FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

For the month of November 2006 No. 6

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

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

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

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

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

Yes [_] No [X]

On November 7, 2006, the Registrant announced its financial results for the three and nine month periods ended September 30, 2006. Attached hereto are the following exhibits:

Exhibit 99.1 Registrant's unaudited condensed interim consolidated financial statements as of September 30, 2006 and for the three month period then ended.

Exhibit 99.2 Management's Discussion and Analysis of Financial Condition and Results of Operations.

Also certain agreements entered into by the Company during the third quarter of 2006 are attached hereto as the following exhibits:

Exhibit 99.3 Securities Purchase Agreement, dated August 24, 2006, with Israel Corporation Ltd.

Exhibit 99.4 Equity Convertible Capital Note, dated September 28, 2006, issued to Israel Corporation Ltd.

Exhibit 99.5 Registration Rights Agreement, dated September 28, 2006, with Israel Corporation Ltd.

Exhibit 99.6 Amending Agreement, dated August 24, 2006, with Bank Hapoalim B.M. and Bank Leumi Le-Israel B.M., to the Facility Agreement.

Exhibit 99.7 Facility Agreement, as amended and restated by the parties through August 24, 2006.

Exhibit 99.8 Conversion Agreement, dated September 28, 2006, with Bank Hapoalim B.M.

Exhibit 99.9 Conversion Agreement, dated September 28, 2006, with Bank Leumi Le-Israel B.M.

Exhibit 99.10 Registration Rights Agreement, dated September 28, 2006, with Bank Hapoalim B.M.

Exhibit 99.11 Registration Rights Agreement, dated September 28, 2006, with Bank Leumi Le-Israel B.M.

Exhibit 99.12 Equity Convertible Capital Note, dated September 28, 2006, issued to Bank Hapoalim B.M.

Exhibit 99.13 Equity Convertible Capital Note, dated September 28, 2006, issued to Bank Leumi Le-Israel B.M.

Exhibit 99.14 First Amendment to a Warrant Issued on December 11, 2003 to Tarshish Hahzakot Vehashkaot Hapoalim Ltd., dated September 28, 2006.

Exhibit 99.15 First Amendment to a Warrant Issued on December 11, 2003 to Bank Leumi Le-Israel, dated September 28, 2006.

Exhibit 99.16 First Amendment to a Warrant Issued on August 4, 2005 to Bank Hapoalim B.M., dated September 28, 2006.

Exhibit 99.17 First Amendment to a Warrant Issued on August 4, 2005 to Bank Leumi Le- Israel B.M., dated September 28, 2006.

This Form 6-K, including all exhibits hereto, is hereby incorporated by reference into all effective registration statements filed by us under the Securities Act of 1933, except that the information herein relating to EBITDA and related non-GAAP financial measure disclosures is expressly excluded from such incorporation.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TOWER SEMICONDUCTOR LTD.

Date: November 7, 2006

By: /s/ Nati Somekh Gilboa

Nati Somekh Gilboa
Corporate Secretary

EXHIBIT 99.1

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

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY

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

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

	AS OF SEPTEMBER 30,		DECEMBER 31,
	2006	2005	2005
	(UNAUDITED)		
A S S E T S			
CURRENT ASSETS			
CASH AND CASH EQUIVALENTS	$ 61,746	$ 11,719	$ 7,337
DESIGNATED CASH AND SHORT-TERM INTEREST-BEARING DEPOSITS	--	17,972	31,661
TRADE ACCOUNTS RECEIVABLE:			
RELATED PARTIES	8,928	3,147	5,309
OTHERS	16,708	6,485	11,467
OTHER RECEIVABLES	12,807	8,099	9,043
INVENTORIES	38,519	20,902	24,376
OTHER CURRENT ASSETS	1,737	2,429	1,048
TOTAL CURRENT ASSETS	140,445	70,753	90,241
PROPERTY AND EQUIPMENT, NET	522,018	534,661	510,645
OTHER ASSETS, NET:			
TECHNOLOGY	49,291	66,658	61,441
OTHER	1,457	16,655	16,359
	50,748	83,313	77,800
TOTAL ASSETS	$ 713,211	$ 688,727	$ 678,686
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
CURRENT MATURITIES OF LONG-TERM DEBT	$ --	$ --	$ 21,103
CURRENT MATURITIES OF CONVERTIBLE DEBENTURES	6,522	6,397	6,453
TRADE ACCOUNTS PAYABLE	59,687	59,783	59,741
OTHER CURRENT LIABILITIES	15,354	9,203	8,972
TOTAL CURRENT LIABILITIES	81,563	75,383	96,269
LONG-TERM DEBT	355,138	510,360	497,000
CONVERTIBLE DEBENTURES	61,657	19,192	19,358
LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES	50,004	60,577	59,621
OTHER LONG-TERM LIABILITIES	15,547	8,907	11,012
TOTAL LIABILITIES	563,909	674,419	683,260
CONVERTIBLE DEBENTURES	--	--	25,493
SHAREHOLDERS' EQUITY (DEFICIT)			
ORDINARY SHARES, NIS 1.00 PAR VALUE - AUTHORIZED 800,000,000, 250,000,000 AND 500,000,000 SHARES, RESPECTIVELY; ISSUED 87,423,850, 68,007,609 AND 68,232,056 SHARES, RESPECTIVELY	20,744	16,499	16,548
ADDITIONAL PAID-IN CAPITAL	546,824	521,489	522,237
CAPITAL NOTES	176,401	--	--
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES AND CUMULATIVE STOCK BASED COMPENSATION	23,394	(26)	(26)
ACCUMULATED DEFICIT	(608,989)	(514,582)	(559,754)
	158,374	23,380	(20,995)
TREASURY STOCK, AT COST - 1,300,000 SHARES	(9,072)	(9,072)	(9,072)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	149,302	14,308	(30,067)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 713,211	$ 688,727	$ 678,686

SEE NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

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

	Note	NINE MONTHS ENDED SEPTEMBER 30, 2006 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 2005 (UNAUDITED)	THREE MONTHS ENDED SEPTEMBER 30, 2006 (UNAUDITED)	THREE MONTHS ENDED SEPTEMBER 30, 2005 (UNAUDITED)	YEAR ENDED DECEMBER 31, 2005
REVENUES						
SALES		$ 131,933	$ 62,928	$ 51,503	$ 20,553	$ 93,991
REVENUES RELATED TO A JOINT DEVELOPMENT AGREEMENT		--	8,000	--	--	8,000
		131,933	70,928	51,503	20,553	101,991
COST OF SALES		194,666	179,598	68,244	57,130	238,358
GROSS LOSS		(62,733)	(108,670)	(16,741)	(36,577)	(136,367)
OPERATING COSTS AND EXPENSES						
RESEARCH AND DEVELOPMENT		11,107	12,849	4,179	4,200	16,029
MARKETING, GENERAL AND ADMINISTRATIVE		18,106	13,481	7,308	4,715	17,418
		29,213	26,330	11,487	8,915	33,447
OPERATING LOSS		(91,946)	(135,000)	(28,228)	(45,492)	(169,814)
FINANCING EXPENSE, NET		(37,957)	(25,428)	(12,382)	(9,900)	(35,651)
GAIN ON DEBT RESTRUCTURING 3B	3B	80,071	--	80,071	--	--
OTHER INCOME, NET		597	2,518	6	42	2,383
INCOME (LOSS) FOR THE PERIOD		$ (49,235)	$(157,910)	$ 39,467	$ (55,350)	$(203,082)
BASIC EARNING (LOSS) PER ORDINARY SHARE						
EARNING (LOSS) PER SHARE		$ (0.63)	$ (2.39)	$ 0.46	$ (0.83)	$ (3.06)
INCOME (LOSS) USED TO COMPUTE BASIC EARNING (LOSS) PER SHARE		(49,235)	(157,910)	39,467	(55,350)	(203,082)
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING - IN THOUSANDS		78,607	66,190	85,087	66,671	66,371
DILUTED EARNING (LOSS) PER ORDINARY SHARE						
EARNING (LOSS) PER SHARE		$ (0.63)	$ (2.39)	$ 0.30	$ (0.83)	$ (3.06)
INCOME (LOSS) USED TO COMPUTE DILUTED EARNING (LOSS) PER SHARE		(49,235)	(157,910)	41,433	(55,350)	(203,082)
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING - IN THOUSANDS		78,607	66,190	139,214	66,671	66,371

SEE NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

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

	ORDINARY SHARES SHARES	ORDINARY SHARES AMAMOUNT	ADDITIONAL PAID-IN CAPITAL	CAPITAL NOTES	EQUITY COMPONENT OF CONVERTIBLE DEBENTURES AND CUMULATIVE STOCK BASED COMPENSATION	ACCUMULATED DEFICIT	TREASURY STOCK	TOTAL
BALANCE - JANUARY 1, 2006	68,232,056	$ 16,548	$ 522,237	$ --	$ (26)	(559,754)	(9,072)	$ (30,067)
CHANGES DURING NINE-MONTH PERIOD (UNAUDITED):								
ISSUANCE OF SHARES	3,910,514	842	5,130					5,972
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES					27,985			27,985
CONVERSION OF CONVERTIBLE DEBENTURES INTO SHARES	14,931,280	3,273	13,039		(6,920)			9,392
ISSUANCE OF WARRANTS			1,803					1,803
EMPLOYEE STOCK-BASED COMPENSATION					2,355			2,355
EXERCISE OF WARRANTS	350,000	81	469					550
STOCK-BASED COMPENSATION RELATED TO THE FACILITY AGREEMENT WITH THE BANKS			4,146					4,146
CAPITAL NOTES				176,401				176,401
LOSS FOR THE PERIOD						(49,235)		(49,235)
BALANCE - SEPTEMBER 30, 2006 (UNAUDITED)	87,423,850	$ 20,744	$ 546,824	$ 176,401	$ 23,394	(608,989)	(9,072)	$ 149,302

BALANCE - JANUARY 1, 2005	66,999,796	$ 16,274	$ 517,476	$ --	$ (26)	(356,672)	(9,072)	$ 167,980
CHANGES DURING NINE-MONTH PERIOD (UNAUDITED):								
ISSUANCE OF SHARES	1,007,813	225	1,220					1,445
STOCK-BASED COMPENSATION RELATED TO THE FACILITY AGREEMENT WITH THE BANKS			2,793					2,793
LOSS FOR THE PERIOD						(157,910)		(157,910)
BALANCE - SEPTEMBER 30, 2005 (UNAUDITED)	68,007,609	$ 16,499	$ 521,489	$ --	$ (26)	(514,582)	(9,072)	$ 14,308
BALANCE - JULY 1, 2006	85,768,622	$ 20,366	$ 540,885	$ --	$ 20,381	(648,456)	(9,072)	$ (75,896)
CHANGES DURING THREE-MONTH PERIOD (UNAUDITED):								
ISSUANCE OF SHARES	472,438	105	580					685
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES					1,624			1,624
CONVERSION OF CONVERTIBLE DEBENTURES INTO SHARES	832,790	192	744		(385)			551
EMPLOYEE STOCK-BASED COMPENSATION					1,774			1,774
EXERCISE OF WARRANTS	350,000	81	469					550
STOCK-BASED COMPENSATION RELATED TO THE FACILITY AGREEMENT WITH THE BANKS			4,146					4,146
CAPITAL NOTES				176,401				176,401
INCOME FOR THE PERIOD						39,467		39,467
BALANCE - SEPTEMBER 30, 2006 (UNAUDITED)	87,423,850	$ 20,744	$ 546,824	$ 176,401	$ 23,394	(608,989)	(9,072)	$ 149,302
BALANCE - JULY 1, 2005	67,586,187	$ 16,408	$ 518,286	$ --	$ (26)	(459,232)	(9,072)	$ 66,364
CHANGES DURING THREE-MONTH PERIOD (UNAUDITED):								
ISSUANCE OF SHARES	421,422	91	410					501
STOCK-BASED COMPENSATION RELATED TO THE FACILITY AGREEMENT WITH THE BANKS			2,793					2,793
LOSS FOR THE PERIOD						(55,350)		(55,350)
BALANCE - SEPTEMBER 30, 2005 (UNAUDITED)	68,007,609	$ 16,499	$ 521,489	$ --	$ (26)	(514,582)	(9,072)	$ 14,308
BALANCE - JANUARY 1, 2005	66,999,796	$ 16,274	$ 517,476	$ --	$ (26)	(356,672)	(9,072)	$ 167,980
CHANGES DURING 2005:								
ISSUANCE OF SHARES	1,232,260	274	1,520					1,794
STOCK-BASED COMPENSATION RELATED TO THE FACILITY AGREEMENT WITH THE BANKS			2,793					2,793
STOCK-BASED COMPENSATION RELATED TO RIGHTS OFFERED TO EMPLOYEES			448					448
LOSS FOR THE YEAR						(203,082)		(203,082)
BALANCE - DECEMBER 31, 2005	68,232,056	$ 16,548	$ 522,237	$ --	$ (26)	(559,754)	(9,072)	$ (30,067)

SEE NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

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

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,		YEAR ENDED DECEMBER 31,
	2006	2005	2006	2005	2005
	(UNAUDITED)		(UNAUDITED)		
CASH FLOWS - OPERATING ACTIVITIES					
INCOME (LOSS) FOR THE PERIOD	$ (49,235)	$(157,910)	$ 39,467	$ (55,350)	$(203,082)
ADJUSTMENTS TO RECONCILE INCOME (LOSS) FOR THE PERIOD TO NET CASH USED IN OPERATING ACTIVITIES:					
INCOME AND EXPENSE ITEMS NOT INVOLVING CASH FLOWS:					
DEPRECIATION AND AMORTIZATION	113,821	108,008	38,182	36,855	144,852
EFFECT OF INDEXATION AND TRANSLATION ON CONVERTIBLE DEBENTURES	2,500	(1,205)	1,404	222	(1,031)
OTHER INCOME, NET	(597)	(2,518)	(6)	(42)	(2,383)
CHANGES IN ASSETS AND LIABILITIES:					
DECREASE (INCREASE) IN TRADE ACCOUNTS RECEIVABLE	(8,860)	9,654	(4,010)	1,221	2,510
DECREASE (INCREASE) IN OTHER RECEIVABLES AND OTHER CURRENT ASSETS	(9,496)	720	(7,640)	(1,940)	1,988
DECREASE (INCREASE) IN INVENTORIES	(14,143)	4,767	(4,118)	(3,844)	1,293
INCREASE (DECREASE) IN TRADE ACCOUNTS PAYABLE	(1,889)	5,320	(5,472)	5,480	3,082
GAIN ON DEBT RESTRUCTURING	(80,071)	--	(80,071)	--	--
INCREASE (DECREASE) IN OTHER CURRENT LIABILITIES	3,736	(1,459)	1,623	6	(1,839)
DECREASE IN OTHER LONG-TERM LIABILITIES	(1,752)	(7,379)	(73)	(302)	(5,368)
	(45,986)	(42,002)	(20,714)	(17,694)	(59,978)
DECREASE IN LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES, NET	(1,504)	(396)	(690)	(164)	(760)
NET CASH USED IN OPERATING ACTIVITIES	(47,490)	(42,398)	(21,404)	(17,858)	(60,738)
CASH FLOWS - INVESTING ACTIVITIES					
DECREASE (INCREASE) IN DESIGNATED CASH, SHORT-TERM AND LONG-TERM INTEREST-BEARING DEPOSITS, NET	31,661	40,955	2,909	(1,019)	27,266
INVESTMENTS IN PROPERTY AND EQUIPMENT	(98,938)	(32,251)	(73,203)	(8,146)	(38,878)
INVESTMENT GRANTS RECEIVED	4,489	6,015	1,191	1,657	7,496
PROCEEDS RELATED TO SALE AND DISPOSAL OF PROPERTY AND EQUIPMENT	600	2,106	9	398	2,179
INVESTMENTS IN OTHER ASSETS	(4,168)	(3,732)	(618)	(132)	(3,841)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(66,356)	13,093	(69,712)	(7,242)	(5,778)
CASH FLOWS - FINANCING ACTIVITIES					
Proceeds on account of share capital	100,000	--	100,000	--	--
PROCEEDS FROM ISSUANCE OF CONVERTIBLE DEBENTURE, NET	58,797	--	36,937	--	25,086

PROCEEDS FROM EXERCISE OF WARRANTS	550	--	550	--	--
PROCEEDS FROM LONG-TERM DEBT	15,384	13,360	6,794	13,360	21,103
REPAYMENT OF CONVERTIBLE DEBENTURES	(6,476)	--	--	--	--
NET CASH PROVIDED BY FINANCING ACTIVITIES	168,255	13,360	144,281	13,360	46,189
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	54,409	(15,945)	53,165	(11,740)	(20,327)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	7,337	27,664	8,581	23,459	27,664
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 61,746	$ 11,719	$ 61,746	$ 11,719	$ 7,337
NON-CASH ACTIVITIES					
INVESTMENTS IN PROPERTY AND EQUIPMENT	$ 31,258	$ 11,313	$ 25,970	$ 1,243	$ 12,999
STOCK-BASED COMPENSATION RELATED TO THE FACILITY AGREEMENT WITH THE BANKS	$ 4,146	$ 2,793	$ 4,146	$ 2,793	$ 2,793
STOCK-BASED COMPENSATION RELATED TO RIGHTS OFFERED TO EMPLOYEES	$ --	$ --	$ --	$ --	$ 448
INVESTMENTS IN OTHER ASSETS	$ --	$ 433	$ --	$ 366	$ 442
CONVERSION OF LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES TO SHARE CAPITAL	$ 5,972	$ 1,445	$ 685	$ 501	$ 1,794
CONVERSION OF CONVERTIBLE DEBENTURES TO SHARES	$ 9,392	--	$ 551	$ --	$ --
CONVERSION OF LONG-TERM DEBT TO CAPITAL NOTES	76,401	--	76,401	--	--
PROCEEDS RECEIVABLES RELATED PUBLIC OFFERING	$ --	--	$ (31,479)	$ --	$ --
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
CASH PAID DURING THE PERIOD FOR INTEREST	$ 28,611	$ 23,999	$ 7,819	$ 8,095	$ 32,805
CASH PAID DURING THE PERIOD FOR INCOME TAXES	$ 126	$ 86	$ 70	$ 3	$ 86

SEE NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

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

NOTE 1 - GENERAL

A. BASIS FOR PRESENTATION

(1) The unaudited condensed interim consolidated financial statements as of September 30, 2006 and for the nine months and three months then ended ("interim financial statements") of Tower Semiconductor Ltd. and subsidiary ("the Company") should be read in conjunction with the audited consolidated financial statements of the Company as of December 31, 2005 and for the year then ended, including the notes thereto. In the opinion of management, the interim financial statements include all adjustments necessary for a fair presentation of the financial position and results of operations as of the date and for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected on a full-year basis.

(2) The interim financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") in Israel ("Israeli GAAP"), for interim financial statement, which differ in certain respects from GAAP in the United States of America ("U.S. GAAP"), as indicated in Note 5.

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

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

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

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

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

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

NOTE 1 - GENERAL (CONT.)

A. BASIS FOR PRESENTATION (CONT.)

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

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

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

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

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

C. ACCOUNTING STANDARD NO. 29 "ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS"

In July 2006, the Israeli Accounting Standards Board published Accounting Standard No. 29 - "Adoption of International Financial Reporting Standards" - IFRS ("the Standard"). According to this Standard, the financial statements of an entity subject to the Israeli Securities Law and authoritative Regulations thereunder (including dual listed companies), other than foreign corporations , that prepares its financial statements in other than Israeli GAAP as defined by this Law will be required to prepare financial statements in accordance with the IFRS and related interpretations published by the International Accounting Standards Board, for the reporting periods commencing January 1, 2008, including interim periods.

An entity adopting IFRS as of January 1, 2008 and electing to report comparative figures in accordance with the IFRS for only 2007, will be required to prepare opening balance-sheet amounts as of January 1, 2007 based on the IFRS.

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

NOTE 1 - GENERAL (CONT.)

A. BASIS FOR PRESENTATION (CONT.)

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

C. ACCOUNTING STANDARD NO. 29 "ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS" (CONT.)

Reporting in accordance with the IFRS will be carried out based on the provisions of IFRS No. 1, "First-time Adoption of IFRS Standards", which establishes guidance on implementing and transitioning from financial reporting based on domestic national accounting standards to reporting in accordance with IFRS.

IFRS No. 1 supersedes the transitional provisions established in other IFRSs (including those established in former domestic national accounting standards), stating that all IFRSs should be adopted retroactively for the opening balance-sheet amounts. Nevertheless, IFRS No. 1 grants exemptions on certain issues by allowing the alternative of not applying the retroactive application in respect thereof.

Management intends to examine the effect of the transition to IFRS, yet at this stage, is unable to estimate the extent of such conversion on the Company's financial position and results of operations.

Standard No. 29 allows for earlier application in a manner by which applicable entities may convert their financial statements published subsequent to July 31, 2006 to the IFRS. Management has not yet decided whether to early-adopt the IFRS.

D. ACCOUNTING STANDARD NO. 26 "INVENTORY"

In August 2006 the Israeli Accounting Standards Board published Accounting Standard No. 26 - "Inventory" ("the Standard"), which outlines the accounting treatment for inventory.

The standard applies to all types of inventory, other than building earmarked for sale and addressed by Accounting Standard No.2 ("Construction of Buildings for Sale"),

inventory of work in progress stemming from performance contracts, addressed by Accounting Standard No.4 ("Work Based on Performance Contract"), financial instruments and biological assets relating to agricultural activity and agricultural production during harvest.

NOTE 1 - GENERAL (CONT.)

