

SECURITIES AND EXCHANGE COMMISSION

FORM SC 13D/A

Schedule filed to report acquisition of beneficial ownership of 5% or more of a class of equity securities [amend]

Filing Date: **2008-10-14**
SEC Accession No. **0001144204-08-057206**

(HTML Version on secdatabase.com)

SUBJECT COMPANY

TOWER SEMICONDUCTOR LTD

CIK: **928876** | IRS No.: **000000000** | Fiscal Year End: **1231**
Type: **SC 13D/A** | Act: **34** | File No.: **005-45635** | Film No.: **081119564**
SIC: **3674** Semiconductors & related devices

Mailing Address

*RAMAT GAVRIEL
P O BOX 619
MIGDAL HAEMEK 23105 L3 N-
A*

Business Address

*RAMAT GAVRIEL
P O BOX 619
MIGDAL HAEMEK 23105 L3
97246506611*

FILED BY

ISRAEL CORP LTD

CIK: **52727** | IRS No.: **000000000** | Fiscal Year End: **1231**
Type: **SC 13D/A**
SIC: **5090** Misc durable goods

Mailing Address

*ASIA HOUSE
4 WEIZMAN STREET
TEL AVIV ISRAEL L3 61070*

Business Address

*23 ARANHA STREET
TEL AVIV L3 61070
97236844500*

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 13D/A
Under the Securities Exchange Act of 1934
(Amendment No. 7)
Tower Semiconductor Ltd.

(Name of Issuer)

Ordinary Shares, NIS 1.00 par value per share

(Title of Class of Securities)

M87915100

(CUSIP Number)

Noga Yatziv
Israel Corporation Ltd.
23 Aranha Street
Tel Aviv 61070, Israel
972-3-684-4517

(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

September 25, 2008

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), 13d-1(f) or 13d-1(g), check the following box.

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Rule 13d-7 for other parties to whom copies are to be sent.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

(Continued on following pages)

(Page 1 of 13 Pages)

1 NAMES OF REPORTING PERSONS: **Israel Corporation Ltd.**
 I.R.S. IDENTIFICATION NOS.
 OF ABOVE PERSONS: 000000000

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP:

(a) (b)

3 SEC USE ONLY

4 SOURCE OF FUNDS: **WC**

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS
 REQUIRED PURSUANT TO ITEM 2(d) OR 2(e):

6 CITIZENSHIP OR PLACE OF
 ORGANIZATION:

Israel

7 SOLE VOTING POWER: **148,991,809(1)(2)**

NUMBER OF
 SHARES
 BENEFICIALLY
 OWNED BY
 EACH
 REPORTING
 PERSON WITH

8 SHARED VOTING POWER: **39,603,306(3)**

9 SOLE DISPOSITIVE POWER: **148,991,809 (1)(2)**

9 SHARED DISPOSITIVE POWER: **35,512,398(4)**

10

11 AGGREGATE AMOUNT BENEFICIALLY
 OWNED BY REPORTING PERSON:

188,595,115 (1)(3)(4)(5)

12 CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES
 CERTAIN SHARES:

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11):

63.2% (5)

14 TYPE OF REPORTING PERSON:

CO

(1) Includes (a) 14,260,504 Ordinary Shares (b) warrants and convertible debentures held by Israel Corporation Ltd. (“TIC”) to purchase 5,561,549 Ordinary Shares (as defined in Item 1 below), of which, (i) 58,906 are exercisable within sixty (60) days at an exercise price of \$6.17 per Ordinary Share (ii) 2,941,176 are exercisable within sixty (60) days at an exercise price of \$2.04 per Ordinary Share and (iii) 2,561,467 are issuable within sixty (60) days, upon the conversion of all the convertible debentures held by TIC, at a conversion price of \$1.10 per Ordinary Share, representing debt in the amount of \$2,817,609 and (c) 129,169,756 Ordinary Shares issuable within sixty (60) days upon conversion of the Capital Notes of Tower issued to TIC (the “Capital Notes”).

