of Tower Semiconductor Ltd. (the "Registrant") on Form 20-F for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Oren Shirazi, Chief Financial Officer of the Registrant, certify, pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. the Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Oren Shirazi
_____
Oren Shirazi
Chief Financial Officer

June 30, 2009

A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 14.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements Nos. 333-85090, 333-108896, 333-110486 333-131315, 333-140174, 333-141640 and 333-148747 on Form F-3, and Nos. 333-80947, 333-06482, 333-11720, 333-83204, 333-107943, 333-117565, 333-138837 and 333-153710 on Form S-8, of our reports dated February 23, 2009, relating to the consolidated financial statements of Tower Semiconductor Ltd. ("the Company") and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 20-F of the Company for the year ended December 31, 2008.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Member Firm of Deloitte Touche Tohmatsu

Tel Aviv, Israel
June 28, 2009