A. BASIS FOR PRESENTATION (CONT.)

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

D. ACCOUNTING STANDARD NO. 26 "INVENTORY" (CONT.)

The standard establishes, among other things, that inventory should be stated at the lower between cost and net realizable value. Cost is determined by the first in, first out (FIFO) method or by average weighted cost used consistently for all types of inventory of similar nature and uses. In certain circumstances the standard requires cost determination by a specific identification of cost, which includes all purchase and production costs, as well as any other costs incurred in reaching the inventory's present stage.

When inventory is acquired on credit incorporating a financing component, the inventory should then be presented at cost equaling purchase cost in cash. The financing component is recognized as a financing expense over the term of the credit period.

Any reduction of inventory to net realizable value following impairment as well as any other inventory loss should be expensed during the current period. Subsequent elimination of an impairment write-down that stems from an increase in net realizable value will be allocated to operations during the period in which the elimination took place.

This standard will apply to financial statements covering periods beginning January 1, 2007 and onwards and should be implemented retroactively.

Management believes that the standard will not affect the Company's financial position, results of operations and cash flows.

E. ACCOUNTING STANDARD NO. 27 "FIXED ASSETS"

In September 2006 the Israeli Accounting Standards Board published Accounting Standard No. 27 ("Fixed Assets"), which establishes the accounting treatment for fixed assets, including recognition of assets, determination of their book value, related depreciation, losses from impairment as well as the disclosure required in the financial statements.

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

NOTE 1 - GENERAL (CONT.)

A. BASIS FOR PRESENTATION (CONT.)

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

E. ACCOUNTING STANDARD NO. 27 "FIXED ASSETS" (CONT.)

The standard states that a fixed-asset item will be measured at the initial recognition date at cost which includes, in addition to the purchase price, all the related costs incurred for bringing the item to the position enabling it to operate in the manner contemplated by management. The cost also includes the initial estimate of costs required to dismantle and remove the item, along with the expenses incurred in reconstructing the site on which the item had been placed and in respect of which the entity incurred that obligation when the item had been acquired or following its use over a given period of time not in the production of inventory during that period.

The standard also states that when acquiring assets in exchange for a non-monetary asset or a combination of monetary as well as non-monetary assets, the cost will be determined at fair value unless (a) the barter transaction has no commercial essence or (b) it is impossible to reliably measure the fair value of the asset received and the asset provided. Should the provided asset not be measured at fair value, its cost would equal book value.

Following the initial recognition, the standard permits the entity to implement in its accounting policy the measurement of the fixed assets by the cost method or by revaluation so long as this policy is implemented in regard to all the items in that group.

Cost method - an item will be presented at net book value, less accumulated impairment losses.

Revaluation method - an item whose fair value can be

measured reliably will be presented at its estimated amount, which equals its fair value at the revaluation date, net of depreciation accumulated subsequently and less accumulated impairment losses. Revaluations should take place on a current basis in order to ensure that book value does not materially differ from the fair value that would have been determined on the balance-sheet date. The revaluation of a single item calls for the revaluation of the entire group and if the asset's book value rises following this revaluation, this increase should be allocated directly to shareholders' equity ("revaluation reserve"). Nevertheless, this increase will be recognized as an operating item up to the amount offsetting the decrease from that asset's revaluation recognized previously as income or loss. Should book value decline following revaluation, this decline will be recognized as an operating item yet allocated directly to shareholders' equity ("revaluation reserve") up to the amount leaving any credit balance in that reserve in respect of that asset.

NOTE 1 - GENERAL (CONT.)

A. BASIS FOR PRESENTATION (CONT.)

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

E. ACCOUNTING STANDARD NO. 27 "FIXED ASSETS" (CONT.)

Any fixed assets with a meaningful cost in relation to the item's total cost should be reduced separately. Moreover, the depreciation method used will be reviewed at least once at yearend and, if any meaningful change had taken place in the estimated consumption of future economic benefits inherent in the asset, the method should be modified to reflect such changes. This change will be treated as a change in an accounting estimate.

This new standard will apply to financial statements covering periods beginning January 1, 2007 and onwards and implemented retroactively, except for the following:

An entity which chooses on January 1, 2007 the revaluation method will treat the difference between the asset's estimated book value and its cost as a revaluation reserve at that time.

An entity which did not include in the cost of an item, upon initial recognition, the initial estimate of dismantling and removing costs along with site reconstruction costs will be required to:

1. Measure the liability on January 1, 2007 in conformity with generally accepted accounting principles;

2. Compute the amount that would have been included in the cost of the relevant asset, when the liability was initially created, by capitalizing the amount of the liability, as noted in item 1 above at the time when that liability was initially created ("the Capitalized Amount");

3. Compute the Capitalized Amount's accumulated depreciation on January 1, 2007 on the basis of the asset's useful life at that time;

4. The difference between the amount to be allocated to the asset, in accordance with items 2 and 3 above and the amount of the liability, based on item 1 above, will be allocated to retained earnings.

The Company is currently examining this new standard, including the election between the cost and the revaluation methods; however, at this stage, it is unable to estimate the standard's effect, if any, on its financial position, results of operations and cash flows.

NOTE 1 - GENERAL (CONT.)

B. ESTABLISHMENT AND OPERATIONS OF NEW FABRICATION FACILITY ("FAB 2")

In January 2001, the Company's Board of Directors approved the establishment of a new wafer fabrication facility in Israel ("Fab 2"). Fab 2 is designated to manufacture semiconductor integrated circuits on silicon wafers in geometries of 0.18 micron and below on 200-millimeter wafers. The Company has entered into several related agreements and other arrangements and has completed public and private financing deals, which, as of the approval date of the interim financial statements, have provided an aggregate of approximately $1,400,000 of financing for Fab 2.

The Fab 2 project is a complex undertaking, which entails substantial risks and uncertainties. For further details concerning the Fab 2 project and related agreements, some of which were amended several times, risks and uncertainties, see Note 11A to the 2005 audited consolidated financial statements.

C. FINANCING OF THE COMPANY'S ONGOING OPERATIONS

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

During the last number of months, the Company significantly increased its customer base, mainly in Fab 2, modified its organizational structure to better address its customers and its market positioning, raised funds totaling approximately $187,000 of gross proceeds (see also Notes 4C, 4D and 1C below) and restructured its bank debt (see below).

In March 2006, the board of directors of the Company approved a plan to ramp up Fab 2 in order to meet customer and product qualification needs, based on its customer pipeline and reinforced by forecasted market conditions.

NOTE 1 - GENERAL (CONT.)

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

As part of the financing efforts for the ramp-up plan, in August 2006, the Company signed a definitive amendment to the facility agreement (the "Amendment") based on the terms of the May 2006 Memorandum of Understanding ("MOU") with its banks for the refinancing of the approximately $527,000 of long-term debt under its facility agreement. Pursuant to the Amendment, which closed in September 2006: (i) $158,000, representing 30% of the outstanding debt under the Credit Facility, was converted into capital notes of the Company. Such 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 MOU (see also Note 3B below); (ii) the interest rate applicable for the quarterly actual interest payment on the loans was decreased by 1.4%, from LIBOR plus 2.5% per annum to LIBOR plus 1.1% per annum, effective from May 17, 2006 (the "Decreased Amount"); subject to adjustment, in January 2011, the Banks will 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 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 capital notes or shares issuable upon the conversion of the 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 and the Decreased Amount may be reduced in the event the Company prepays any part of the outstanding loans; (iii) the commencement date for the repayment of the outstanding loans, which following the conversion are approximately $369,000, was postponed from July 2007 to September 2009, such that the outstanding loans shall be repaid in 12 quarterly installments between September 2009 and June 2012; (iv) the exercise periods of the warrants held by the Banks immediately prior to the signing of the Amendment, were extended such that they are exercisable until five years from the closing of the Amendment; and (v) the financial ratios and covenants that the Company is to satisfy were revised to be inline with the Company's current working plan.

NOTE 1 - GENERAL (CONT.)

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

In this regard and in connection with Israel Corp.'s commitment to invest $100,000, in August 2006, the Company entered into a securities purchase agreement with Israel Corp. (the "Securities Purchase Agreement"). The Securities Purchase Agreement was approved by the Company's Audit Committee, Board of Directors and the Company's shareholders. The principal terms of the Securities Purchase Agreement were: (i) in consideration for its $100,000 investment, the Company shall issue to Israel Corp., at price per share of $1.52 (which equals the average closing price during the 10 consecutive trading days prior to signing the MOU), capital notes convertible into 65,789,474 of the Company's ordinary shares; (ii) the Company shall be deemed to have exercised the Call Option under the Equipment Purchase Agreement described below; and (ii) the Company and Israel Corp. shall settle the amounts payable by Israel Corp. under the Securities Purchase Agreement with the amounts payable by the Company under the Equipment Purchase Agreement. The Securities Purchase Agreement also closed in September 2006.

In order to implement the ramp-up plan in a timely manner, in May 2006, the Company entered into an Equipment Purchase Agreement with Israel Corp. according to which Israel Corp. will order up to approximately $100,000 worth of equipment for Fab 2. Under the terms of the Equipment Purchase Agreement: (i) Israel Corp. has the right to

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

sell to the Company the equipment at cost, plus related expenses; (ii) the Company has the right to purchase the equipment from Israel Corp. at cost, plus related expenses, subject to the Company having raised $100,000; and (iii) upon the purchase of the equipment from Israel Corp., the Company will assume Israel Corp.'s obligations to the equipment suppliers. This agreement was approved by the Audit Committee and the Board of Directors of the Company in May 2006.

Upon the closing of the Amendment and the Securities Purchase Agreement, Israel Corp. transferred ownership over the purchased equipment to the Company and the Company assumed Israel Corp.'s obligations to the equipment suppliers.

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

NOTE 2 - INVENTORIES

Inventories consist of the following (*):

	September 30,		December 31,
	2006	2005	2005
	(unaudited)		
Raw materials	$10,030	$ 6,445	$ 6,777
Spare parts and supplies	5,438	3,322	3,738
Work in process	22,277	8,638	11,502
Finished goods	774	2,497	2,359
	$38,519	$20,902	$24,376

(*) Net of aggregate write downs to net realizable value of $2,543, $3,973 and $3,259 as of September 30, 2006, September 30, 2005 and December 31, 2005, respectively.

NOTE 3 - RECENT DEVELOPMENTS RELATING TO FAB 2

A. APPROVED ENTERPRISE STATUS

Under the terms of the approved enterprise program for Fab 2, the Company was eligible to receive grants of 20% of up to $1,250,000 invested in Fab 2 plant and equipment, or an aggregate of up to $250,000 for investments made by December 31, 2005, of which as of the balance sheet date, an aggregate of approximately $163,000 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 under the approved enterprise program. The Company has been holding discussions with the Investment Center to achieve satisfactory arrangements to approve a new expansion program commencing as of January 1, 2006. During 2005, the Company received letters from the Israeli Minister of Industry, Trade and Employment and from the General Manager of the Investment Center stating that they will act under Israeli law to support such expansion. In April 2005, at the Investment Center's request, the Company submitted a revised business plan to the Investment Center for the period commencing as of January 1, 2006. As of the approval date of the interim financial statements, the Company's management cannot estimate when, if at all, the Company will receive approval of its request for a new expansion program.

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

B. FACILITY AGREEMENT

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

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

As part of the financing efforts for the ramp-up plan, in September 2006, the Company and its Banks signed an amendment to the facility agreement, as described above in Note 1C.

The Company accounted for the Amendment in accordance with provisions set forth in IAS 39 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT. Generally Accepted Accounting Standards in Israel are

silent in regards to the accounting for debt modification. In addition, diversity in practice was observed across companies such that no one approaches has been consistently applied to create practice in Israel for the accounting for debt modification. In light of the lack of guidance and considering that the Company has not previously accounted for debt modification in the past the Company decided to apply the guidance in IAS 39 regarding debt modification mainly for the following reasons: (i) Israeli GAAP requires that when there is no standard in Israel and no practice evolved IFRS has to be applied, (ii) the Israeli Accounting Standard Board decided to adopt in full the IFRS starting in fiscal year 2008 with early adoption recommended, and the Israel Securities Authority ("ISA") decided that, commencing from the second quarter of 2007, notes to financial statements shall state the IFRS financial effect on such financial statements, (iii) Standard No. 22, which is based on IAS 32 FINANCIAL INSTRUMENTS: DISCLOSURE AND PRESENTATION, refers preparers of financial statements to the guidance in IAS 39 for the purposes of recognition and measurement of financial instruments (including measurement of debt modification), (iv) the adoption of IAS 39 does not create inconsistencies with prior periods and (v) recently adopted Israeli standards are all based on IFRS.

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

B. FACILITY AGREEMENT (CONT.)

Under IAS 39, the accounting for the debt modification under the Amendment is as follows:

1. The amount considered settled for shares and classified to equity is based on the per share price as quoted at the closing date; such amount totaled to $76,401.

2. The remaining balance, totaling $435,209, is considered to be substantially modified and thus treated as debt extinguishment of the outstanding debt and the incurrence of a new debt.

3. The debt incurred is initially recognized at fair value, totaling $355,138.

4. The difference between the fair value of the debt incurred and the outstanding debt (exclusive of the amount used as proceeds for the share issuance in 1 above), totaling $80,071, is recognized in the consolidated statement of operations as a gain on debt restructuring in the current period.

See Note 5H for the accounting of the debt modification in accordance with U.S. GAAP.

As descried in Note 1C above the Banks will be issued such number of shares that equals the Decreased Amount divided by 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 that equals half of the Decreased Amount divided by the Fourth Quarter 2010 Price. The Company accounted for its obligation to issue shares initially, as an additional interest expense and adjusted the effective interest rate on the debt to the Banks. The Company will evaluate and, if required, adjust the effective interest rate based on the per share price at the end of each reporting period. As of the balance sheet date, the Company was in full compliance with all of the financial ratios and covenants under the amended Facility Agreement According to the Facility Agreement, satisfying the financial ratios and covenants is a material provision. The amended Facility Agreement provides that if, as a result of any default, the Banks were to accelerate the Company's obligations, the Company would be obligated, among other matters, to immediately repay all loans made by the Banks (which as of the balance sheet date amounted to approximately $369,000) plus penalties, and the Banks would be entitled to exercise the remedies available to them under the Facility Agreement, including enforcement of their lien against all of the Company's assets.

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

C. AGREEMENTS WITH SANDISK CORPORATION

In August 2006, the Company signed an agreement with SanDisk Corporation ("SanDisk"), one of its wafer partners, to invest in the expansion of its 0.13 micron manufacturing capacity. SanDisk committed to purchase, upon such expansion, volume quantities of 0.13 micron wafers during 2007 and 2008 and will have right of first refusal on the use of this extra capacity in 2009. The Company and SanDisk also signed a Loan Agreement under which the Company is entitled to borrow funds not to exceed, in the aggregate, the principal amount of $10,000 from SanDisk for the purpose of financing the purchase of the equipment needed for said expansion. The loan will be repaid with interest on the amounts outstanding at any time under the loan at Libor plus 1.1% over eight consecutive quarters. Pursuant to the agreement, in order to secure the repayment of the loan, SanDisk has been granted a first ranking charge on the equipment purchased therewith. As of the balance sheet date $6,794 in loans was received towards said $10,000.

NOTE 4 - OTHER RECENT DEVELOPMENTS

A. CLASS ACTION

In June 2006, the United States Court of Appeals for the Second Circuit affirmed the August 2004 decision of the United States District Court for the Southern District of New York to dismiss the class action suit filed in July 2003 against the Company and certain of its directors, Wafer Partners and Equity Investors (the "Defendants"). The plaintiffs had asserted claims arising under the Securities Exchange Act of 1934, alleging misstatements and omissions made by the Defendants in materials sent to the Company's shareholders in April 2002 with respect to the approval of an amendment to the Company's investment agreements with its Fab 2 investors. The District Court accepted the motion to dismiss filed on behalf of the defendants and noted that the Company's status as a foreign private issuer exempts the Company, its directors and controlling shareholders, from liability under the proxy rules of Section 14(a) of the Securities Exchange Act.

NOTE 4 - OTHER RECENT DEVELOPMENTS (CONT.)

B. SHARE OPTION PLANS

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

In May 2006, the Company's Audit Committee and Board of Directors approved the grant of options to the CEO of the Company, who also serves as a director, in addition to the options granted to him in April 2005, such that in total, the CEO will hold options to purchase shares that represent 4% of the Company's shares on a fully diluted basis during the two-year period from the approval of the Audit Committee. The exercise price of the initial grant of additional options will be $1.45, the 90-day average closing price of the Company's shares prior to the Board of Directors' approval. In future dilutive events following May 2006, additional options will be granted to the CEO as described above. If the dilutive event is an equity financing, the exercise price of such additional options will equal to the price per share of such investment, otherwise, the exercise price will equal the 30-day average closing price of the Company's shares prior to the dilutive event. The new options granted will vest in equal amounts over 4 years of employment commencing from May 2006. The options will be exercisable for a period of 10 years from the date of grant. No additional options will be granted under the CEO's employment agreement, which was approved by the Company's shareholders in October 2005. The new grant of options and its terms were approved by the Company's shareholders. As of the balance sheet date, a total of 12,068,988 options were granted to the CEO. The cost of the total options granted to the CEO was determined based on the fair value at the grant dates in accordance with Standard No. 24 and amounted to $9,221. Such amount is expensed on an accelerated basis over the vesting periods of the options.

(2) EMPLOYEE OPTIONS

In May 2006, the Company's board of directors approved a plan to offer each of the Company's current employees the opportunity to exchange their existing options to purchase ordinary shares for new options with an exercise price of $1.45, which is the average closing price of the Company's shares on the NASDAQ during the 90 consecutive trading days prior to the board of directors' approval. 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 accordance with Standard No. 24 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 then upcoming 24 months will represent less than 8% of the Company's shares on a fully diluted basis, additional options will be allocated for grants to the Company's employees. As of the balance sheet date, approximately 1,600,000 options are reserved for future grant of options.

NOTE 4 - OTHER RECENT DEVELOPMENTS (CONT.)

C. 2005 RIGHTS OFFERING

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

which bear annual interest at the rate of 5%. The principal of the debentures, together with accrued interest, is payable in one installment on January 12, 2012.

The debentures are convertible into the Company's Ordinary Shares at a rate of one ordinary share per $1.10 aggregate principal amount of debentures. The conversion price is subject to downward adjustment under certain circumstances in which the Company sells securities in future financings at a price per share which is lower than the conversion price, provided that such financings close through December 2006 (or under certain conditions, through June 2007).

As of the balance sheet date, no such adjustment was required. During the nine months ended September 30, 2006, $16,424 in aggregate principal amount of debentures was converted into 14,931,280 ordinary shares of the Company.

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

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

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

NOTE 4 - OTHER RECENT DEVELOPMENTS (CONT.)

C. 2005 RIGHTS OFFERING (CONT.)

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

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

D. 2006 PUBLIC OFFERING

In June 2006 the Company completed an underwritten public offering of the Company's securities on the Tel-Aviv Stock Exchange (TASE) in Israel resulting in immediate gross proceeds of approximately NIS 140,000,000 (approximately $31,000). In the offering, 78,000 Units were sold at a price per Unit of NIS 1,785 (approximately $0.4). Each Unit consists of (i) convertible debentures in the face amount of NIS 2,100 (approximately $0.47), (ii) five options each exercisable for three months ending on September 27, 2006 for NIS 100 principal amount of convertible debentures at an exercise price equal to 85% of their face amount, linked to the Israeli Consumer Price Index ("CPI"), (iii) 140 warrants each exercisable for three months ending on September 27, 2006 for one ordinary share of the Company at a price of NIS 6.75 (approximately $0.00157), linked to the CPI and (iv) 70 warrants each exercisable for three years ending on June 28, 2009 for one ordinary share of the Company at a price of NIS 7.40 (approximately $0.00172), linked to the CPI. The convertible debentures are convertible into the Company's ordinary shares at a conversion rate of one ordinary share per NIS 8.40 (approximately $0.00196) principal amount of convertible debentures. The convertible debentures carry a zero coupon with principal payable at maturity in December 2011, at a premium of 37% over face value, linked to the CPI. The conversion price is subject to reduction in certain limited circumstances. In accordance with Standard No. 22, the proceeds were allocated to each of the Unit's components based on relative fair values in the first 2 days of trading. After allocation, each of the components is classified as either equity or liability based on the criteria prescribed in Standard No. 22.

In addition, the Company issued 300 such units in consideration for NIS 526,000 through a private placement to its market maker in connection with said offering. The offering was made in Israel to Israeli residents only. The securities offered were not registered under the Securities Act and may not be sold in the U.S. or to U.S. persons absent registration or an applicable exemption.

As of September 30, 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.

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

NOTE 4 - OTHER RECENT DEVELOPMENTS (CONT.)

E. 2006 PRIVATE PLACEMENT

In November 2006, the Company received and accepted orders from Israeli investors in a private placement for 58,150 units, each comprised of 100 ordinary shares and 50 warrants. Each unit was sold at a price of NIS 759 (approximately $0.177). The price of the ordinary shares included in the units was identical to the closing price of the Company's shares on the Tel-Aviv Stock Exchange on October 29, 2006 (NIS 7.59 per share). Total immediate proceeds amounted to approximately $10,300.

Under Israeli securities laws, the securities are subject to a statutory lock-up. The Company has undertaken to file a prospectus with the Israel Securities Authority to allow for the unrestricted trade of the securities.

Each warrant is exercisable at any time during a period of four years 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 or the first date the securities may be sold under Israel's statutory lock-up rules, but not higher than NIS 9.48 (approximately $0.0022).

In addition, the Company granted a green shoe option to the placement agents for up to approximately $2,500, which is exercisable until the earlier of December 1, 2006 or the date the prospectus is published, unless agreed to otherwise.

F. AUTHORIZED SHARES

In March 2006, the Board of Directors of the Company approved the increase of the Company's authorized shares from 500,000,000 to 800,000,000. This increase was approved by the Company's shareholders in September 2006.

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

With regard to the Company's interim financial statements, the material differences between GAAP in Israel and in the U.S. relate to the following. See I below for the presentation of the Company's unaudited balance sheet as of September 30, 2006 in accordance with U.S. GAAP.

A. RECENT ACCOUNTING PRONOUNCEMENTS BY THE FASB

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

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

FIN NO. 48. ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES -

On July 13, 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires recognition in the financial statements of the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for the 2007 fiscal year with the cumulative effect of the change in accounting principle recorded as an adjustment to opening balance of retained earnings. Management does not believe that FIN 48 will have a material effect on the financial condition, results of operations, or liquidity of the Company.

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

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

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

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

Under U.S. GAAP, assets and liabilities relating to severance

arrangements are to be presented separately and are not to be offset, while according to Israeli GAAP such an offset is required. Accordingly, as of September 30, 2006, an amount of $13,933 was reclassified from other long-term liabilities to long-term investments (as of December 31, 2005 - $13,658).

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

Complying with SFAS 133 as amended and the related interpretations thereon with respect to the Company's hedging transactions as of September 30, 2006 would have resulted in: an increase in other long-term investments in the amount of $1,636; a decrease in other comprehensive loss for the nine months ended September 30, 2006 in the net amount of $865; an accumulated other comprehensive loss component of equity balance as of September 30, 2006 in the amount of $689; and in a decrease of $2,325 in property and equipment, net as of September 30, 2006.

E. DEFERRED FINANCING CHARGES

Under U.S. GAAP, deferred-financing charges are to be presented in other assets, while according to Israeli GAAP effective January 1, 2006 such amount is required to be offset from the related long-term debt. Accordingly, as of September 30, 2006, an amount of $15,083 was reclassified from long-term debt to other assets.

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

F. ISSUANCE OF CONVERTIBLE DEBENTURES

Under Accounting Principles Board Opinion No. 14 ("APB 14"), the proceeds from the sale of the securities in January 2002 are to be allocated to each of the securities issued based on their relative fair value, while according to Israeli GAAP such treatment was not required. Complying with APB 14, based on the average market value of each of the components issued in the first three days following their issuance (in January 2002), would have resulted in an increase in shareholders' equity as of the issuance date in the amount of $2,363 (net of $196 related issuance expenses), and a decrease in convertible debentures as of such date in the amount of $2,559. The additional accumulated effect of amortization of the discount on the convertible debentures under U.S.GAAP as of September30, 2006 would have been $1,375. Commencing with the adoption of Standard No. 22 in January 2006, allocation of proceeds in a unit, to its components, is based on relative fair values under Israeli GAAP as well as under US GAAP.

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

2002 DEBENTURES:

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

2005 DEBENTURES:

Under US GAAP, the equity component, in the amount of $13,377 classified as equity under Israeli GAAP was reclassified to liability and the conversion feature was bifurcated from the debt host and marked to market through earnings. The initial amount allocated to the bifurcated conversion feature was determined using the "with and without" method based on the fair value of the embedded derivative prescribed in DIG Issue B6.

2006 DEBENTURES:

Under US GAAP, the equity component, in the amount of $6,006, classified in equity under Israeli GAAP was reclassified to liability. The conversion feature was bifurcated from the debt host and marked to market through earnings. The amount allocated to the bifurcated conversion feature was determined using the "with and without" method.

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

F. ISSUANCE OF CONVERTIBLE DEBENTURES (CONT.)

All the above resulted as of September 30, 2006 mainly in an increase in convertible debentures in the amount of $20,013; a decrease in the shareholder's equity in the amount of $19,132 and an increase in other assets in the amount of $932. The Company's loss for the nine-month period ended September 30, 2006 would have increased in the amount of $1,154

G. EMPLOYEE STOCK BASED COMPENSATION

The Company adopted, effective January 1, 2006, SFAS 123R according to

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

which the compensation expense related to employee and directors share option awards would have been resulted in an increase in the compensations expenses for the period ending September 30, 2006 in the amount of $1,140. The Company elected the modified prospective method as its transition method.

H. FACILITY AGREEMENT

Under US GAAP the debt modification under the Amendment is considered troubled debt restructuring within the scope of FASB No. 15 ACCOUNTING BY DEBTORS AND CREDITORS FOR TROUBLED DEBT RESTRUCTURINGS which requires the following: (i) the amount considered settled for shares and classified in equity is based on the price per share as quoted at the closing date;(ii) the remaining balance after deduction of the amount used as proceeds for the share issuance in 1 above, will remain outstanding, ;.(iii) a new, lower effective interest rate will be calculated as the interest rate that equates future payments to the outstanding balance; and (iv) no gains or losses are recognized in the current period.

Under US GAAP the debt modification under the Amendment is considered to include an embedded derivative that should be separately accounted for. The Company considered the obligation to issue shares as agreed with the Banks and determined that it contains two components (i) a contingent component and (ii) an uncontingent component. The contingent component is the obligation to issue shares equal to half of the amount of the Decreased Amount if the Fourth Quarter 2010 Price is less than $3.49. The uncontingent component is the obligation to issue shares equal to half of the Decreased Amount regardless of the Fourth Quarter 2010 Price. The Company accounted for the uncontingent component as an additional interest expense and calculated the effective interest rate to include such expense. The Company treated the uncontingent component as an embedded derivative that needs to be bifurcated and separately accounted for based on fair value. Initial separation of the embedded derivative will be done using the "with and without" method described in DIG Issue B6. Changes in the fair value of the embedded derivative will be included in financing expenses. All the above resulted in a decrease of $80,071 in the shareholders equity for the nine months ended September 30, 2006 and an increase of the same amount in the long-term loans from the banks as of September 30, 2006.

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

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

	U.S. GAAP REMARK	AS OF SEPTEMBER 30, 2006 AS PER ISRAELI GAAP	ADJUST-MENTS	AS PER U.S. GAAP	AS OF DECEMBER 31, 2005 AS PER ISRAELI GAAP	ADJUST-MENTS	AS PER U.S. GAAP
A S S E T S							
CURRENT ASSETS							
CASH AND CASH EQUIVALENTS		$ 61,746	$ --	$ 61,746	$ 7,337	--	$ 7,337
DESIGNATED CASH AND SHORT-TERM INTEREST - BEARING DEPOSITS	B	--	--	--	31,661	(31,661)	--
TRADE ACCOUNTS RECEIVABLE :							
RELATED PARTIES		8,928	--	8,928	5,309	--	5,309
OTHERS		16,708	--	16,708	11,467	--	11,467
OTHER RECEIVABLES		12,807	--	12,807	9,043	--	9,043
INVENTORIES		38,519	--	38,519	24,376	--	24,376
OTHER CURRENT ASSETS		1,737	--	1,737	1,048	--	1,048
TOTAL CURRENT ASSETS		140,445	--	140,445	90,241	(31,661)	58,580
LONG-TERM INVESTMENTS	C,D	--	15,569	15,569	--	15,425	15,425
PROPERTY AND EQUIPMENT, NET	D,F	522,018	(2,036)	519,982	510,645	(3,291)	507,354
DESIGNATED CASH AND SHORT-TERM INTEREST-BEARING DEPOSITS	B	--	--	--	--	31,661	31,661
OTHER ASSETS, NET :							
TECHNOLOGY		49,291	--	49,291	61,441	--	61,441
OTHER	E,F	1,457	16,015	17,472	16,359	(196)	16,163
		50,748	16,015	66,763	77,800	(196)	77,604
TOTAL ASSETS		$ 713,211	$ 29,548	$ 742,759	$ 678,686	11,938	$ 690,624
LIABILITIES AND SHAREHOLDERS' EQUITY							
CURRENT LIABILITIES							
CURRENT MATURITIES OF LONG TERM DEBT		$ --	$ --	$ --	$ 21,103	$ --	$ 21,103
CURRENT MATURITIES OF CONVERTIBLE DEBENTURE	F	6,522	341	6,863	6,453	(640)	5,813
TRADE ACCOUNTS PAYABLE		59,687	--	59,687	59,741	--	59,741
OTHER CURRENT LIABILITIES		15,354	--	15,354	8,972	--	8,972
TOTAL CURRENT LIABILITIES		81,563	341	81,904	96,269	(640)	95,629
LONG-TERM DEBT	E	355,138	95,154	450,292	497,000	--	497,000
CONVERTIBLE DEBENTURES	F	61,657	20,013	81,670	19,358	23,574	42,932
LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES		50,004	--	50,004	59,621	--	59,621
OTHER LONG-TERM LIABILITIES	C	15,547	13,933	29,480	11,012	13,658	24,670
TOTAL LIABILITIES		563,909	129,441	693,350	683,260	36,592	719,852

CONVERTIBLE DEBENTURES	F	--	--	--	25,493	(25,493)	--
SHAREHOLDERS' EQUITY (DEFICIT)							
ORDINARY SHARES, NIS 1 PAR VALUE - AUTHORIZED 800,000,000 AND 500,000,000 SHARES; ISSUED 87,423,850 AND 68,232,056 SHARES		20,744	--	20,744	16,548	--	16,548
ADDITIONAL PAID-IN CAPITAL	F	546,824	3,086	549,910	522,237	2,363	524,600
CAPITAL NOTES		176,401	--	176,401	--	--	--
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES AND CUMULATIVE STOCK BASED COMPENSATION	F,G	23,394	(19,924)	3,470	(26)	--	(26)
ACCUMULATED OTHER COMPREHENSIVE LOSS	D	--	(689)	(689)	--	(1,554)	(1,554)
ACCUMULATED DEFICIT	D,F,G	(608,989)	(82,366)	(691,355)	(559,754)	30	(559,724)
		158,374	(99,893)	58,481	(20,995)	839	(20,156)
TREASURY STOCK, AT COST - 1,300,000 SHARES		(9,072)	--	(9,072)	(9,072)	--	(9,072)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)		149,302	(99,893)	49,409	(30,067)	839	(29,228)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 713,211	$ 29,548	$ 742,759	$ 678,686	$ 11,938	$ 690,624

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

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

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

Complying with FASB No. 15 (H above), SFAS 133, APB 14 (F above) and SFAS 123R (G above) would have resulted in an increase in the loss for the nine months period ended September 30, 2006 in the amount of $82,366 and an increase in the loss for the three months period ended September 30, 2006 in the amount of $83,373 , mainly due to the difference in accounting for the debt modification under Israeli GAAP Giving effect to all the above, the loss for the nine-month and three-month periods ended September 30, 2006 would be $131,631 and $43,906. No material effect on the result of operation for the nine -month and three-month periods ended September30, 2005.

K. COMPREHENSIVE INCOME (LOSS) IN ACCORDANCE WITH U.S. GAAP (SFAS 130)

Comprehensive income (loss) represents the change in shareholder's equity during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a reporting period except those resulting from investments by owners and distributions to owners. Other comprehensive income (loss) represents gains and losses that under U.S. GAAP are included in comprehensive income but excluded from net income. Following are statements of comprehensive loss in accordance with U.S. GAAP:

	Nine months ended September 30,		Three months ended September 30,	
	2006	2005	2006	2005
	(unaudited)		(unaudited)	
Loss for the period, according to U.S. GAAP (see I above)	$(131,631)	$(157,910)	$ (43,906)	$ (55,350)
Other comprehensive loss:				
Reclassification of unrealized losses on derivatives	996	996	332	332
Unrealizedgains (losses) on Derivatives	(130)	3,500	(1,375)	1,515
Net comprehensive loss for the period	$(130,765)	$(153,414)	$ (44,949)	$ (53,503)

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
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(dollars in thousands, except share data and per share data)

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

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

In accordance with SFAS 128, the basic and diluted loss per share for the nine-month and the three-month periods ended September 30, 2006 would be $1.67 and $0.52, respectively (during the corresponding periods - $2.39 and $0.83, respectively).

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

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

EXHIBIT 99.2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

THE INFORMATION CONTAINED IN THIS SECTION SHOULD BE READ IN CONJUNCTION WITH (1) OUR UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2006 AND FOR THE NINE MONTHS THEN ENDED AND RELATED NOTES INCLUDED IN THIS REPORT AND (2) OUR CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES INCLUDED IN OUR ANNUAL REPORT ON FORM 20-F FOR THE YEAR ENDED DECEMBER 31, 2005 AND THE OTHER INFORMATION CONTAINED IN SUCH ANNUAL REPORT, PARTICULARLY THE INFORMATION UNDER THE CAPTION "OPERATING AND FINANCIAL REVIEW AND PROSPECTS". OUR FINANCIAL STATEMENTS HAVE BEEN PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") IN ISRAEL. DIFFERENCES BETWEEN ISRAELI GAAP AND US GAAP AS THEY RELATE TO OUR FINANCIAL STATEMENTS ARE DESCRIBED IN NOTE 5 TO OUR UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2006 AND IN NOTE 20 TO OUR CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2005.

RESULTS OF OPERATIONS

The following table sets forth certain statement of operations data as a percentage of total revenues for the periods indicated.

	NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
STATEMENT OF OPERATIONS DATA:		
Total revenues	100.0%	100.0%
Cost of total revenues	147.5	253.2
Gross loss	(47.5)	(153.2)
Research and development expenses, net	8.4	18.1
Marketing, general and administrative expenses	13.7	19.0
Operating loss	(69.7)	(190.3)
FINANCING EXPENSE, NET	(28.8)	(35.8)
Gain on debt restructuring	60.7	--
Other income, net	0.5	3.5
Loss	(37.3)	(222.6)

NINE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2005

REVENUES. Revenues for the nine months ended September 30, 2006 increased by 86.0% to $131.9 million from $70.9 million for the nine months ended September 30, 2005. This $61.0 million increase was mainly attributable to an increase in our customer base, higher volume of wafer shipments, offset by $8 million recorded for the nine months ended September 30, 2005 from a previously announced technology-related agreement.

COST OF TOTAL REVENUES. Cost of total revenues for the nine months ended September 30, 2006 amounted to $194.7 million, compared with $179.6 million for the nine months ended September 30, 2005. This 8.4% modest increase in cost of revenues, despite the 86.0% increase in sales, was achieved mainly due to previously announced cost reductions and efficiency measures taken by the Company and the Company's cost structure according to which the Company has high net margins for each marginal additional sum of revenue.

GROSS LOSS. Gross loss for the nine months ended September 30, 2006 was $62.7 million compared to a gross loss of $108.7 million for the nine months ended September 30, 2005. The decrease in gross loss was mainly attributable to the increase in revenues and previously announced cost reductions and efficiency measures taken by the Company and the Company's cost structure according to which the Company has high net margins for each marginal additional sum of revenue.

RESEARCH AND DEVELOPMENT. Research and development expenses for the nine months ended September 30, 2006 decreased to $11.1 million from $12.8 million for the nine months ended September 30, 2005. The decrease was mainly attributable to previously announced cost reductions and efficiency measures taken by the Company. Research and development expenses are reflected net of participation grants received from the Israeli government.

MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES. Marketing, general and administrative expenses for the nine months ended September 30, 2006 increased to $18.1 million from $13.5 million for the nine months ended September 30, 2005, primarily due to employees and directors options costs under accounting GAAP and increased sales commissions attributed to the higher revenues mentioned above.

OPERATING LOSS. Operating loss for the nine months ended September 30, 2006 was $91.9 million, compared to $135.0 million for the nine months ended September 30, 2005. The decrease in the operating loss is attributable mainly to the decrease in the gross loss described above and the Company's cost structure according to which the Company has high net margins for each marginal additional sum of revenue.

FINANCING EXPENSES, NET. Financing expenses, net for the nine months ended September 30, 2006 were $38.0 million compared to financing expenses, net of $25.4 million for the nine months ended September 30, 2005. This increase is mainly due to an increase of $6.0 million in connection with our Fab 2 credit facility agreement with our banks attributable mainly to an increase in the LIBOR rate (to which our loans with our banks are linked) from an average of approximately 3% per annum for the nine months ended September 30, 2005 to an average of approximately 5% per annum for the nine months ended September 30, 2006 and due to the issuance of new series of convertible debentures (in December 2005 and June 2006) due to which we incurred an increase of $3.7 million in the discount amortization and interest attributed to the 3 series of convertible debentures. Such amount increased from an amount of $1.3 million for the nine month ended September 30, 2005 to an amount of $5 million for the nine month ended September 30, 2006.

GAIN ON DEBT RESTRUCTURING. Gain on debt restructuring for the nine months ended September 30, 2006 was $80.1 million. This one-time gain is resulting from the closing of the bank restructuring deal, which occurred during the third quarter of 2006.

OTHER INCOME, NET. Other income, net, for the nine months ended September 30, 2006 was $0.6 million compared to $2.5 million for the nine months ended September 30, 2005, mainly due to a lower capital gain, net, from sale and disposal of equipment.

LOSS. Our loss for the nine months ended September 30, 2006 was $49.2 million, compared to $157.9 million for the nine months ended September 30, 2005. This decrease is primarily attributable to the $80.1 million gain on debt restructuring, a decrease in the operating loss of $43.1 million described above offset by the increase in financing expenses of $12.6 million described above.

IMPACT OF INFLATION AND CURRENCY FLUCTUATIONS

The dollar cost of our operations in Israel is influenced by the timing of any change in the rate of inflation in Israel and the extent to which such change is not offset by the change in valuation of the NIS in relation to the dollar. During the nine months ended September 30, 2006, the exchange rate of the dollar in relation to the NIS decreased by 6.5%, and the Israeli Consumer Price Index, or CPI, increased by 0.8% (during the nine months ended September 30, 2005 there was an increase of 6.7% in the exchange rate of the dollar in relation to the NIS and a increase of 1.9% in the CPI).

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

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

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2006, we had an aggregate of $61.7 million in cash. This compares to $29.7 million we had as of September 30, 2005 in cash, cash equivalents, and short-term interest-bearing deposits, of which $8.0 million was contractually restricted for Fab 2 use only and $10.0 million was contractually restricted for exclusive use in the Siliconix project.

During the nine months ended September 30, 2006, we received $15.4 million from long term loans, $100.0 million on account of share capital, $58.8 million in proceeds from the issuance of convertible debentures, net, $0.5 million proceeds from exercise of warrants, $4.5 million from Investment Center grants and $0.6 million in proceeds from the sale and disposal of property and equipment. These liquidity resources partially financed our operating activities (net amount of $47.5 million) and our investments made during the nine months ended September 30, 2006, which aggregated to $103.1 million, mainly in connection with the construction, purchase and installation of equipment and other assets for Fab 2 and our repayment of convertible debentures in the amount of $6.5 million.

As of September 30, 2006, we had long-term loans, at present value, in the amount of $355.1 million we obtained in connection with the establishment of Fab 2. As of such date, we had total convertible debentures with par value of $100.4 million, of which $6.5 million are presented as current maturities and $21.1 million of the proceeds were allocated and are presented as equity component of the convertible debentures as part of the shareholders' equity.

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (the "AGREEMENT") is made and entered into effective as of August 24, 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 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 of undertaking executed by the Purchaser dated May 17, 2006 (the "LETTER OF UNDERTAKING") to Bank Hapoalim B.M. and Bank Leumi Le-Israel B.M. (collectively the "BANKS"), the Purchaser has committed to the Banks, subject to certain conditions as provided in the Letter of Undertaking, to invest in the Company a sum of one hundred (100) million US Dollars as set forth in this Agreement (the "INVESTMENT");

WHEREAS, pursuant to the Letter of Undertaking, the Purchaser acknowledged and agreed that the Investment in Tower is a condition precedent to the closing of an amendment of the Facility Agreement between the Banks and Tower dated January 18, 2001, as contemplated by the Memorandum of Understanding between the Banks and Tower, dated May 17, 2006 (the "AMENDMENT"); and

WHEREAS, the parties hereto agree that all amounts paid by the Purchaser under the Equipment Purchase Agreement between the Company and the Purchaser, dated May 17, 2006 (the "EQUIPMENT PURCHASE AGREEMENT") shall be deemed to have been invested in the Company as part of the Investment;

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 $100,000,000 (one hundred million US dollars) (the "NOTE PURCHASE PRICE") an equity convertible capital note, which capital note is convertible into 65,789,474 (sixty-five million, seven hundred and eighty-nine thousand, four hundred and seventy-four) shares (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 (for the removal of doubt, in form and substance satisfactory to the Purchaser and with rights which are at least as good as those provided to the Banks) (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 all as agreed to with the Purchaser prior to Closing and with rights which are at least as good as those provided to the Banks.

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 a business day in Tel Aviv, Israel and no later than three (3) business days (in Tel Aviv) after the conditions to Closing set forth in Sections 6 and 7 below have been satisfied or waived in accordance with their terms 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 October 31, 2006, 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) in accordance with the set-off provision of Section 2.2(g) below, the Note Purchase Price minus the Purchase Price (as defined in the Equipment Purchase Agreement) of the Call Option Exercise (as defined below) (the "CALL OPTION 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; and

(e) the Company shall be deemed to have exercised its Call Option (as defined in the Equipment Purchase Agreement) pursuant to the Equipment Purchase Agreement and in accordance with the terms set forth therein (the "CALL OPTION EXERCISE");

(f) (i) Equipment Agreements (as defined in the Equipment Purchase Agreement) shall be assigned by the Purchaser to the Company, to the extent that they are assignable; (ii) Future Payments (as defined in the Equipment Purchase Agreement) with respect to Non-Assignable Obligations (as defined in the Equipment Purchase Agreement) shall be held in trust by the Purchaser; and (iii) title to Purchased Assets (as defined in the Equipment Purchase Agreement) shall be transferred or deemed transferred to the Company, all as set forth in Section 2 of the Equipment Purchase Agreement; and

(g) for the avoidance of all doubt, the Purchaser and the Company shall set-off the Note Purchase Price payable by the Purchaser hereunder with the Call Option Purchase Price and any other sums relating to obligations owed and payable by the Company to the Purchaser pursuant to the Equipment Purchase Agreement or the transactions contemplated thereby; and

(h) The Closing of the Amendment shall take place simultaneously with the Closing under this Agreement.

3. POST CLOSING OBLIGATIONS OF THE PARTIES.

In the event that after the Closing any Equipment Agreement that prior to Closing was not assignable to the Company becomes assignable, the Purchaser shall as soon as practicable assign such Equipment Agreement to the Company and transfer the balance, as of the date of assignment, if any, of the Future Payments related thereto back to the Company, provided, that, upon assignment, the Purchaser is completely released from any obligations under such Equipment Agreement.

For the avoidance of doubt, to the extent that the Call Option Purchase Price exceeds the Note Purchase Price, such amounts shall not be deemed paid by the Company as part of the Investment.

4. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company hereby represents and warrants to the Purchaser, as follows:

4.1 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.

4.2 MEMORANDUM AND ARTICLES OF ASSOCIATION. The Company has made available for inspection by the Purchaser complete and correct copies of the Memorandum of Association and Articles of Association of the Company, as amended to the date furnished. Such Memorandum and Articles of Association are in effect as of the date hereof and as will be in effect at the Closing.

4.3 SHARE CAPITALIZATION.

As at August 17, 2006, the authorised share capital of the Company consists of 500,000,000 (five hundred million) ordinary shares, of which 85,406,010 (eighty five million four hundred and six thousand and ten) shares are issued and outstanding, 40,600,675 (forty million six hundred thousand six hundred and seventy five) shares are reserved for issuance upon exercise of outstanding options and warrants (including options granted to employees, officers, directors, related parties, banks, contractors and other public investors), 51,143,776 (fifty one million one hundred and forty three thousand seven hundred and seventy six) shares are reserved for issuance upon conversion of outstanding convertible debentures, 4,341,571 (four million three hundred and forty one thousand five hundred and seventy one) shares are reserved for issuance upon conversion of convertible debentures issuable upon exercise of outstanding warrants and 14,124,285 (fourteen million one hundred and twenty four thousand two hundred and eighty five) shares are reserved for future grants of options to employees, officers, consultants and directors. 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 Memorandum of Association or 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.

4.4 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 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.

4.5 CROSS-DEFAULT. The Company is not in default under the Equipment Purchase Agreement or the Agreement dated August 1, 2006 with regard to the use of some of the Equipment by Tower (hereinafter, the "AUGUST 1 AGREEMENT").

4.6 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.

4.7 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 and/or the Equipment Purchase Agreement and/or the August 1 Agreement.

4.8 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.

5. REPRESENTATIONS AND WARRANTIES OF THE PURCHASER.

The Purchaser hereby represents and warrants to the Company as follows:

5.1 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.

5.2 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 the approval of the Israeli Comptroller of Restrictive Trade Practice ("COMPTROLLER"), to the extent required under law. 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.

5.3 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, the Israeli Securities Law 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.

5.4 CROSS-DEFAULT. The Purchaser is not in default under the Equipment Purchase Agreement or the August 1 Agreement.

5.5 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 and/or the Equipment Purchase Agreement and/or the August 1 Agreement.

5.6 NO BROKERS. The Purchaser 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.

6. 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:

6.1 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.6.2 THE AMENDMENT. The conditions precedent for the closing of transactions contemplated by the Amendment shall have been satisfied (unless waived by the Banks) and shall have been concluded in a manner which is satisfactory to the Purchaser other than the Investment contemplated by this Agreement.

6.3 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.

6.4 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 and the approval of all of the parties to the Registration Rights Agreement by and between the Company, SanDisk Corporation, Alliance Semiconductor Corp., Macronix International Co., Ltd., QuickLogic Corporation, and the Purchaser, dated January 18, 2001 of the registration rights that will be received by the Purchaser pursuant to the Registration Rights Agreement entered into by the Parties, if necessary.

6.5 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 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.

6.6 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.

6.7 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. 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:

7.1 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.

7.2 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.

7.3 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.

7.4 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.

7.5 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.

8. COVENANTS. Between the date hereof, and the Closing Date:

8.1 ORDINARY COURSE. The Company will operate in the ordinary course of business as now being conducted and as currently proposed to be conducted.

8.2 DIVIDENDS. The Company will not declare, make or pay any dividend or other distribution.

8.3 ACTIONS INCONSISTENT WITH THIS AGREEMENT. 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. Nothing herein shall prohibit the Purchaser from exercising, prior to the Closing, any rights it may have under the Equipment Purchase Agreement to sell the Purchased Assets or assign the Equipment Agreements to third parties.

9. INDEMNIFICATION PURSUANT TO THE EQUIPMENT PURCHASE AGREEMENT. Nothing herein shall derogate from the Company's obligations to indemnify the Purchaser for any amount paid or incurred by the Purchaser pursuant to the Equipment Purchase Agreement.

10. MISCELLANEOUS.

10.1 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.

10.2 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.

10.3 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. However, all of Tower's rights to receive cash, but none of its obligations, under this Agreement may be assigned by Tower, including by way of a first ranking fixed pledge and charge, in favor of the Banks (or the permitted successors or assignees of the Banks), provided that such pledges or charges shall not take effect on any portion of the Share Purchase Price that could be set off against other obligations of the Company.

10.4 EXPENSES. The Company shall bear the expenses and costs of both parties to the transactions contemplated hereby.

10.5 ENTIRE AGREEMENT; AMENDMENT AND WAIVER. This Agreement, the Schedules hereto and the Equipment Purchase Agreement, 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.

10.6 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 10.6 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.

10.7 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.

10.8 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.

10.9 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.

10.10 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.

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 REGULATION S 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 (one hundred million United States Dollars) ("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 August 24, 2006, 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; and

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 effective date of the Registration Statement covering the Conversion Shares, bracketed language to be removed from all future Capital Notes to be issued 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 $1.52 (one United States Dollars and fifty-two cents), 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 and 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 the Registration Statement covering the Conversion Shares, bracketed language to be removed from all future Capital Notes to be issued 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 the Registration Statement covering the Conversion Shares, 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, 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, 2021, 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 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./ ARI FRIED, 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 28, 2006

for TOWER SEMICONDUCTOR LTD.

By: _____

Title: _____

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "AGREEMENT") is made and entered into effective as of 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").

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 "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; and

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.

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 Investor 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) any shares of capital stock issued or issuable with respect to the ordinary shares of the Company issued or issuable upon conversion of the Capital Note as a result of any stock split, stock dividend, rights offering, recapitalization, merger, exchange or similar event or otherwise, as described in any Capital Note.

(i) "REGISTRATION STATEMENT" means a registration statement or 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.

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. REGISTRATION.

(a) The Company shall prepare, and, as soon as practicable but in no event later than 45 days after the date of this Agreement file with the SEC a Registration Statement on Form F-3 and make all required filings with the ISA covering the resale of all 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 and the Company shall, not later than the effective date of a Registration Statement, 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.

(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 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 the first sentence 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; DEMAND AND 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.

(b) If at any time during the Registration Period there is not an effective Registration Statement covering all of the then Registrable Securities, the Company shall, upon the demand of any Holder, immediately file a registration statement covering all of the then Registrable Securities and the provisions of this Agreement shall apply to such Registration Statement, MUTATIS MUTANDIS.

(c) 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.

(d) 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, Israel 67021
Facsimile: (03) 608 7714
Attention: David H. Schapiro, Adv./
Ari Fried, 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 (WHICH SHALL NOT CONSTITUTE NOTICE):

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 the other 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 Registration Rights Agreement to be duly executed as of the day and year first above written.

COMPANY:

TOWER SEMICONDUCTOR LTD.

By: _____

Name: _____

Its: _____

ISRAEL CORPORATION LTD.:

By: _____

Name: _____

Its: _____

AMENDING AGREEMENT
TO THE FACILITY AGREEMENT

THIS AMENDING AGREEMENT is made and entered into as of the 24th day of August, 2006, 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 from time to time, the last amendment being the Fifteenth Amendment dated June 14, 2006 ("THE FACILITY AGREEMENT"); and

WHEREAS: the Borrower has received all Loans under the Facility and all Commitments have been cancelled and 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 equity in the Borrower 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 the 2nd (second) Business Day following the date on which the Banks are satisfied that all the conditions precedent referred to in clause 3 below have been fulfilled in a form and substance reasonably satisfactory to the Banks ("THE CONDITIONS SATISFACTION DATE"), provided that if the Conditions Satisfaction Date is September 28, 2006, the Amendment Closing Date shall be September 29, 2006 (or such other Business Day as the Banks and the Borrower may agree);

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 Amendment Closing 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.

3. CONDITIONS PRECEDENT

3.1. This Amending Agreement is subject to the conditions precedent that the Banks shall have received, by no later than the 2nd (second) Business Day prior to October 31, 2006, 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 and the execution of investment and registration rights agreements between the Borrower and the Banks or their respective nominees as referred to in clause 5.3 below; and (b) the issue of capital notes and of the shares issuable upon conversion thereof, of the Borrower to TIC as contemplated in clause 5.2 below and the execution of investment and registration rights agreements between the Borrower and TIC, as referred to in clause 5.1 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 at 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;

3.1.5. an opinion of Mayer, Brown, Rowe & Maw, U.S. legal counsel for the Banks, 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"): (i) subject to the effectiveness of the registration statement to be filed by the Borrower pursuant to the registration rights agreement with each of the Banks (or their respective nominees), 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 capital notes to be issued to the Banks (or their respective nominees) pursuant to clause 5.4 below in the United States ("SHARES"), provided that no opinion need be expressed with respect to state securities or Blue Sky laws; (ii) the acquisition and indefinite holding of the capital notes and/or Shares by the Banks is permissible under United States Applicable Laws, including under the Bank Holding Company Act of 1956, as amended; and (iii) the acquisition and holding of the capital notes and/or 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. an updated certificate by the Auditors confirming the aggregate investments made in accordance with clauses 16.27.2 and 16.36 of the Facility Agreement from August 1, 2005 through and as of the Amendment Closing Date;

3.1.7. 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;

3.1.8. an updated report of the Insurance Adviser;

3.1.9. confirmation of the Controller of Restrictive Trade Practices ("THE CONTROLLER") that no approval is required with respect to the transactions contemplated under this Amending Agreement under the Restrictive Trade Practices Law or, if any such approval is considered by the Controller to be required, the unconditional receipt of same;

3.1.10. the consent of the Investment Centre to the issue of the capital notes, and of the 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. the approval of the ILA under the Existing ILA Leases to the issue of the capital notes, and of the shares issuable upon conversion of the capital notes, to the Banks (or their respective nominees) as contemplated under clause 5.4 below;

3.1.12. an updated Schedule 1.1.101 to the Facility Agreement, listing all Material Contracts entered into since January 29, 2001 which are still in effect, as well as copies of such Material Contracts;

3.1.13. 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);

3.1.14. a Supplement to the Debenture shall be executed relating to 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;

3.1.15. a list (and copies, 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 outstanding;

3.1.16. the updated Schedules set forth on ANNEX A to this Amending Agreement;

3.1.17. 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;

3.1.18. 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);

3.1.19. notices of assignment by way of charge to, and acknowledgments by, Bank Leumi and Bank Hapoalim, respectively, with respect to the Reserve Accounts; and

3.1.20. notices to insurers and acknowledgments of such notices, as referred to in clause 3.2 of the Debenture (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) to the Restated Facility Agreement).

3.2. In the event that the aforegoing conditions precedent are not all fulfilled by the 2nd (second) Business Day prior to October 31, 2006, 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 October 31, 2006, then, save for clauses 6 and 7 and the second sentence of clause 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.

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, 5.6, 5.8 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 Amendment Closing 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 an investment and registration rights 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 1.1.1(v)B to the Facility Agreement, confirming that TIC has, on, or immediately prior to, the Amendment Closing Date, invested in the irredeemable paid-up share capital of the Borrower, an amount of at least US $100,000,000 (one hundred million United States Dollars), against the issue by the Borrower to TIC of an equity convertible capital note, which capital note is convertible into 65,789,474 (sixty-five million, seven hundred and eighty-nine thousand, four hundred and seventy-four) shares (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 (for the removal of doubt, in form and substance satisfactory to the Banks, as aforesaid). For the avoidance of doubt, the capital notes 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 Borrower 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, MUTATIS MUTANDIS, as referred to in clause 7 of the Warrants dated August 4, 2005;

5.3. the Borrower and each Bank (or each Bank's nominees) shall enter into an investment agreement and a registration rights 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 and the shares or capital notes to be issued pursuant clause 9.4 of the Restated Facility Agreement;

5.4. the Borrower shall issue to each of the Banks (or their respective nominees) equity equivalent 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 amount of US $79,000,000 (seventy-nine million United States Dollars) of the principal of the Loans owed to such Bank shall be converted into such capital notes (at the rate of US $2.00 (two United States Dollars) of the principal amount of such converted Loans) to constitute US $1.00 (one United States Dollar) of the principal of such capital notes, which capital notes are each convertible into 25,986,842 (twenty-five million, nine hundred and eighty-six thousand, eight hundred and forty-two) shares (subject to adjustments to changes in capital structure, stock splits, ETC.), 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 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. For the avoidance of doubt, the capital notes issuable hereunder shall not entitle the Banks to Interest, dividends, early redemption rights (for the removal of doubt, no conversion of capital notes by a Bank 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 Borrower shares or indexation of any kind, but shall entitle the Banks, as capital note holders, to participate in rights offerings and shall be subject to certain adjustments, including share splits, combinations and other adjustments, MUTATIS MUTANDIS, as referred to in clause 7 of the Warrants dated August 4, 2005;

5.5. the Borrower shall deliver to the Banks a capitalisation table reflecting all shareholdings and holdings of securities (including 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;

5.6. the Borrower and each Bank shall execute amendments (for the removal of doubt, in form and substance satisfactory to each Bank, as aforesaid) to each of the Warrants issued to such Bank (or its nominees or Affiliates) prior to the date hereof, extending the respective expiry dates to a date falling 5 (five) years after the Amendment Closing Date;

5.7. the Borrower shall pay all fees payable in accordance with the fee letters referred to in clause 3.1.3 above;

5.8. each of the Banks and TIC shall enter into an agreement (for the removal of doubt, in form and substance satisfactory to such Bank, as aforesaid) providing that in the event of any sale by TIC, through one or a series of related transactions, to a third party and/or such third party's Affiliates (other than non-prearranged sales of shares into the market executed on any stock exchange on which the Borrower's shares are then listed or submitted for quotation), such that, immediately following any such sale, TIC would cease to be the largest shareholder of: (a) the Borrower's then issued and outstanding shares (for the avoidance of doubt, not taking into account any securities convertible into or exercisable for shares ("CONVERTIBLE SECURITIES")); or (b) the Borrower's shares on a fully diluted basis, taking into account all Convertible Securities, such Bank shall have the "tag-along" right to sell, in, and on the same terms and conditions as, any such sale or sales by TIC, such percentage of its shares (including, for the avoidance of doubt, shares acquired upon exercise of Warrants) and/or capital notes (calculated, in the case of capital notes on the basis of the number of shares into which the capital notes are then convertible) in the Borrower (but, for the avoidance of doubt, not including any Warrants held by such Bank or its Affiliate) as shall equal the percentage that the: (i) shares being sold by TIC represent of all of TIC's shares in the Borrower, in the event only (a) above is applicable; or (ii) shares and Convertible Securities being sold by TIC represent of all of TIC's shares and Convertible Securities in the Borrower, in the event (b) above is (or, for the avoidance of doubt, both (a) and (b) above are) applicable;

5.9. each of the Banks and the Lead Investors shall enter into an agreement (for the removal of doubt, in form and substance satisfactory to such Bank, as aforesaid) pursuant to which the Lead Investors would be obligated towards any one (and not more than one) acquirer of 5% (five percent) or more of the then outstanding issued share capital of the Borrower from such Bank (including, for the avoidance of doubt, through acquisition of capital notes from such Bank and conversion by such acquirer of capital notes into shares) to vote for the nominee of such acquirer to be appointed as a director of the Borrower, subject to the Lead Investors being entitled to object to any particular such nominee on reasonable grounds; and

5.10. the parties shall insert in clause 1.1.6A of Exhibit 1 hereto the date, being the Amendment Closing Date and, without derogating from clause 2 above, shall confirm Exhibit 1 again by signing it on the Amendment Closing Date.

6. 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.

7. GENERAL

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. INTERIM DETERMINATION OF LIBOR

Notwithstanding clause 1.1.94 of the Facility Agreement, should the Amendment Closing Date take place on September 30, 2006 or thereafter, the Banks shall have the option (but not the obligation) to determine LIBOR on the basis of daily Eurodollar deposits (rather than 3 (three) month or weekly deposits) for the period between September 30, 2006 and the Amendment Closing Date.

9. EXERCISABILITY OF WARRANTS ON AMENDMENT CLOSING DATE

For the avoidance of doubt, the Borrower and each Bank confirm that, pursuant to Section 2A of the Warrant dated August 4, 2005, granted by the Borrower to such Bank, the Second Tranche Exercisability Date (as defined in such Warrant) shall occur upon the signature by the Banks and the Borrower of the Restated Facility Agreement on the Amendment Closing Date pursuant to clause 5.10 above. Should the Restated Facility Agreement not become effective in accordance with clause 2 above and, accordingly not signed pursuant to clause 5.10 above, nothing in this clause 9 shall derogate from the Second Tranche Exercisability Date occurring upon the signature of another agreement by the Banks and the Borrower to reschedule the repayment dates of the Interest Payment Loans as contemplated by said Section 2A.

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: _____

EXHIBIT 99.7

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 AUGUST 24, 2006)

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THIS AGREEMENT was made on the 18th day of January, 2001 and amended and restated by the parties through August 24, 2006,

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)-(d) (inclusive) above to be in the respective formats specified in SCHEDULE 1.1.2 hereto.

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 28, 2006;

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 March 31, 2006 and provided to the Banks, as such business plan may be updated from time to time subject to the provisions of clause 16.20.1 below, 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) at any time prior to the date on which the Borrower shall have repaid in accordance with clause 6 below (or clause 7, if applicable) at least 50% (fifty percent) of the principal of the Loans (together with all Interest and other amounts payable on such 50% (fifty percent)) ("THE FIFTY PERCENT REPAYMENT DATE"), TIC shall cease to hold (directly or indirectly through Subsidiaries), in the aggregate at least 32,229,822 (thirty-two million two hundred and twenty-nine thousand, eight hundred and twenty-two) ordinary shares of the Borrower (and/or convertible debentures which are convertible into such number of ordinary shares of the Borrower); or

(c) at any time after the Fifty Percent Repayment Date, TIC shall cease to hold (directly or indirectly through Subsidiaries), in the aggregate at least 14,048,004 (fourteen million, forty-eight thousand and four)

ordinary shares of the Borrower; or

(d) at any time, the aggregate number of shares of the Borrower held by the Lead Investors (other than TIC) shall at any time be less than 60% (sixty percent) of the aggregate number of shares in the Borrower held by the Lead Investors (other than TIC) on January 29, 2006, save for the sale of shares in the Borrower, during a period commencing on January 29, 2004, by any of the Lead Investors (other than TIC) in an aggregate amount equal to 30% (thirty percent) of the shares in the Borrower held by such Lead Investor on January 29, 2004 ("THE COMMITTED MINIMUM SHAREHOLDINGS"), or, in the event only that during any Quarter during such period the average sales per month made by the Borrower of wafers produced during such Quarter in Fab 2 equals or exceeds 24,000 (twenty-four thousand), then thereafter 50% (fifty percent) of the Committed Minimum Shareholdings; provided that, in the event that for any Quarter during the period commencing on January 1, 2006 the Net Debt of the Borrower shall be less than: (i) US $250,000,000 (two hundred and fifty million United States Dollars), then, thereafter, this paragraph (d) shall read as follows:

"at any time the aggregate number of shares of the Borrower held by the Lead Investors (other than TIC) shall at any time be less than 40% (forty percent) of the aggregate number of shares in the Borrower held by the Lead Investors (other than TIC) on January 29, 2006, save for the sale of shares in the Borrower, during a period commencing on January 29, 2004, by any of the Lead Investors (other than TIC) in an aggregate amount equal to 30% (thirty percent) of the shares in the Borrower held by such Lead Investor on January 29, 2004;"

or (ii) US $150,000,000 (one hundred and fifty million United States Dollars), then, thereafter, this paragraph (d) shall no longer be applicable; for the purposes of this paragraph (d), "NET DEBT" for a Quarter shall mean the Total Debt for such Quarter, less the aggregate amount held by the Borrower on deposit in Charged Accounts, which deposits are duly pledged by first-ranking fixed charge in favour of the Banks under the Debenture as at the last day of such Quarter.

For the purpose of this clause 1.1.18 each of the Lead Investors shall be deemed to hold shares in the Borrower, not only if such shares are held (or acquired) by such Lead Investor directly, but also if such shares are directly held (or acquired) by a Subsidiary of a Lead Investor; for the purpose of this clause, "SUBSIDIARY" of a person shall mean any company in which such person holds, directly, at least 51% (fifty-one percent) of the total issued share capital and other means of control (including voting rights and rights to appoint directors).

For the purpose of this clause 1.1.18, adjustments shall be made to the numbers of shares respectively referred to in each of paragraphs (b), (c) and (d) above (including numbers of shares not expressly mentioned but which are ascertainable pursuant to the 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 or ascertainable 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 paragraphs 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 foregoing;

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 (including from Wafer Prepayment Contracts 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 number 13030062 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 (including from Wafer Prepayment Contracts 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. "CONSULTING ENGINEER" - means Ludan Engineering Co. Ltd., who is engaged by the Borrower to act on behalf of the Banks and the Borrower as supervising engineer for the purposes of this Agreement, as such engineer may, if so requested by the Banks, be replaced from time to time by another engineer acceptable to the Banks and the Borrower, the Borrower's consent not to be unreasonably withheld;

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, including under all maintenance contracts, under all Contracts with suppliers of equipment and/or services to be supplied in connection with the Project or otherwise, 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. "DEBT SERVICE" - means in relation to each Quarter:

(a) all Interest with respect to Indebtedness under the Facility and with respect to Permitted Financial Indebtedness as referred to in clauses 1.1.115(b), 1.1.115(c), 1.1.115(d) and 1.1.115(f) below scheduled to be paid (whether or not paid, whether or not capitalised and whether or not accumulated and added to the principal) by the Group in respect of the 12 (twelve) month period commencing on the first day of the Quarter immediately following such Quarter ("THE RELEVANT TWELVE-MONTH PERIOD");

(b) scheduled repayments of principal by the Borrower under the Facility in respect of the Relevant Twelve-Month Period; and

(c) scheduled payments or repayments of principal by the Group in respect of Permitted Financial Indebtedness as referred to in clauses 1.1.115(b), 1.1.115(c) and 1.1.115(d) in respect of the Relevant Twelve-Month Period,

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 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);

1.1.38. [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 convertible securities, 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]

1.1.43. "EBITDA" - means:

(1) for any Quarter (save for the purposes of clause 16.29.5 below) and for any Fiscal Year, 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;

(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; and

(2) for any Quarter, for the purposes only of clause 16.29.5 below, the items referred to in (1) above in respect of such Quarter only, as reflected in the Borrower's consolidated quarterly Accounts for such Quarter;

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. "EQUITY WAFER PARTNER" - means Sandisk, Alliance, Macronix and QuickLogic;

1.1.51. "EVENT OF DEFAULT" - means any of the events or circumstances described in clauses 17.2-17.20B (inclusive) below;

1.1.52. "EXCESS CASH FLOW" - for any Fiscal Year (or Quarter under clause 7.9.2(c) below only), means the cash flow from operating activities for such Fiscal Year, or Quarter as the case may be, 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, 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 Israeli generally accepted accounting principles, in force from time to time;

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, 9.46, 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;

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 June 2006 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 or its Subsidiaries 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 their respective Boards 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, as referred to in clause 16.27.3.3 below;

1.1.88. [INTENTIONALLY DELETED]

1.1.89. [INTENTIONALLY DELETED]

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 Frasett (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. "LLCR" - means the Life of Loan Coverage Ratio, being, for any Quarter, the ratio of the Net Cash Flow in respect of such Quarter to the Total Debt for such Quarter;

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 $368,693,001 (three hundred and sixty-eight million, six hundred and ninety-three thousand and one United States Dollars), of which US $184,348,255 (one hundred and eighty-four million, three hundred and forty-eight thousand, two hundred and fifty-five United States Dollars) is owed to Bank Hapoalim and US $184,344,746 (one hundred and eighty-four million, three hundred and forty-four thousand, seven hundred and forty-six 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. "NET CASH FLOW" - means, for any Quarter, the net present value as at the last Business Day of such Quarter of the forecasted net cash flow from operations of the Borrower for the period commencing on the last Business Day of such Quarter and ending two and a half years after the Final Maturity Date, as specified in SCHEDULE 1.1.106 hereto; in calculating the net present value as aforesaid, the applicable discount rate shall be LIBOR for US Dollars for the aforesaid period, plus 1.1% (one point one percent) per annum;

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 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 an Equity Wafer Partner or other 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 Equity Wafer Partner or other 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 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 the convertible debentures which may be issued by the Borrower shall 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; and

(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;

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, 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; and

(k) Financial Indebtedness otherwise as permitted pursuant to paragraphs (a)-(j) (inclusive) above created or subsisting as set forth in SCHEDULE 1.1.115(K) hereto or 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 Paid-in 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 the Amendment Closing Date 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 the Amendment Closing Date 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 the Amendment Closing Date) ("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;

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(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

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(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

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(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;

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. "QUALIFYING WAFER PREPAYMENT CONTRACT" - means a Wafer Prepayment Contract which includes all of the following conditions, which conditions the Borrower shall procure shall not be varied, save with the prior written consent of the Banks or as set forth in clause 16.27.3.1 below:

(a) prepayments (including credits) may be applied as a credit against no more than 15% (fifteen percent) of the order value of any order placed under such Wafer Prepayment Contract; and

(b) no Interest shall be credited or accrue in respect of any prepayment (including credit). For the purposes of this clause 1.1.122(b) Interest ("RIBIT RAYONIT") which is required under GAAP to be recorded in the books of the Borrower in respect of any such prepayment or credit, but which is not in practice credited or otherwise applied for the benefit of the counterparty, shall not be deemed "Interest".

For the removal of doubt, nothing contained in the above definition shall prevent the Borrower from entering into Wafer Prepayment Contracts which are not Qualifying Wafer Prepayment Contracts;

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) 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; and

(f) [INTENTIONALLY DELETED]

(g) Outside Investment Undertakings;

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 The Israel Corporation Ltd., a company incorporated under the laws of Israel;

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" - 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 under clauses 1.1.115(b), (c) and (d), and under clause 1.1.115(f) (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. "WAFER PREPAYMENT CONTRACT" - means a wafer-manufacturing contract between the Borrower and a wafer customer and/or designer pursuant to which contract such wafer customer and/or designer shall have paid the Borrower in advance for wafers to be manufactured by the Borrower at Fab 2 for such wafer customer and/or designer (including, in the case of Sandisk, Alliance and Macronix, by way of receipt of credits against payments for shares or otherwise) and, under the terms of such contract, the wafer customer and/or designer shall be entitled to claim reimbursement ("reimbursement"--for the purpose of this clause--not to include the credit of such prepayment against purchase of Paid-in Equity of the Borrower or against payments of invoices in respect of wafers) of such advance payment (or any part thereof) only in the event that such wafers are not, due to the fault of the Borrower, manufactured in accordance with the timetable specified under such prepayment contract for such manufacture;

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);

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 "Debt Service", "EBITDA", "Excess Cash Flow", "Sales" and "Total Debt" for any period, shall be determined from the consolidated Accounts for the relevant period or for the periods comprising such period, or, if not included in the Accounts, shall be determined from a certificate signed by the Auditors delivered to the Banks together with the 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 $526,693,001 (five hundred and twenty-six 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 $79,000,000 (seventy-nine million United States Dollars) of its Loans to the Borrower into US $39,500,000 (thirty-nine million, five hundred thousand United States Dollars) of capital notes convertible into 25,986,842 (twenty-five million, nine hundred and eighty-six thousand, eight hundred and forty-two) shares) (subject to the adjustments set forth in the capital notes) is US $368,693,001 (three hundred and sixty eight million, six hundred and ninety-three thousand and one United States Dollars), of which US $184,348,255 (one hundred and eighty-four million, three hundred and forty-eight

thousand, two hundred and fifty-five United States Dollars) is owed to Bank Hapoalim and US $184,344,746 (one hundred and eighty four million, three hundred and forty-four thousand, seven hundred and forty-six United States Dollars) is owed to Bank Leumi.

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]

2.3. 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.

2.4. 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 by way of 12 (twelve) 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, 2009 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

Notwithstanding anything to the contrary in this clause 7, the Borrower shall not be entitled to make a voluntary prepayment pursuant to this clause 7, unless:

7.9.1. the Banks are reasonably satisfied that the Borrower has sufficient funds available from sources permitted under this Agreement to perform the Project in accordance with the Business Plan; and

7.9.2. in the case of prepayments, such prepayments are made only from:

(a) proceeds of investments in the Paid-in Equity of the Borrower or proceeds of investments in exchange for equity equivalent capital notes in the form issued to TIC on or about the Amendment Closing Date;

(b) the proceeds of the issue of convertible bonds (convertible into irredeemable share capital); provided that: (i) such convertible bonds shall constitute Permitted Subordinated Debt; and (ii) the cost of the Project shall not be increased in any way by reason of the issue of such convertible bonds; provided further that, in the event only that such prepayment is of all amounts payable by the Borrower under the Finance Documents and at the time of such prepayment no Bank shall be under any obligation under any Finance Document to provide any Financial Indebtedness to the Borrower, the conditions set out in paragraphs (i) and (ii) above shall not be applicable; or

(c) cumulative Excess Cash Flow as at the end of the Quarter preceding the Quarter in which such prepayment is made.

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 or delaying the completion of Fab 2 in accordance with the Business Plan by more than 6 (six) months;

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 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 clauses 8.1.3 and 8.1.5 above shall not apply in respect of amounts which the Borrower confirms to the Banks in writing are to be applied in respect of 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) 1.1% (one point one 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 be deemed to have taken effect from May 17, 2006. The Banks and the Borrower record that the outstanding loan and percentage previously set forth in (b) above were US $526,693,001 (five hundred and twenty-six million, six hundred and ninety-three thousand and one United States Dollars) and 2.5% (two point five percent), respectively. An amount equal to the amounts actually paid by the Borrower to the Banks on the Interest Payment Date (or, if applicable Interest Payment Dates), falling between May 17, 2006 and the Amendment Closing Date on account of Interest in respect of the period commencing on May 17, 2006 in excess of Interest for such period at the rate of LIBOR plus 1.1% (one point one percent) per annum, shall be paid by the Banks to the Borrower within 5 (five) Business Days following 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 shall be paid on each 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

As compensation to the Banks for the reduction in the rate of Interest reflected in clause 9.1 above, 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 $11,936,436 (eleven million, nine hundred and thirty six thousand four hundred and thirty six 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 the Amendment Closing Date (or, if no such capital note was issued, in form and substance satisfactory to such Bank) 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 $23,872,872 (twenty three million, eight hundred and seventy two thousand eight hundred and seventy two

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 the Amendment Closing Date (or, if no such capital note was issued, in form and substance satisfactory to such Bank) 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 described in clause 2.1 above ("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 the Amendment Closing Date 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, 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.

9.4.9. Notwithstanding anything to the contrary in this clause 9.4, should the Borrower prepay any of the Loans in conformity with clause 7 or clause 8 above prior to the last Interest Payment Date in the Determination Period, then the 9.4.1 Amount and/or the 9.4.2 Amount, as applicable, shall be multiplied by a fraction, the numerator of which shall be 4.625 (four point six two five) (which is the average life ("MESHECH HAYIM MEMUTZA") of the Loans in years calculated as from May 17, 2006 through the Final Maturity Date, assuming no prepayments) ("THE ORIGINAL AVERAGE LIFE") as such Original Average Life shall be adjusted to reflect such prepayment and the denominator of which shall be 4.625 (four point six two five). On the date of any such prepayment by the Borrower, the Borrower shall deliver a certificate, in form and substance satisfactory to the Banks, signed by the Chief Financial Officer setting forth, in reasonable detail, the adjusted average life ("MESHECH HAYIM MEMUTZA") of the Loans in years reflecting such prepayment as aforesaid.

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 Consulting Engineer, Insurance Adviser and Bank Adviser, retain the following experts: the Consulting Engineer, 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 Consulting Engineer, to perform all those functions referred to in this Agreement, 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.

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 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

on SCHEDULE 15.4, 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

As at the Amendment Closing Date, 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). 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

As at August 17, 2006, the authorised share capital of the Borrower consists of 500,000,000 (five hundred million) ordinary shares, of which 85,406,010 (eighty-five million, four hundred and six thousand and ten) shares are issued and outstanding, 40,600,675 (forty million, six hundred thousand, six hundred and seventy-five) shares are reserved for issuance upon exercise of outstanding options and warrants (including options granted to employees, officers, directors, related parties, banks, contractors and other public investors), 51,143,776 (fifty-one million, one hundred and forty-three thousand, seven hundred and seventy-six) shares are reserved for issuance upon conversion of outstanding convertible debentures, 4,341,571 (four million, three hundred and forty-one thousand, five hundred and seventy-one) shares are reserved for issuance upon conversion of convertible debentures issuable upon exercise of outstanding warrants and 14,124,285 (fourteen million, one hundred and twenty-four thousand, two hundred and eighty-five) shares are reserved for future grants of options to employees, officers, consultants and directors. All of the outstanding ordinary shares have been duly authorised and validly issued. SCHEDULE 15.7 hereto sets forth the list of all those persons which, to the Knowledge of the Borrower, are the beneficial holders of 5% (five percent) or more of the issued and outstanding shares of the Borrower and a list of all the options outstanding, the vesting schedules of such options and the exercise prices thereof as well as a list of all outstanding warrants and convertible debentures as at August 17, 2006.

15.8. SEC DOCUMENTS; FINANCIAL STATEMENTS

15.8.1. The Borrower has furnished to the Banks copies of the Borrower's Annual Report on Form 20-F for the year ended December 31, 2005 ("THE ANNUAL REPORT") as filed with the US Securities and Exchange Commission ("SEC") on July 13, 2006. The Borrower represents and warrants to 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, 2006 ("THE 6K REPORTS" and, together with the Annual Report, "THE SEC DOCUMENTS"). 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 years from 2004 to 2005 (inclusive) (the December 31, 2005 balance sheet being hereinafter referred to as "THE 2005 BALANCE SHEET") (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 ending June 30 2006 (including the consolidated balance sheets, consolidated statements of income, changes in

shareholders' equity and cash flow for the 6 (six) month 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.

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 SUBORDINATED DEBT

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 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 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. 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.

15.18. 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 (provided that, for so long as the Borrower shall not have acquired a Subsidiary, other than Subsidiaries of the Borrower as at January 18, 2001 as referred to in Schedule 15.2 hereto, the Borrower shall only be required to furnish the aforesaid consolidated Accounts);

(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)(provided that, for so long as the Borrower shall not have acquired a Subsidiary, other than Subsidiaries of the Borrower as at January 18, 2001 as referred to in Schedule 15.2 hereto, the Borrower shall be required to furnished the aforesaid consolidated Accounts as aforesaid only);

(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, Equity/Total Assets and Total Debt/EBITDA; (c) a certificate of the Auditors in the form of SCHEDULE 16.1.1(V)A hereto with regard to payment of all amounts made in respect of the Project during the relevant Quarter or Fiscal Year, as the case may be; (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 in Paid-in Equity, by way of capital notes, by way of Permitted Subordinated Debt, without derogating from clause 16.5 below and by way of Wafer Prepayments; (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 (including, for the removal of doubt, LLCR and EBITDA/Debt Service) 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) not less than 7 (seven) days before the end of each month, an updated forecast of all payments to be made under the Project in respect of the purchase of equipment and other payments in respect of the following 3 (three) month period;

(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;

(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. Nothing contained in this clause shall derogate from the provisions of clause 16.20 below.

16.1.2. The Borrower will:

(i) within 15 (fifteen) days of the end of June 30 and December 31 of each Fiscal Year, supply to the Consulting Engineer (and, if so required by the Banks, also the Banks) a report on the progress of Fab 2 during the 2 (two) 6 (six) month periods ending June 30 and December 31, respectively, and (prior to completion of Fab 2) of any possible delays or cost overruns of the completion of Fab 2, prepared by the

Borrower and certified as approved by the Chief Executive Officer (or one of the Co-Chief Executive Officers) of the Borrower relating, INTER ALIA, to the purchase, delivery and installation of equipment in connection with Fab 2 as against the Business Plan and the timetable therein;

(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) [INTENTIONALLY DELETED]

(iv) promptly, copies of all monthly reports furnished by the Borrower to its directors;

(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, Security Documents and Material Contracts and 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) promptly, after receipt thereof, of any material communication from any Governmental Body with respect to the Project, as well as all other material notices and correspondence received by the Borrower under or in relation to the Project or any of the Material Contracts;

(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 Schedule 1.1.2 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 and will procure that the Group will not incur 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 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 or 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:

(i) payment to Toshiba of licence fees under the Toshiba Licence Agreement;

(ii) payment to TIC of a management fee in an amount not to exceed US $500,000 (five hundred thousand United States Dollars) per annum;

(iii) payment to directors of reasonable directors' fees and expenses;

(iv) payments or transfers contemplated under the Foundry Agreements with the Equity Wafer Partners listed in Schedule 1.1.101 hereto;

(v) payments permitted by clause 16.27.3.1 below;

(vi) 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;

(vii) payments to TIC in connection with the Equipment Purchase Agreement between the Borrower and TIC, dated May 17, 2006;

(viii) payments to SanDisk in connection with the Loan Agreement between the Borrower and SanDisk, dated August 10, 2006; and

(ix) payments or transfers to the Banks pursuant to: (a) the Finance Documents; (b) any other Permitted Financial Indebtedness; or (c) the Equity Documents.

16.8. INTELLECTUAL PROPERTY ASSETS

The Borrower will:

16.8.1. make such registrations and pay such fees and similar amounts as are necessary to keep those registered Intellectual Property Assets owned by the Borrower: (a) which are material to the conduct of the Project from time to time; or (b) 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. take such steps as are necessary and commercially reasonable (including the institution of Proceedings) to prevent third parties infringing those Intellectual Property Assets referred to in clause 16.8.1 above and (without prejudice to clause 16.8.1 above) take such other steps as are reasonably practicable to maintain and preserve its interests in those rights;

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. not sell, transfer, lease, license on an exclusive basis or otherwise dispose of all or any part of its interest in any of the Intellectual Property Assets referred to in clause 16.8.1 above (whether in a single transaction or in a series of transactions whether related or not and whether voluntary or involuntary), save for any licence arrangements in respect of those rights entered into with any third party, where those licence arrangements are entered into on arms' length terms and in the Ordinary Course of Business and which do not adversely affect the interests of the Banks under the Finance Documents or the conduct of the Project; and

16.8.5. not permit any registration of any of the Intellectual Property Assets referred to in clause 16.8.1 above to be

abandoned, cancelled or lapsed or to be liable to any claim of abandonment for non-use or otherwise, except in respect of Intellectual Property Assets, the non-registration of which shall not have a Material Adverse Effect.

16.9. ENVIRONMENTAL MATTERS

The Borrower 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 it 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 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 this clause 16.10 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 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 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 for the Project or Fab 2 or to perform its obligations under this Agreement, under any other Finance Document and under any Material Contract 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. The Borrower shall not, without the prior written consent of the Banks (the Banks to inform the Borrower within 20 (twenty) Business Days of having been requested in writing, such request to be accompanied by all relevant information relating thereto), amend, cancel, terminate, suspend, supplement, supersede, or waive any term of, a Material Contract, save, in the case where such action is not materially adverse to the interests of the Borrower or the Banks.

16.13.3. The Borrower shall take all reasonable action necessary to perfect, preserve and enforce all of its rights under the Material Contracts, save where failure to take such action would not be materially adverse to the Borrower.

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 Borrower'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 Consulting Engineer, the Bank Adviser and such other professional advisors shall be entitled to reveal to the Banks all confidential information regarding the Borrower to which it has access.

16.16.2. The Borrower will procure that the Consulting Engineer and any other persons designated in writing by the Banks shall have full access to all sites on which activities or works relating to Fab 2 or for the performance of the Project are carried out from time to time, to inspect the Project and the progress thereof at all times, to receive reports regarding receipt of raw materials, equipment and progress, to receive copies of all technical correspondence, records and documentation relating to the Project, to attend all testing and otherwise to have access to all other aspects of the Project.

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. The Borrower will not incur any capital expenditure, save for the specified capital costs in accordance with the Business Plan, including for Fab 1 and Fab 2 and Acquisitions which are permitted hereby.

16.17.2. Without limiting the generality of the aforegoing, the Borrower shall procure that all investments (including in Paid-in Equity, by way of capital notes, and the Investment Centre Fab 2 Grants) and all income of whatsoever nature received, is applied in accordance with the Business Plan.

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. The Borrower will not: (i) delegate the management of the Project to any other person; (ii) abandon all or any part of the Project, save with the consent of the Banks; or (ii) maintain any bank account in connection with the Project (or any payments or receipts in relation thereto), save for the Charged Accounts and for accounts as permitted pursuant to clauses 16.31.3(i) and (ii) below.

16.19.2. The Borrower will use all reasonable efforts to procure that the Project is implemented in accordance with the Business Plan.

16.20. BUSINESS PLAN

16.20.1. The Borrower will develop the Project in accordance with the Business Plan and otherwise carry on its business in accordance with the Business Plan and will not, save with the prior written consent of the Banks, alter the Business Plan in a way which would:

(a) change the schedule for the installation of equipment in, and the completion of, Fab 2 as set forth in the Business Plan;

(b) change the plan for financing the Project as set forth in the Business Plan, other than (subject to the conditions of this Agreement relating to raising of capital) with respect to capital raising transactions for the Borrower;

(c) increase the cost of the Project beyond that set forth in the Business Plan;

(d) change the production capacity of Fab 2 as set forth in the Business Plan; or

(e) in any other way which, in the opinion of the Banks, is material for the protection of the interests of the Banks.

The Borrower shall give the Banks adequate prior notice of any proposed variation of the Business Plan.

16.20.2. The Borrower shall not make any change to the Business Plan, save with the prior written consent of the Banks. Any such change consented to as aforesaid shall amend all those provisions and Schedules contained herein which are affected by such change in order only to take account of such change provided that all such consequential changes as aforesaid have been agreed to by the Banks in writing and in advance.

16.21. HEDGING

The Borrower shall not 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 made with one of the Banks in respect of interest rates or currencies exposures with respect to the Group and, provided further that, the Borrower shall not: (a) enter into any Permitted Hedging Transactions for any speculative purpose; and (b) enter into any Permitted Hedging Transactions, save with the prior written consent of the Banks.

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 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

[INTENTIONALLY DELETED]

16.27.1. [INTENTIONALLY DELETED]

16.27.2. [INTENTIONALLY DELETED]

16.27.3.

16.27.3.1. The Borrower shall cause all those Qualifying Wafer Prepayment Contracts listed in SCHEDULE 16.27 hereto to be amended to the effect (and all Qualifying Wafer Prepayment Contracts which the Borrower shall enter into after November 11, 2003 shall provide) that no prepayments made to the Borrower with respect to the purchase of wafers may be reimbursed or refunded to, or utilised by, or credited in favour of, the wafer customer and/or designer party to the Qualifying Wafer Prepayment Contract providing such prepayment, except with respect to: (a) the utilisation of such prepayments towards the purchase price of wafers which were ordered prior to November 11, 2003 and which were or will be manufactured and delivered by the Borrower for such wafer customer and/or designer in an aggregate amount not to exceed US $1,100,000 (one million one hundred thousand United States Dollars); (b) the utilisation of such prepayments towards the purchase price of wafers manufactured and delivered by the Borrower to such wafer customer and/or designer after December 31, 2006; and (c) the utilisation of such prepayments to purchase shares of the Borrower. The Borrower shall be entitled to pay quarterly, in arrears, to the counterparty to any Qualifying Wafer Prepayment Contract listed in Schedule 16.27 hereto which is amended in accordance with the aforegoing in this clause 16.27.3.1, Interest in respect of the amount of any prepayment to a counterparty which is a party as aforesaid, in respect of the period commencing on the date stipulated for utilisation thereof pursuant to such Qualifying Wafer Prepayment Contract prior to such amendment as aforesaid in this clause 16.27.3.1 and ending on January 1, 2007, such Interest to be at a rate not higher than that payable by the Borrower to the Banks pursuant to clause 9.1.1 above (provided that for the purposes of this clause 16.27.3.1 with respect only to Qualifying Wafer Prepayment Contracts in full force and effect on the Amendment Closing Date and providing for Interest payable at the rate of US LIBOR plus 2.5% (two point five percent) per annum, clause 9.1.1(b)

shall be deemed to read "2.5% (two point five percent) per annum)", through December 31, 2007 and the Borrower shall be further entitled to pay to any such counterparty under any such Qualifying Wafer Prepayment Contract the principal of such prepayment in cash after June 30, 2007; provided that, at the date of payment of any such Interest or principal as aforesaid, the Banks shall not have declared an Event of Default to have occurred or to have made any other declarations under clause 17.21 below. For the avoidance of doubt, no Interest shall be payable on any Qualifying Wafer Prepayment Contract as aforesaid beyond the period ending on December 31, 2007.

16.27.3.2. [INTENTIONALLY DELETED]

16.27.3.3. The Borrower shall endeavour to procure that, by no later than December 31, 2006, the Investment Centre shall approve the Borrower's eligibility to receive new Fab 2 Grants in an amount equal to US $80,000,000 (eighty million United States Dollars) in respect of investments made or to be made in Fab 2 after December 31, 2005. In the event that the Borrower shall not succeed in obtaining the approval of the Investment Centre as aforesaid, or shall receive such approval but the grants in respect of investments made in Fab 2 shall not be made in accordance with the terms of such approval, then the Borrower shall, with respect to, and within 90 (ninety) days following the making of, each cumulative investment in Fab 2 of US $100,000,000 (one hundred million United States Dollars) up to cumulative investments in Fab 2 of US $400,000,000 (four hundred million United States Dollars) (and each time such cumulative investments are made, up to cumulative investments in Fab 2 of US $400,000,000 (four hundred million United States Dollars)) in respect of which investment grants would have been receivable had the said Investment Centre Fab 2 Grants been approved, procure the receipt by it of Paid-in Equity and/or wafer prepayments under Qualifying Wafer Prepayment Contracts entered into after the Amendment Closing Date and/or payments in exchange for equity equivalent capital notes in the form issued to TIC on or about the Amendment Closing Date, in an amount of US $20,000,000 (twenty million United States Dollars). For the purposes of the aforegoing: (a) all Paid-in Equity (including, for the removal of doubt, as referred to in clause 1.1.112(iii) above or pursuant to the exercise of options or warrants received after May 17, 2006 (excluding, for the removal of doubt: (i) the investment by TIC of US $100,000,000 (one hundred million United States Dollars) in equity equivalent capital notes to be made on or about the Amendment Closing Date; (ii) the conversion by the Banks of their Loans into equity equivalent capital notes; (iii) the issue to the Banks of shares or equity equivalent capital notes pursuant to clause 9.4 above; and (iv) the conversion of any equity equivalent capital notes, in whole or in part, into shares) shall be taken into account as if invested on account of the Borrower's aforesaid obligation; (b) only investments in Fab 2 made since January 1, 2006 and which are in excess of an aggregate investment of US $130,000,000 (one hundred and thirty million United States Dollars) in respect of which investment grants would have been receivable had the said Investment Centre Fab 2 Grants been approved as of January 1, 2006, shall be taken into account; and (c) only wafer prepayments received after the Amendment Closing Date up to an aggregate amount of US $30,000,000 (thirty million United States Dollars) shall be taken into account for purposes of determining compliance with this clause 16.27.3.3.

16.27.4. [INTENTIONALLY DELETED]

16.28. TAXATION

The Borrower shall file or cause to be filed all Tax returns required to be filed in the jurisdiction in which it is situated or carries on business or otherwise subject to pay Tax and will promptly pay all Taxes which are due and payable on such returns or any assessment made against it except for non-payment, or a claim for payment, non-payment of which would in each such case not have a Material Adverse Effect.

16.29. FINANCIAL UNDERTAKINGS

The Borrower will procure that: (a) with respect to clauses 16.29.1 and 16.29.3-16.29.11 below, at all times during the period of this Agreement; and (b) with respect to clause 16.29.2, with effect from December 31, 2006 (including for the Quarter ending on December 31, 2006), at all times during this Agreement; the Borrower shall comply with the Financial Undertakings set out below:

16.29.1. the ratio of: (a) Equity to (b) Total Assets of the Borrower, as determined pursuant to the Borrower's consolidated quarterly and annual Accounts, shall at no time be less than the applicable ratio set out in SCHEDULE 16.29;

16.29.2. for any Quarter commencing from the Quarter ending on December 31, 2006, LLCR for such Quarter for the Borrower shall not be less than the applicable ratio set out in Schedule 16.29;

16.29.3. for any Quarter, the ratio of: (a) EBITDA to (b) Debt Service, all for such Quarter, shall not be less than the percentage for such Quarter as set out in Schedule 16.29 hereto;

16.29.4. for any Quarter, the ratio of: (a) Total Debt to (b) EBITDA, all for such Quarter, shall not exceed the ratio for such Quarter as set out in Schedule 16.29 hereto;

16.29.5. for any Quarter, EBITDA for such Quarter, shall not be less than the amount for such Quarter as set out in Schedule 16.29 hereto;

16.29.6. for any Fiscal Year and for any Quarter, EBITDA for such Fiscal Year or for the four consecutive Quarters ending on the last day of such Quarter shall not be less than the amount for such Fiscal Year or four consecutive Quarters ending on the last day of 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]; and

16.29.11. for any Quarter, Sales for the Borrower (determined on the same basis as the term `Sales' appearing in the audited consolidated annual financial statements of the Borrower) for such Quarter, shall not be less than the amount for such Quarter as set out in Schedule 16.29 hereto.

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 (save as contemplated in the Business Plan).

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 than bank accounts duly charged in favour of the Banks by way of a first-ranking fixed pledge and charge under the Debenture, being: (a) bank accounts at the Banks into which accounts moneys not relating to the Project, may be paid or withdrawn; or (b) the bank accounts referred to in clauses 16.31.3(i) and (ii) below, to the extent applicable. 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, payments under Wafer Prepayment Contracts, 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 the Wafer Prepayment Contracts, 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

[INTENTIONALLY DELETED]

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]

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 16.8.4, 16.9.1, 16.10, 16.11, 16.13.1, 16.13.2, 16.15, 16.17, 16.19.1, 16.20, 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 or 16.29.

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 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 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 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, 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 OMITTED]

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 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 and/or wafer prepayments under Qualifying Wafer Prepayment Contracts pursuant to and subject to the conditions set out in clause 16.27 above).

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 UNDERTAKINGS

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. ADDITIONAL INVESTMENT UNDERTAKINGS

[INTENTIONALLY DELETED]

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) 1.1% (one point one 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./ ARI FRIED, 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.

for: TOWER SEMICONDUCTOR LTD.

By: _____

Title: _____

for: BANK HAPOALIM B.M.

By: _____

Title: _____

for: BANK LEUMI LE-ISRAEL B.M.

By: _____

Title: _____

CONVERSION AGREEMENT

This Conversion Agreement (this "AGREEMENT") is made and entered into effective as of September 28th, 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").

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 (the "FACILITY AGREEMENT"); and

WHEREAS, at the request of Tower, the Banks and Tower have entered into an Amending Agreement dated August 24, 2006 (the "AMENDING AGREEMENT"), the conditions to the effectiveness of which include, INTER ALIA, the conversion by each Bank of US $79,000,000 (seventy-nine million US dollars) of its loans made to Tower pursuant to the Facility Agreement (the "LOANS") into an equity-equivalent convertible capital note to be issued to the Bank (a "CAPITAL NOTE") in the amount of US $39,500,000 (thirty-nine million five hundred thousand 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 25,986,842 (twenty-five million, nine hundred and eighty-six thousand and eight hundred forty-two) ordinary shares of Tower at a conversion price of US $1.52 (one US dollar and fifty-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, clause 9.4 of the amended and restated Facility Agreement that will become effective pursuant to the Amending Agreement on the Amendment Closing Date, as the same may be further amended from time to time (the "RESTATED FACILITY AGREEMENT") obligates the Company to make certain compensatory payments in January, 2011 to the Banks or their nominees on account of the Banks' agreement to reduce the rate of Interest on the Loans, which payments may, subject to said clause 9.4 and this Agreement, be made in the form of shares and/or Capital Notes and/or convertible debentures (the "CLAUSE 9.4 EQUITY ISSUANCES"), which issuances are subject, INTER ALIA, to the terms and conditions of this Agreement;

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 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 (a) in which such person, directly or indirectly, owns 25% (twenty-five percent) or more of a class of voting securities or (b) 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 Restated Facility Agreement shall have the same meanings when used in this Agreement and all provisions of the 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. issues to the Bank, and the Bank hereby receives from the Company, in conversion of US $79,000,000 (seventy-nine million US dollars) of the Loans, an executed Capital Note in the principal amount of US $39,500,000 (thirty nine million five hundred thousand US dollars) in the form attached as EXHIBIT 1 hereto. For the avoidance of doubt, 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;

2.2. furnishes to the Bank a copy of the approval of the TASE for listing the 25,986,842 (twenty-five million, nine hundred and eighty-six thousand, eight hundred and forty-two) 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 or convertible debentures issued pursuant to this

Agreement (the "CONVERSION SHARES") and, if applicable, on the Clause 9.4 Closing Date, are duly authorized and reserved for issuance by the Company and, when issued in accordance with the terms of such Capital Note or convertible debentures or, as applicable, this Agreement and Clause 9.4 of the Restated Facility Agreement, 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, Capital Notes or convertible debentures 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, convertible debentures 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, convertible debentures or shares. This Agreement and all Capital Notes or convertible debentures 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, convertible debentures 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. Except as set forth in Schedule 3.7 hereto, 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.

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(1) Following the effective date of the Registration Statement covering the Conversion Shares, if applicable, bracketed language to be removed from all future Capital Notes and convertible debentures to be issued and, at the request of the holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the holder. If shares are directly issued in the Clause 9.4 Equity Issuance, the first sentence of the legend and the first parenthetical in the second sentence will be removed following the effective date of the Registration Statement covering such shares.

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);

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 and, subsequent to the Clause 9.4 Closing Date, any nominee of the Bank pursuant to clause 6 below, 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 and, subsequent to the Clause 9.4 Closing Date, any nominee of the Bank pursuant to clause 6 below, 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 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.

6. CLAUSE 9.4 CLOSING; CONDITIONS PRECEDENT.

The issuance and allotment of the shares of the Company, or the issuance of Capital Notes, pursuant to and in accordance with clause 9.4 of the Restated Facility Agreement (such date, the "CLAUSE 9.4 CLOSING DATE"), to the Bank or its nominee (which shall be an Affiliate of the Bank) shall be subject to the conditions set forth in clause 9.4.6 of the Restated Facility Agreement and to the conditions precedent that the Bank shall have received, by no later than 2 (two) Business Days prior to the Clause 9.4 Closing Date, all of the following documents, matters and things in form and substance satisfactory to the Bank:

6.1. copies of all resolutions of the Board of Directors of the Company and, if necessary, its Audit Committee and shareholders, authorizing all agreements and acts to be performed by the Company as conditions precedent to, or otherwise in connection with, the Clause 9.4 Equity Issuances, to the extent not already authorized in the resolutions delivered on or about the Amendment Closing Date;

6.2. an opinion of the Company's external legal counsel, satisfactory to the Bank, addressed to the Bank and, if applicable, its nominee, MUTATIS MUTANDIS, to the Clause 9.4 Equity Issuances in the form of such opinion delivered by Yigal Arnon & Co., Advocates to the Banks, on or about the Amendment Closing Date, provided that paragraphs 4.7 (i) and 5.4 shall be omitted;

6.3. an opinion of U.S. counsel, satisfactory to the Bank, 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 clause 9.4 of the Restated Facility Agreement ("UNITED STATES APPLICABLE LAWS"), (i) subject to the effectiveness of the registration statement to be filed by the Company with respect to the Clause 9.4 Equity Issuances pursuant to the Registration Rights Agreement, 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 Bank or its nominee of the ordinary shares to be issued or issuable upon conversion of Capital Notes or convertible debentures to be issued to the Bank or its nominee pursuant to clause 9.4 of the Restated Facility Agreement and this Agreement, provided that no opinion need be expressed with respect to state securities or Blue Sky laws; (ii) the acquisition and indefinite holding of the Capital Notes or convertible debentures (provided that, with respect to the convertible debentures, counsel shall assume, solely for purposes of rendering such opinion, that the condition set forth in Section 6.6.2 has been satisfied and that if the Company is, as of the Clause 9.4 Closing Date, satisfying the Tests (as set forth in Section 6.6.1 below) that it shall continue to satisfy the Tests) or the shares issuable in connection with the Clause 9.4 Equity Issuances by the Bank or its nominee is permissible under United States Applicable Laws, including under the Bank Holding Company Act of 1956, as amended; and (iii) the acquisition and holding of either the Capital Notes or the shares issuable in connection with the Clause 9.4 Equity Issuances by the Bank or its nominee will not be subject to the notification and filing requirements under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Such opinion shall be based upon and subject to reasonable assumptions (without derogating from the parenthetical phrase in subsection (ii) above) and limitations, provided that, if such opinion cannot be delivered, at the request of the Company, such counsel shall describe the legal basis or bases for why such opinion cannot be delivered;

6.4. all of the Company's (a) representations and warranties given pursuant to this Agreement shall be repeated on the Clause 9.4 Closing Date as if made on the Clause 9.4 Closing Date, other than the representations and warranties given pursuant to the last sentence of Section 3.2 above and pursuant to Section 3.8 above, and (b) all of the Company's obligations under this Agreement and the Registration Rights Agreement to be performed on or prior to the Clause 9.4 Closing Date shall have been fulfilled, and the Company shall have delivered a certificate of its Chief Executive Officer or Chief Financial Officer to the effect of (a) and (b) in form and substance satisfactory to the Bank;

6.5. all Governmental Authorisations and third party consents required to be obtained by the Company in connection with the Clause 9.4 Equity Issuances shall have been received, including, if applicable:

6.5.1. confirmation of the Controller of Restrictive Trade Practices (the "CONTROLLER") that no approval is required in connection with the Clause 9.4 Equity Issuances or, if any such approval is considered by the Controller to be required, the unconditional receipt of same (provided that if the Controller shall refuse to provide such confirmation for the reason that the Controller does not see a reason to review the request for the same, such confirmation shall be deemed to have been obtained) (for the removal of doubt, if required, the Bank shall also make such a request);

6.5.2. the consent of the Investment Centre to the issue of shares, capital notes or convertible debentures (and shares issuable upon conversion of the Capital Notes or convertible debentures) to the Bank and, if applicable, its nominee as contemplated under clause 9.4 to the Restated Facility Agreement;

6.5.3. the approval of the ILA under the Existing ILA Leases, and any other long term lease agreements between the Company and the ILA, to the issue of shares, capital notes or convertible debentures (and shares issuable upon conversion of the Capital Notes or convertible debentures) to the Bank and, if applicable, its nominee as contemplated under clause 9.4 to the Restated Facility Agreement; and

6.6. provided that the first paragraph of Section 5.1 is applicable, confirmation from the Chief Financial Officer of the Company, in form and substance satisfactory to the Bank, that the Company:

6.6.1. has satisfied the Asset Test, the Revenue Test, the Same Line of Business Test, the Financial Activities Test and the No Underwriting Test (collectively, the "TESTS") as of December 31 in each of the two years immediately prior to the year in which the Clause 9.4 Closing Date falls, and meets, on the Clause 9.4 Closing Date, the Same Line of Business Test, the Financial Activities Test and the No Underwriting Test; and

6.6.2. is not aware of any reason why it would not continue to satisfy each of the Tests during the then current year and the immediately following year.

In the event that the conditions precedent set out in this Section 6 above and in clause 9.4.6 of the Restated Facility Agreement are not satisfied by no later than 2 (two) Business Days prior to the Clause 9.4 Closing Date, including if a representation and warranty that is to be repeated cannot be repeated, then the Clause 9.4.1 Amount or the Clause 9.4.2 Amount, as applicable, shall be paid in cash by the Company to the Bank or its nominee on the Clause 9.4 Closing Date, (a) provided however, if said conditions precedent set out in this Section 6 above and in Clause 9.4.6 of the Restated Facility Agreement are otherwise satisfied, by no later than 2 (two) Business Days prior to the Clause 9.4 Closing Date, with respect to the issuance of Capital Notes instead of shares, then the Clause 9.4.1 Amount or the Clause 9.4.2 Amount, as applicable, will not be paid in cash by the Company and Capital Notes shall be issued as contemplated by Section 7.1 below; and (b) provided further that, if all said conditions precedent, other than as set forth in Section 6.6.2 above, are satisfied by no later than 2 (two) Business Days prior to the Clause 9.4 Closing Date, then the Clause 9.4.1 Amount or the Clause 9.4.2 Amount, as applicable, will, at the option of the Company, in its sole discretion, either be paid in cash or by way of issue of convertible debentures that will (except for consequential changes flowing from the redemption right described below) have the same terms as the Capital Notes (including, for the removal of doubt, that such convertible debentures will not bear interest or be linked to any index), save that the Bank or its nominee or other Affiliate thereof holding said convertible debentures (the "HOLDER") shall have the right to require the Company to redeem the convertible debentures, in whole or in part, on the date which is 30 (thirty) months after the Clause 9.4 Closing Date (or, if such date is not a Business Day, on the Business Day immediately prior to such anniversary) (the "REDEMPTION DATE"), for an amount in cash equal to the then principal amount thereof submitted for redemption, upon the giving by the Holder to the Company of at least 30 (thirty) days prior written notice. For the avoidance of doubt, if such redemption right is not exercised by a Holder as aforesaid, said convertible debentures shall remain convertible into shares of the Company and shall, subsequent to the Redemption Date, only be payable in accordance with clause 2 of the Capital Note.

7. TRANSACTIONS UPON THE CLAUSE 9.4 CLOSING.

Subject to the fulfilment of the conditions precedent set out in Section 6 above and in clause 9.4.6 of the Restated Facility Agreement, on the Clause 9.4 Closing Date (unless cash is payable pursuant to Section 6 above or clause 9.4.6 of the Restated Facility Agreement):

7.1. the Company shall issue (and, in the case of shares, allot) to the Bank or its nominee either (a) such number of shares in the name of the Bank or its nominee as provided in clause 9.4.1 or clause 9.4.2 (as adjusted, if applicable, pursuant to clauses 9.4.7 and 9.4.9) of the Restated Facility Agreement and shall send irrevocable instructions to its stock transfer agent to issue a share certificate in respect of such shares (the Bank or its nominee may elect to deliver to Tower an undertaking not to exercise means of control in respect of such shares for a certain period) or (b) (i) at the election of the Bank or its nominee, or if the proviso set forth in subsection (a) in the last paragraph of Section 6 is applicable, Capital Notes or (ii) if the proviso set forth in subsection (b) in the last paragraph of Section 6 is applicable (and the Company has not elected to pay cash), convertible debentures, in each case, substantially in the form attached as EXHIBIT 1 hereto (save that, in the case of the convertible debentures, a provision granting the redemption right described in subsection (b) in the last paragraph of Section 6 and consequential changes flowing from such redemption right shall be made, in form and substance satisfactory to the Holder), as the case may be, in the principal amounts provided in clause 9.4.1 or clause 9.4.2 (as adjusted, if applicable, pursuant to clauses 9.4.7 and 9.4.9) of the Restated Facility Agreement, as applicable, convertible into shares at the Average Closing Price (as defined in clause 9.4.1 of the Restated Facility Agreement) (subject to adjustments as provided in the Capital Notes);

7.2. the Company shall deliver to the Bank or, if applicable, its nominee a copy of the approval of the TASE for listing the shares issued or issuable pursuant to clause 7.1 above (if the Company's shares are then traded on the TASE); and

7.3. the Company shall record such issuance of the shares or Capital Note in the name of the Bank, or, if applicable, its nominee on the records of the Company.

8. MISCELLANEOUS.

8.1. 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.

8.2. 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, including, for the avoidance of doubt, any nominee of the Bank in connection with the Clause 9.4 Equity Issuances. Nothing in this Agreement shall be deemed to restrict the (a) transferability of the shares, convertible debentures 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.

8.3. 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 and any nominee of the Bank that is an Affiliate of the Bank in connection with the Clause 9.4 Equity Issuances).

8.4. 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.

8.5. 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
Fax. 972-3-5672995
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.

8.6. 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.

8.7. 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.

8.8. 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.

8.9. 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.

8.10. 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, including the provision by the Bank to the Company of such information as shall be required in order to determine the adjustments, if any, required under clause 9.4.7 of the Restated Facility Agreement.

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: _____

CONVERSION AGREEMENT

This Conversion Agreement (this "AGREEMENT") is made and entered into effective as of September 28th, 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").

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 (the "FACILITY AGREEMENT"); and

WHEREAS, at the request of Tower, the Banks and Tower have entered into an Amending Agreement dated August 24, 2006 (the "AMENDING AGREEMENT"), the conditions to the effectiveness of which include, INTER ALIA, the conversion by each Bank of US $79,000,000 (seventy-nine million US dollars) of its loans made to Tower pursuant to the Facility Agreement (the "LOANS") into an equity-equivalent convertible capital note to be issued to the Bank (a "CAPITAL NOTE") in the amount of US $39,500,000 (thirty-nine million five hundred thousand 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 25,986,842 (twenty-five million, nine hundred and eighty-six thousand and eight hundred forty-two) ordinary shares of Tower at a conversion price of US $1.52 (one US dollar and fifty-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, clause 9.4 of the amended and restated Facility Agreement that will become effective pursuant to the Amending Agreement on the Amendment Closing Date, as the same may be further amended from time to time (the "RESTATED FACILITY AGREEMENT") obligates the Company to make certain compensatory payments in January, 2011 to the Banks or their nominees on account of the Banks' agreement to reduce the rate of Interest on the Loans, which payments may, subject to said clause 9.4 and this Agreement, be made in the form of shares and/or Capital Notes and/or convertible debentures (the "CLAUSE 9.4 EQUITY ISSUANCES"), which issuances are subject, INTER ALIA, to the terms and conditions of this Agreement;

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 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 (a) in which such person, directly or indirectly, owns 25% (twenty-five percent) or more of a class of voting securities or (b) 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 Restated Facility Agreement shall have the same meanings when used in this Agreement and all provisions of the 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. issues to the Bank, and the Bank hereby receives from the Company, in conversion of US $79,000,000 (seventy-nine million US dollars) of the Loans, an executed Capital Note in the principal amount of US $39,500,000 (thirty nine million five hundred thousand US dollars) in the form attached as EXHIBIT 1 hereto. For the avoidance of doubt, 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;

2.2. furnishes to the Bank a copy of the approval of the TASE for listing the 25,986,842 (twenty-five million, nine hundred and eighty-six thousand, eight hundred and forty-two) 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 or convertible debentures issued pursuant to this

Agreement (the "CONVERSION SHARES") and, if applicable, on the Clause 9.4 Closing Date, are duly authorized and reserved for issuance by the Company and, when issued in accordance with the terms of such Capital Note or convertible debentures or, as applicable, this Agreement and Clause 9.4 of the Restated Facility Agreement, 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, Capital Notes or convertible debentures 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, convertible debentures 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, convertible debentures or shares. This Agreement and all Capital Notes or convertible debentures 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, convertible debentures 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. Except as set forth in Schedule 3.7 hereto, 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.

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(1) Following the effective date of the Registration Statement covering the Conversion Shares, if applicable, bracketed language to be removed from all future Capital Notes and convertible debentures to be issued and, at the request of the holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the holder. If shares are directly issued in the Clause 9.4 Equity Issuance, the first sentence of the legend and the first parenthetical in the second sentence will be removed following the effective date of the Registration Statement covering such shares.

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);

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 and, subsequent to the Clause 9.4 Closing Date, any nominee of the Bank pursuant to clause 6 below, 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 and, subsequent to the Clause 9.4 Closing Date, any nominee of the Bank pursuant to clause 6 below, 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 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.

6. CLAUSE 9.4 CLOSING; CONDITIONS PRECEDENT.

The issuance and allotment of the shares of the Company, or the issuance of Capital Notes, pursuant to and in accordance with clause 9.4 of the Restated Facility Agreement (such date, the "CLAUSE 9.4 CLOSING DATE"), to the Bank or its nominee (which shall be an Affiliate of the Bank) shall be subject to the conditions set forth in clause 9.4.6 of the Restated Facility Agreement and to the conditions precedent that the Bank shall have received, by no later than 2 (two) Business Days prior to the Clause 9.4 Closing Date, all of the following documents, matters and things in form and substance satisfactory to the Bank:

6.1. copies of all resolutions of the Board of Directors of the Company and, if necessary, its Audit Committee and shareholders, authorizing all agreements and acts to be performed by the Company as conditions precedent to, or otherwise in connection with, the Clause 9.4 Equity Issuances, to the extent not already authorized in the resolutions delivered on or about the Amendment Closing Date;

6.2. an opinion of the Company's external legal counsel, satisfactory to the Bank, addressed to the Bank and, if applicable, its nominee, MUTATIS MUTANDIS, to the Clause 9.4 Equity Issuances in the form of such opinion delivered by Yigal Arnon & Co., Advocates to the Banks, on or about the Amendment Closing Date, provided that paragraphs 4.7 (i) and 5.4 shall be omitted;

6.3. an opinion of U.S. counsel, satisfactory to the Bank, 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 clause 9.4 of the Restated Facility Agreement ("UNITED STATES APPLICABLE LAWS"), (i) subject to the effectiveness of the registration statement to be filed by the Company with respect to the Clause 9.4 Equity Issuances pursuant to the Registration Rights Agreement, 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 Bank or its nominee of the ordinary shares to be issued or issuable upon conversion of Capital Notes or convertible debentures to be issued to the Bank or its nominee pursuant to clause 9.4 of the Restated Facility Agreement and this Agreement, provided that no opinion need be expressed with respect to state securities or Blue Sky laws; (ii) the acquisition and indefinite holding of the Capital Notes or convertible debentures (provided that, with respect to the convertible debentures, counsel shall assume, solely for purposes of rendering such opinion, that the condition set forth in Section 6.6.2 has been satisfied and that if the Company is, as of the Clause 9.4 Closing Date, satisfying the Tests (as set forth in Section 6.6.1 below) that it shall continue to satisfy the Tests) or the shares issuable in connection with the Clause 9.4 Equity Issuances by the Bank or its nominee is permissible under United States Applicable Laws, including under the Bank Holding Company Act of 1956, as amended; and (iii) the acquisition and holding of either the Capital Notes or the shares issuable in connection with the Clause 9.4 Equity Issuances by the Bank or its nominee will not be subject to the notification and filing requirements under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Such opinion shall be based upon and subject to reasonable assumptions (without derogating from the parenthetical phrase in subsection (ii) above) and limitations, provided that, if such opinion cannot be delivered, at the request of the Company, such counsel shall describe the legal basis or bases for why such opinion cannot be delivered;

6.4. all of the Company's (a) representations and warranties given pursuant to this Agreement shall be repeated on the Clause 9.4 Closing Date as if made on the Clause 9.4 Closing Date, other than the representations and warranties given pursuant to the last sentence of Section 3.2 above and pursuant to Section 3.8 above, and (b) all of the Company's obligations under this Agreement and the Registration Rights Agreement to be performed on or prior to the Clause 9.4 Closing Date shall have been fulfilled, and the Company shall have delivered a certificate of its Chief Executive Officer or Chief Financial Officer to the effect of (a) and (b) in form and substance satisfactory to the Bank;

6.5. all Governmental Authorisations and third party consents required to be obtained by the Company in connection with the Clause 9.4 Equity Issuances shall have been received, including, if applicable:

6.5.1. confirmation of the Controller of Restrictive Trade Practices (the "CONTROLLER") that no approval is required in connection with the Clause 9.4 Equity Issuances or, if any such approval is considered by the Controller to be required, the unconditional receipt of same (provided that if the Controller shall refuse to provide such confirmation for the reason that the Controller does not see a reason to review the request for the same, such confirmation shall be deemed to have been obtained) (for the removal of doubt, if required, the Bank shall also make such a request);

6.5.2. the consent of the Investment Centre to the issue of shares, capital notes or convertible debentures (and shares issuable upon conversion of the Capital Notes or convertible debentures) to the Bank and, if applicable, its nominee as contemplated under clause 9.4 to the Restated Facility Agreement;

6.5.3. the approval of the ILA under the Existing ILA Leases, and any other long term lease agreements between the Company and the ILA, to the issue of shares, capital notes or convertible debentures (and shares issuable upon conversion of the Capital Notes or convertible debentures) to the Bank and, if applicable, its nominee as contemplated under clause 9.4 to the Restated Facility Agreement; and

6.6. provided that the first paragraph of Section 5.1 is applicable, confirmation from the Chief Financial Officer of the Company, in form and substance satisfactory to the Bank, that the Company:

6.6.1. has satisfied the Asset Test, the Revenue Test, the Same Line of Business Test, the Financial Activities Test and the No Underwriting Test (collectively, the "TESTS") as of December 31 in each of the two years immediately prior to the year in which the Clause 9.4 Closing Date falls, and meets, on the Clause 9.4 Closing Date, the Same Line of Business Test, the Financial Activities Test and the No Underwriting Test; and

6.6.2. is not aware of any reason why it would not continue to satisfy each of the Tests during the then current year and the immediately following year.

In the event that the conditions precedent set out in this Section 6 above and in clause 9.4.6 of the Restated Facility Agreement are not satisfied by no later than 2 (two) Business Days prior to the Clause 9.4 Closing Date, including if a representation and warranty that is to be repeated cannot be repeated, then the Clause 9.4.1 Amount or the Clause 9.4.2 Amount, as applicable, shall be paid in cash by the Company to the Bank or its nominee on the Clause 9.4 Closing Date, (a) provided however, if said conditions precedent set out in this Section 6 above and in Clause 9.4.6 of the Restated Facility Agreement are otherwise satisfied, by no later than 2 (two) Business Days prior to the Clause 9.4 Closing Date, with respect to the issuance of Capital Notes instead of shares, then the Clause 9.4.1 Amount or the Clause 9.4.2 Amount, as applicable, will not be paid in cash by the Company and Capital Notes shall be issued as contemplated by Section 7.1 below; and (b) provided further that, if all said conditions precedent, other than as set forth in Section 6.6.2 above, are satisfied by no later than 2 (two) Business Days prior to the Clause 9.4 Closing Date, then the Clause 9.4.1 Amount or the Clause 9.4.2 Amount, as applicable, will, at the option of the Company, in its sole discretion, either be paid in cash or by way of issue of convertible debentures that will (except for consequential changes flowing from the redemption right described below) have the same terms as the Capital Notes (including, for the removal of doubt, that such convertible debentures will not bear interest or be linked to any index), save that the Bank or its nominee or other Affiliate thereof holding said convertible debentures (the "HOLDER") shall have the right to require the Company to redeem the convertible debentures, in whole or in part, on the date which is 30 (thirty) months after the Clause 9.4 Closing Date (or, if such date is not a Business Day, on the Business Day immediately prior to such anniversary) (the "REDEMPTION DATE"), for an amount in cash equal to the then principal amount thereof submitted for redemption, upon the giving by the Holder to the Company of at least 30 (thirty) days prior written notice. For the avoidance of doubt, if such redemption right is not exercised by a Holder as aforesaid, said convertible debentures shall remain convertible into shares of the Company and shall, subsequent to the Redemption Date, only be payable in accordance with clause 2 of the Capital Note.

7. TRANSACTIONS UPON THE CLAUSE 9.4 CLOSING.

Subject to the fulfilment of the conditions precedent set out in Section 6 above and in clause 9.4.6 of the Restated Facility Agreement, on the Clause 9.4 Closing Date (unless cash is payable pursuant to Section 6 above or clause 9.4.6 of the Restated Facility Agreement):

7.1. the Company shall issue (and, in the case of shares, allot) to the Bank or its nominee either (a) such number of shares in the name of the Bank or its nominee as provided in clause 9.4.1 or clause 9.4.2 (as adjusted, if applicable, pursuant to clauses 9.4.7 and 9.4.9) of the Restated Facility Agreement and shall send irrevocable instructions to its stock transfer agent to issue a share certificate in respect of such shares (the Bank or its nominee may elect to deliver to Tower an undertaking not to exercise means of control in respect of such shares for a certain period) or (b) (i) at the election of the Bank or its nominee, or if the proviso set forth in subsection (a) in the last paragraph of Section 6 is applicable, Capital Notes or (ii) if the proviso set forth in subsection (b) in the last paragraph of Section 6 is applicable (and the Company has not elected to pay cash), convertible debentures, in each case, substantially in the form attached as EXHIBIT 1 hereto (save that, in the case of the convertible debentures, a provision granting the redemption right described in subsection (b) in the last paragraph of Section 6 and consequential changes flowing from such redemption right shall be made, in form and substance satisfactory to the Holder), as the case may be, in the principal amounts provided in clause 9.4.1 or clause 9.4.2 (as adjusted, if applicable, pursuant to clauses 9.4.7 and 9.4.9) of the Restated Facility Agreement, as applicable, convertible into shares at the Average Closing Price (as defined in clause 9.4.1 of the Restated Facility Agreement) (subject to adjustments as provided in the Capital Notes);

7.2. the Company shall deliver to the Bank or, if applicable, its nominee a copy of the approval of the TASE for listing the shares issued or issuable pursuant to clause 7.1 above (if the Company's shares are then traded on the TASE); and

7.3. the Company shall record such issuance of the shares or Capital Note in the name of the Bank, or, if applicable, its nominee on the records of the Company.

8. MISCELLANEOUS.

8.1. 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.

8.2. 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, including, for the avoidance of doubt, any nominee of the Bank in connection with the Clause 9.4 Equity Issuances. Nothing in this Agreement shall be deemed to restrict the (a) transferability of the shares, convertible debentures 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.

8.3. 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 and any nominee of the Bank that is an Affiliate of the Bank in connection with the Clause 9.4 Equity Issuances).

8.4. 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.

8.5. 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: Manager of Hi-Tech Industries Section
with a copy to (which shall not constitute notice):	Leumi and Co. Investment House Ltd. 25 Kalisher Street Tel-Aviv 65165 Israel Fax: 972-3-5141215 Attn: Head of Investment Sector

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.

8.6. 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.

8.7. 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.

8.8. 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.

8.9. 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.

8.10. 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, including the provision by the Bank to the Company of such information as shall be required in order to determine the adjustments, if any, required under clause 9.4.7 of the Restated Facility Agreement.

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: _____

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "AGREEMENT") is made and entered into effective as of 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").

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 (the "FACILITY AGREEMENT"); and

WHEREAS, at the request of Tower, the Banks and Tower have entered into an Amending Agreement dated August 24, 2006 (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 "CONVERSION AGREEMENT") and this Agreement, in each case, on the date of the effectiveness of the Amending Agreement (the "AMENDMENT CLOSING DATE"); and

WHEREAS, clause 9.4 of the Facility Agreement, 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 Conversion Agreement, can be paid in the form of shares, capital notes or convertible debentures and the parties intend that the registration rights set forth in this Agreement also be applicable with respect to such shares and/or shares issuable upon conversion of any such capital notes or convertible debentures (the "CLAUSE 9.4 EQUITY ISSUANCES"),

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 a Holder (iii) ordinary shares of the Company issued or issuable upon exercise of a 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 a registration statement or registration statements of the Company covering Registrable Securities filed 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 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) "TARSHISH" means Tarshish Hahzakot Vehashkaot Hapoalim Ltd., a company organized under the laws of the State of Israel and an affiliate of the Bank.

(l) "WARRANT" means the warrants issued to the Bank and to Tarshish by the Company prior to the Amendment Closing Date and which are amended on the Amendment Closing Date.

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. REGISTRATION.

(a) The Company shall prepare, and, as soon as practicable but in no event later than (a) 45 days after the date of this Agreement and (b) the date of the Clause 9.4 Equity Issuances, in each case file with the SEC a Registration Statement on Form F-3 and make all required filings with the ISA covering the resale of all 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 and the Company shall, not later than the effective date of a Registration Statement, 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.

(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 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 the first sentence 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; DEMAND AND 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.

(b) If at any time during the Registration Period there is not an effective Registration Statement covering all of the then Registrable Securities, the Company shall, upon the demand of any Holder, immediately file a registration statement covering all of the then Registrable Securities and the provisions of this Agreement shall apply to such Registration Statement, MUTATIS MUTANDIS.

(c) 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.

(d) 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:	Yigal Arnon & Co. 1 Azrieli Center 46th Floor, The Round Tower Tel-Aviv, Israel 67021 Facsimile: (03) 608 7714 Attention: David H. Schapiro, Adv./ Ari Fried, 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 parties 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 Registration Rights Agreement to be duly executed as of the day and year first above written.

TOWER SEMICONDUCTOR LTD.

By: _____

Name: _____

Its: _____

BANK HAPOALIM B.M.

By: _____

Name: _____

Its: _____

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "AGREEMENT") is made and entered into effective as of 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").

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 (the "FACILITY AGREEMENT"); and

WHEREAS, at the request of Tower, the Banks and Tower have entered into an Amending Agreement dated August 24, 2006 (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 "CONVERSION AGREEMENT") and this Agreement, in each case, on the date of the effectiveness of the Amending Agreement (the "AMENDMENT CLOSING DATE"); and

WHEREAS, clause 9.4 of the Facility Agreement, 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 Conversion Agreement, can be paid in the form of shares, capital notes or convertible debentures and the parties intend that the registration rights set forth in this Agreement also be applicable with respect to such shares and/or shares issuable upon conversion of any such capital notes or convertible debentures (the "CLAUSE 9.4 EQUITY ISSUANCES"),

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 a Holder (iii) ordinary shares of the Company issued or issuable upon exercise of a 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 a registration statement or registration statements of the Company covering Registrable Securities filed 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 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) "WARRANT" means the warrants issued to the Bank by the Company prior to the Amendment Closing Date and which are amended on the Amendment Closing Date.

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. REGISTRATION.

(a) The Company shall prepare, and, as soon as practicable but in no event later than (a) 45 days after the date of this Agreement and (b) the date of the Clause 9.4 Equity Issuances, in each case file with the SEC a Registration Statement on Form F-3 and make all required filings with the ISA covering the resale of all 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 and the Company shall, not later than the effective date of a Registration Statement, 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.

(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 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 the first sentence 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; DEMAND AND 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.

(b) If at any time during the Registration Period there is not an effective Registration Statement covering all of the then Registrable Securities, the Company shall, upon the demand of any Holder, immediately file a registration statement covering all of the then Registrable Securities and the provisions of this Agreement shall apply to such Registration Statement, MUTATIS MUTANDIS.

(c) 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.

(d) 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: Yigal Arnon & Co.
1 Azrieli Center
46th Floor, The Round Tower
Tel-Aviv, Israel 67021
Facsimile: (03) 608 7714
Attention: David H. Schapiro, Adv./
Ari Fried, Adv.

to the Bank at: Corporate Division
34 Yehuda Halevi Street
Tel-Aviv, Israel
Facsimile: (03) 514 9278
Attention: Manager of Hi-Tech Industries Section

with a copy to
(which shall not
constitute notice): Leumi and Co. Investment House Ltd.
25 Kalisher Street
Tel-Aviv 65165
Israel
Fax: 972-3-5141215
Attn: Head of Investment Sector

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 parties 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 Registration Rights Agreement to be duly executed as of the day and year first above written.

TOWER SEMICONDUCTOR LTD.

By: _____

Name: _____

Its: _____

BANK LEUMI LE-ISRAEL B.M.

By: _____

Name: _____

Its: _____

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 REGULATION S UNDER THE ACT.

EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE
(PRINCIPAL AMOUNT OF US $39,500,000)

THIS EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE ("THIS CAPITAL NOTE") in the principal amount of US $39,500,000 (thirty-nine million five hundred thousand United States Dollars) ("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 equal to twice 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; and

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 the Registration Statement covering the Conversion Shares, bracketed language to be removed from all future Capital Notes to be issued 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 $1.52 (one United States Dollar and fifty-two cents), 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 the Registration Statement covering the Conversion Shares, bracketed language to be removed from all future Capital Notes to be issued 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 the Registration Statement covering the Conversion Shares, 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, 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, 2021, 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./
ARI FRIED, 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 28, 2006

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 REGULATION S UNDER THE ACT.

EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE
(PRINCIPAL AMOUNT OF US $39,500,000)

THIS EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE ("THIS CAPITAL NOTE") in the principal amount of US $39,500,000 (thirty-nine million five hundred thousand United States Dollars) ("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 equal to twice 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; and

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(1) Following the effective date of the Registration Statement covering the Conversion Shares, bracketed language to be removed from all future Capital Notes to be issued 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 $1.52 (one United States Dollar and fifty-two cents), 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 the Registration Statement covering the Conversion Shares, bracketed language to be removed from all future Capital Notes to be issued 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 the Registration Statement covering the Conversion Shares, 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, 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, 2021, 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 34 Yehuda Halevi Street Tel Aviv, Israel ATTENTION: MANAGER OF HI-TECH INDUSTRIES SECTION FACSIMILE: (03) 514 9278
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./ ARI FRIED, 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 28, 2006

for TOWER SEMICONDUCTOR LTD.

By: _____

Title: _____

FIRST AMENDMENT TO A WARRANT ISSUED ON DECEMBER 11, 2003

THIS FIRST AMENDMENT is made on the 28th day of September, 2006, between:

(1) TOWER SEMICONDUCTOR LTD., a company incorporated in Israel (registered number 52-004199-7), having its registered office at P.O. Box 619, Migdal Haemek 23105, Israel ("THE COMPANY");

AND

(2) TARSHISH HAHZAKOT VEHASHKAOT HAPOALIM LTD. ("THE HOLDER")

WHEREAS:

(A) pursuant to a Warrant issued on December 11, 2003 ("THE WARRANT"), the Company granted the Holder the right to purchase 448,298 Warrant Shares at the Warrant Price, which is US $6.17 (six United States Dollars and seventeen cents) per share; and

(B) at the request of the Company, the Company and the Banks entered into an Amending Agreement, dated August 24, 2006, to the Agreement, one of the conditions to the effectiveness thereof is the entering into of this First Amendment ("THIS AMENDMENT") to the Warrant,

NOW THEREFORE IT IS AGREED BETWEEN THE PARTIES HERETO AS FOLLOWS:

1. Unless otherwise defined in this Amendment, terms defined and references contained in the Warrant, shall have the same meaning and construction in this Amendment.

2. The Warrant is hereby amended as follows:

2.1. The legend at the top of the first page of the Warrant is hereby amended to read in its entirety as follows:

> THIS WARRANT HAS 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. THIS WARRANT, AND THE SECURITIES ISSUABLE PURSUANT THERETO, 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 THIS WARRANT OR THE SECURITIES ISSUABLE PURSUANT THERETO 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.

2.2. Clause 2A ("TERM") is hereby amended to delete the words "the date which is 5 (five) years following the Effective Date" before the parenthetical phrase "("THE EXPIRATION DATE")" and substitute therefor the date "September 28, 2011".

2.3. Clause 6 ("INVESTMENT REPRESENTATION") is hereby amended as follows:

2.3.1. to amend the first sentence to read in its entirety as follows: "This Warrant has not been registered under the Securities Act, or any other securities laws.";

2.3.2. to amend the third sentence thereof to read in its entirety as follows: "The Warrant Shares have been registered under the Securities Act on Form F-3 Registration Statement No. 333-131315.".

2.4. Clause 8 ("TRANSFER OF THIS WARRANT OR SHARES ISSUABLE ON EXERCISE THEREOF") is hereby amended:

2.4.1. to delete the words "or securities into which such Warrant may be exercised" from the first sentence of subclause a thereof thereof; and

2.4.2. to add the words at the end of the second sentence of subclause a thereof, "or unless sold pursuant to Rule 144 of the Securities Act".

2.5. Clause 9 (including, for the avoidance of doubt, Clause 9A, 9B and 9C) ("REGISTRATION RIGHTS") is hereby amended to read in its entirety as follows: "The Company covenants and agrees to provide the Holder the registration rights provided in the registration rights agreement, dated September 28, 2006 between the Company and Bank Hapoalim B.M., a copy of which is attached hereto as APPENDIX A, as such may be amended from time to time ("THE REGISTRATION RIGHTS AGREEMENT"). Such registration rights may be assigned by the Holder pursuant to and in accordance with the terms of the Registration Rights Agreement but only to a transferee or assignee of this Warrant pursuant to and in accordance with Section 8 of this Warrant.".

2.6. Clause 12 ("LOSS, THEFT, DESTRUCTION OR MUTILATION OF WARRANT") is hereby amended by adding the following to the end thereof:

", provided that if this Warrant has been amended, at the request of the Holder, the Company shall issue an amended and restated Warrant certificate reflecting such amendment or amendments. In addition, but without derogating from the aforesaid, if this Warrant has been amended, the Holder shall have the right, at the option of the Holder, at any time and, if applicable, from time to time, to surrender this Warrant certificate and receive an amended and restated Warrant certificate reflecting any such amendment or amendments."

2.7. Clause 11 ("NOTICES") is hereby renumbered as Clause 13 and is hereby further amended to delete the words "Zion Building, 45 Rothschild Boulevard" and substitute "Migdal Levenstein, 23 Menachem Begin Road" therefor, to delete the Facsimile No. "(03) 567-3728" and substitute "(03) 567-2995" therefor, to delete the name "Carmel Vernia" and substitute "Chief Financial Officer" therefor and to delete the Facsimile No. "(04) 654-7788" and substitute "(04) 604-7242" therefor.

2.8. Clause 12 ("APPLICABLE LAW; JURISDICTION") is hereby renumbered as Clause 14.

3. Save as amended expressly pursuant to this Amendment, the provisions of the Warrant shall continue in full force and effect and the Warrant and this Amendment shall be read and construed as one instrument.

4. This Amendment shall be governed by and construed in accordance with the laws of the State of Israel.

IN WITNESS WHEREOF, THE PARTIES HAVE SIGNED THIS FIRST AMENDMENT ON THE 28TH DAY OF SEPTEMBER 2006.

for: TOWER SEMICONDUCTOR LTD.

By: _____

Title: _____

for: TARSHISH HAHZAKOT VEHASHKAOT HAPOALIM LTD.

By: _____

Title: _____

FIRST AMENDMENT TO A WARRANT ISSUED ON DECEMBER 11, 2003

THIS FIRST AMENDMENT is made on the 28th day of September, 2006, between:

(1) TOWER SEMICONDUCTOR LTD., a company incorporated in Israel (registered number 52-004199-7), having its registered office at P.O. Box 619, Migdal Haemek 23105, Israel ("THE COMPANY");

AND

(2) BANK LEUMI LE-ISRAEL B.M. ("THE HOLDER")

WHEREAS:

(A) pursuant to a Warrant issued on December 11, 2003 ("THE WARRANT"), the Company granted the Holder the right to purchase 448,298 Warrant Shares at the Warrant Price, which is US $6.17 (six United States Dollars and seventeen cents) per share; and

(B) at the request of the Company, the Company and the Banks entered into an Amending Agreement, dated August 24, 2006, to the Agreement, one of the conditions to the effectiveness thereof is the entering into of this First Amendment ("THIS AMENDMENT") to the Warrant,

NOW THEREFORE IT IS AGREED BETWEEN THE PARTIES HERETO AS FOLLOWS:

1. Unless otherwise defined in this Amendment, terms defined and references contained in the Warrant, shall have the same meaning and construction in this Amendment.

2. The Warrant is hereby amended as follows:

2.1. The legend at the top of the first page of the Warrant is hereby amended to read in its entirety as follows:

> THIS WARRANT HAS 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. THIS WARRANT, AND THE SECURITIES ISSUABLE PURSUANT THERETO, 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 THIS WARRANT OR THE SECURITIES ISSUABLE PURSUANT THERETO 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.

2.2. Clause 2A ("TERM") is hereby amended to delete the words "the date which is 5 (five) years following the Effective Date" before the parenthetical phrase "("THE EXPIRATION DATE")" and substitute therefor the date "September 28, 2011".

2.3. Clause 6 ("INVESTMENT REPRESENTATION") is hereby amended as follows:

2.3.1. to amend the first sentence to read in its entirety as follows: "This Warrant has not been registered under the Securities Act, or any other securities laws.";

2.3.2. to amend the third sentence thereof to read in its entirety as follows: "The Warrant Shares have been registered under the Securities Act on Form F-3 Registration Statement No. 333-131315.".

2.4. Clause 8 ("TRANSFER OF THIS WARRANT OR SHARES ISSUABLE ON EXERCISE THEREOF") is hereby amended:

2.4.1. to delete the words "or securities into which such Warrant may be exercised" from the first sentence of subclause a thereof thereof; and

2.4.2. to add the words at the end of the second sentence of subclause a thereof, "or unless sold pursuant to Rule 144 of the Securities Act".

2.5. Clause 9 (including, for the avoidance of doubt, Clause 9A, 9B and 9C) ("REGISTRATION RIGHTS") is hereby amended to read in its entirety as follows: "The Company covenants and agrees to provide the Holder the registration rights provided in the registration rights agreement, dated September 28, 2006 between the Company and Bank Leumi Le-Israel B.M., a copy of which is attached hereto as APPENDIX A, as such may be amended from time to time ("THE REGISTRATION RIGHTS AGREEMENT"). Such registration rights may be assigned by the Holder pursuant to and in accordance with the terms of the Registration Rights Agreement but only to a transferee or assignee of this Warrant pursuant to and in accordance with Section 8 of this Warrant.".

2.6. Clause 12 ("LOSS, THEFT, DESTRUCTION OR MUTILATION OF WARRANT") is hereby amended by adding the following to the end thereof:

", provided that if this Warrant has been amended, at the request of the Holder, the Company shall issue an amended and restated Warrant certificate reflecting such amendment or amendments. In addition, but without derogating from the aforesaid, if this Warrant has been amended, the Holder shall have the right, at the option of the Holder, at any time and, if applicable, from time to time, to surrender this Warrant certificate and receive an amended and restated Warrant certificate reflecting any such amendment or amendments."

2.7. Clause 11 ("NOTICES") is hereby renumbered as Clause 13 and is hereby further amended to delete the number "32" and substitute the number "34" therefor, to delete the Facsimile No. "(03) 514-9017" and substitute "(03) 514-9278" therefor, to add immediately thereafter, "with a copy to (which shall not constitute notice):Leumi and Co. Investment House Ltd., 25 Kalisher Street, Tel-Aviv 65165, Israel, Fax: 972-3-5141215, Attn: Head of Investment Sector", to delete the name "Carmel Vernia" and substitute "Chief Financial Officer" therefor and to delete the Facsimile No. "(04) 654-7788" and substitute "(04) 604-7242" therefor.

2.8. Clause 12 ("APPLICABLE LAW; JURISDICTION") is hereby renumbered as Clause 14.

3. Save as amended expressly pursuant to this Amendment, the provisions of the Warrant shall continue in full force and effect and the Warrant and this Amendment shall be read and construed as one instrument.

4. This Amendment shall be governed by and construed in accordance with the laws of the State of Israel.

IN WITNESS WHEREOF, THE PARTIES HAVE SIGNED THIS FIRST AMENDMENT ON THE 28TH DAY OF SEPTEMBER 2006.

for: TOWER SEMICONDUCTOR LTD.

By: _____

Title: _____

for: BANK LEUMI LE-ISRAEL B.M.

By: _____

Title: _____

FIRST AMENDMENT TO A WARRANT ISSUED ON AUGUST 4, 2005

THIS FIRST AMENDMENT is made on the 28th day of September, 2006, between:

(1) TOWER SEMICONDUCTOR LTD., a company incorporated in Israel (registered number 52-004199-7), having its registered office at P.O. Box 619, Migdal Haemek 23105, Israel ("THE COMPANY");

AND

(2) BANK HAPOALIM B.M. ("THE HOLDER")

WHEREAS:

(A) pursuant to a Warrant issued on August 4, 2005 ("THE WARRANT"), the Company granted the Holder the right to purchase 4,132,232 Warrant Shares at the Warrant Price, which is US $1.21 (one United States Dollar and twenty-one cents) per share; and

(B) at the request of the Company, the Company and the Banks entered into an Amending Agreement, dated August 24, 2006, to the Agreement, one of the conditions to the effectiveness thereof is the entering into of this First Amendment to the Warrant,

NOW THEREFORE IT IS AGREED BETWEEN THE PARTIES HERETO AS FOLLOWS:

1. Unless otherwise defined in this Amendment, terms defined and references contained in the Warrant, shall have the same meaning and construction in this Amendment.

2. The Warrant is hereby amended as follows:

2.1. The legend at the top of the first page of the Warrant is hereby amended to read in its entirety as follows:

> THIS WARRANT HAS 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. THIS WARRANT, AND THE SECURITIES ISSUABLE PURSUANT THERETO, 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 THIS WARRANT OR THE SECURITIES ISSUABLE PURSUANT THERETO 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.

2.2. Clause 2A ("EXERCISABILITY; TERM") is hereby amended as follows:

2.2.1. the words "the date which is 5 (five) years following the Ninth Amendment Closing Date" before the parenthetical phrase "("THE FIRST TRANCHE EXPIRATION DATE")" are hereby deleted and the date "September 28, 2011" substituted therefor;

2.2.2. the words "the date of signature by the Company and the Banks of an agreement by the Banks to reschedule the repayment dates of the Interest Payment Loans (as defined in the Ninth Amendment)" before the parenthetical phrase "("THE SECOND TRANCHE EXERCISABILITY DATE")" are hereby deleted and the date "September 28, 2006" substituted therefor; and

2.2.3. the words "the date which is 5 (five) years following the Second Tranche Exercisability Date" before the parenthetical phrase "("THE SECOND TRANCHE EXPIRATION DATE")" are hereby deleted and the date "September 28, 2011" substituted therefor.

2.3. Clause 3 ("EXERCISE OF WARRANT") is hereby amended by deleting the words "and, provided further, that if the Second Tranche Exercisability Date does not occur, no more than 2,066,116 (two million and sixty-six thousand, one hundred and sixteen) Warrant Shares will be exercisable during the term of this Warrant".

2.4. Clause 6 ("INVESTMENT REPRESENTATION") is hereby amended as follows:

2.4.1. to amend the first sentence to read in its entirety as follows: "This Warrant has not been registered under the Securities Act, or any other securities laws.";

2.4.2. to amend the third sentence thereof to read in its entirety as follows: "The Warrant Shares have been registered under the Securities Act on Form F-3 Registration Statement No. 333-131315.".

2.5. Clause 8 ("TRANSFER OF THIS WARRANT OR SHARES") is hereby amended:

2.5.1. to delete the words "or securities purchaseable hereunder" from the first sentence thereof; and

2.5.2. to add the words at the end of the second sentence thereof, "or unless sold pursuant to Rule 144 of the Securities Act".

2.6. Clause 9 (including, for the avoidance of doubt, Clause 9A, 9B and 9C) ("REGISTRATION RIGHTS") is hereby amended to read in its entirety as follows: "The Company covenants and agrees to provide the Holder the registration rights provided in the registration rights agreement, dated September 28, 2006 between the Company and Bank Hapoalim B.M., a copy of which is attached hereto as APPENDIX A, as such may be amended from time to time ("THE REGISTRATION RIGHTS AGREEMENT"). Such registration rights may be assigned by the Holder pursuant to and in accordance with the terms of the Registration Rights Agreement but only to a transferee or assignee of this Warrant pursuant to and in accordance with Section 8 of this Warrant.".

2.7. Clause 12 is hereby amended by adding the following to the end thereof:

", provided that if this Warrant has been amended, at the request of the Holder, the Company shall issue an amended and restated Warrant certificate reflecting such amendment or amendments. In addition, but without derogating from the aforesaid, if this Warrant has been amended, the Holder shall have the right, at the option of the Holder, at any time and, if applicable, from time to time, to surrender this Warrant certificate and receive an amended and restated Warrant certificate reflecting any such amendment or amendments."

2.8. Clause 13 is hereby amended to delete the words "Zion Building, 45 Rothschild Boulevard" and substitute "Migdal Levenstein, 23 Menachem Begin Road" therefor, to delete the Facsimile No. "(03) 567-3728" and substitute "(03) 567-2995" therefor, and to delete the Facsimile No. "(04) 654-6510" and substitute "(04) 604-7242" therefor.

3. Save as amended expressly pursuant to this Amendment, the provisions of the Warrant shall continue in full force and effect and the Warrant and this Amendment shall be read and construed as one instrument.

4. This Amendment shall be governed by and construed in accordance with the laws of the State of Israel.

IN WITNESS WHEREOF, THE PARTIES HAVE SIGNED THIS FIRST AMENDMENT ON THE 28TH DAY OF SEPTEMBER 2006.

for: TOWER SEMICONDUCTOR LTD.

By: _____

Title: _____

[for BANK HAPOALIM B.M.

By: _____

Title: _____]

FIRST AMENDMENT TO A WARRANT ISSUED ON AUGUST 4, 2005

THIS FIRST AMENDMENT is made on the 28th day of September, 2006, between:

(1) TOWER SEMICONDUCTOR LTD., a company incorporated in Israel (registered number 52-004199-7), having its registered office at P.O. Box 619, Migdal Haemek 23105, Israel ("THE COMPANY");

AND

(2) BANK LEUMI LE-ISRAEL B.M. ("THE HOLDER")

WHEREAS:

(A) pursuant to a Warrant issued on August 4, 2005 ("THE WARRANT"), the Company granted the Holder the right to purchase 4,132,232 Warrant Shares at the Warrant Price, which is US $1.21 (one United States Dollar and twenty-one cents) per share; and

(B) at the request of the Company, the Company and the Banks entered into an Amending Agreement, dated August 24, 2006, to the Agreement, one of the conditions to the effectiveness thereof is the entering into of this First Amendment to the Warrant,

NOW THEREFORE IT IS AGREED BETWEEN THE PARTIES HERETO AS FOLLOWS:

1. Unless otherwise defined in this Amendment, terms defined and references contained in the Warrant, shall have the same meaning and construction in this Amendment.

2. The Warrant is hereby amended as follows:

2.1. The legend at the top of the first page of the Warrant is hereby amended to read in its entirety as follows:

> THIS WARRANT HAS 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. THIS WARRANT, AND THE SECURITIES ISSUABLE PURSUANT THERETO, 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 THIS WARRANT OR THE SECURITIES ISSUABLE PURSUANT THERETO 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.

2.2. Clause 2A ("EXERCISABILITY; TERM") is hereby amended as follows:

2.2.1. the words "the date which is 5 (five) years following the Ninth Amendment Closing Date" before the parenthetical phrase "("THE FIRST TRANCHE EXPIRATION DATE")" are hereby deleted and the date "September 28, 2011" substituted therefor;

2.2.2. the words "the date of signature by the Company and the Banks of an agreement by the Banks to reschedule the repayment dates of the Interest Payment Loans (as defined in the Ninth Amendment)" before the parenthetical phrase "("THE SECOND TRANCHE EXERCISABILITY DATE")" are hereby deleted and the date "September 28, 2006" substituted therefor; and

2.2.3. the words "the date which is 5 (five) years following the Second Tranche Exercisability Date" before the parenthetical phrase "("THE SECOND TRANCHE EXPIRATION DATE")" are hereby deleted and the date "September 28, 2011" substituted therefor.

2.3. Clause 3 ("EXERCISE OF WARRANT") is hereby amended by deleting the words "and, provided further, that if the Second Tranche Exercisability Date does not occur, no more than 2,066,116 (two million and sixty-six thousand, one hundred and sixteen) Warrant Shares will be exercisable during the term of this Warrant".

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2.4.1. to amend the first sentence to read in its entirety as follows: "This Warrant has not been registered under the Securities Act, or any other securities laws.";

2.4.2. to amend the third sentence thereof to read in its entirety as follows: "The Warrant Shares have been registered under the Securities Act on Form F-3 Registration Statement No. 333-131315.".

2.5. Clause 8 ("TRANSFER OF THIS WARRANT OR SHARES") is hereby amended:

2.5.1. to delete the words "or securities purchaseable hereunder" from the first sentence thereof; and

2.5.2. to add the words at the end of the second sentence thereof, "or unless sold pursuant to Rule 144 of the Securities Act".

2.6. Clause 9 (including, for the avoidance of doubt, Clause 9A, 9B and 9C) ("REGISTRATION RIGHTS") is hereby amended to read in its entirety as follows: "The Company covenants and agrees to provide the Holder the registration rights provided in the registration rights agreement, dated September 28, 2006 between the Company and Bank Leumi Le-Israel B.M., a copy of which is attached hereto as APPENDIX A, as such may be amended from time to time ("THE REGISTRATION RIGHTS AGREEMENT"). Such registration rights may be assigned by the Holder pursuant to and in accordance with the terms of the Registration Rights Agreement but only to a transferee or assignee of this Warrant pursuant to and in accordance with Section 8 of this Warrant.".

2.7. Clause 12 is hereby amended by adding the following to the end thereof:

", provided that if this Warrant has been amended, at the request of the Holder, the Company shall issue an amended and restated Warrant certificate reflecting such amendment or amendments. In addition, but without derogating from the aforesaid, if this Warrant has been amended, the Holder shall have the right, at the option of the Holder, at any time and, if applicable, from time to time, to surrender this Warrant certificate and receive an amended and restated Warrant certificate reflecting any such amendment or amendments."

2.8. Clause 13 is hereby amended to delete the Facsimile No. "(03) 514-9017" and substitute "(03) 514-9278" therefor, to add, immediately thereafter, "with a copy to (which shall not constitute notice): Leumi and Co. Investment House Ltd., 25 Kalisher Street, Tel-Aviv 65165, Israel, Fax: 972-3-5141215, Attn: Head of Investment Sector" and to delete the Facsimile No. "(04) 654-6510" and substitute "(04) 604-7242" therefor.

3. Save as amended expressly pursuant to this Amendment, the provisions of the Warrant shall continue in full force and effect and the Warrant and this Amendment shall be read and construed as one instrument.

4. This Amendment shall be governed by and construed in accordance with the laws of the State of Israel.

IN WITNESS WHEREOF, THE PARTIES HAVE SIGNED THIS FIRST AMENDMENT ON THE 28TH DAY OF SEPTEMBER 2006.

for: TOWER SEMICONDUCTOR LTD.

By: _____

Title: _____

for BANK LEUMI LE-ISRAEL B.M.

By: _____

Title: _____