(2) Includes 62,500 Ordinary Shares which are subject to an option granted by TIC’s wholly owned subsidiary, Israel Corporation Technologies (ICTech) Ltd. (“ICTech”), (which thereafter were transferred all of its assets to TIC prior to its voluntary dissolution), to a consultant of the issuer and exercisable at an exercise price of \$5.60 per Ordinary Share until December 31, 2008.

(3) Includes: an aggregate of 35,512,398 Ordinary Shares held by the other parties (the “Wafer Partners”) to the Consolidated Shareholders Agreement (incorporated herein as Exhibit 4) (and the amendment thereto, incorporated herein as Exhibit 12, the “Shareholders’ Agreement Amendment”), and warrants and convertible debentures held by the Wafer Partners, to purchase 4,090,908 are issuable within sixty (60) days, upon the conversion of all of the debentures held by such parties which were issued pursuant to the Company’s rights offering to all of its shareholders in December 2005 and January 2006 (the “Rights Offering”) at a conversion price of \$1.10 per Ordinary Share, representing debt in the aggregate amount of approximately \$4,499,999. The percentage of Ordinary Shares reported in this Amendment No. 7 as being beneficially owned by the Wafer Partners is based on publicly available information provided by Tower or other third parties.

(4) Includes: an aggregate of 35,512,398 Ordinary Shares held by the Wafer Partners.

(5) Consists of an aggregate of 188,595,115 Ordinary Shares (including the number of Ordinary Shares issuable pursuant to the warrants, debentures and Capital Notes referred to in footnotes (1) and (3) hereto), of which 148,991,809 Ordinary Shares (including the number of Ordinary Shares issuable pursuant to the warrants, convertible debentures and Capital Notes referred to in footnote (1) above) are held by TIC and 39,603,306 Ordinary Shares (including the number of Ordinary Shares issuable pursuant to the warrants and debentures referred to in footnote (3) above) are held by the Wafer Partners. The Shareholders’ Agreement Amendment provides for certain obligations and restrictions with respect to (a) the voting of the Ordinary Shares held by TIC and by the Wafer Partners (including the Ordinary Shares issuable pursuant to the warrants and convertible debentures described in footnotes (1) and (3) above) and (b) the disposition of the Ordinary Shares held by TIC and by the Wafer Partners (including the Ordinary Shares issuable pursuant to the warrants described in footnote (1)(i), and in footnote (4) above). The terms of the Consolidated Shareholders Agreement and the Shareholders’ Agreement Amendment are hereby specifically incorporated by reference herein. Neither the filing of this Amendment No. 7 to the Schedule 13D nor any of its contents shall be deemed to constitute an admission by the Reporting Person (as defined in Item 2 below) that the Reporting Person and any other persons or entities constitute a “group” for purposes of Section 13(d) of the Exchange Act and the rules promulgated thereunder. Further, the filing of this Amendment No. 7 shall not be construed as an admission that the Reporting Person is, for the purposes of Section 13(d) or 13(g) of the Exchange Act, or for any other purpose, the beneficial owner of any Ordinary Shares other than those Ordinary Shares over which the Reporting Person has direct voting and dispositive power, as reported herein. The Reporting Person disclaims any pecuniary interest in any securities of the issuer owned by any other party, and expressly disclaims the existence of a group. Based on the number of Ordinary Shares of the issuer outstanding as of July 31, 2008 after taking into account the shares issued in Tower’s merger with Jazz Technologies, Inc. of 159,620,318 (according to publicly available information provided by Tower to date) the number of Ordinary Shares of Tower covered by the Consolidated Shareholders Agreement and the Shareholders’ Agreement Amendment (assuming the exercise of the Ordinary Shares issuable pursuant to the warrants, convertible debentures and Capital Notes referred to in footnotes (1) and (3) hereto) represents approximately 63.2% of the outstanding Ordinary Shares. The above number of outstanding Ordinary Shares does not include 1,300,000 treasury shares held by a trustee for the benefit of Tower’s employee stock option plan.

Item 1. Security and Issuer.

The name of the issuer to which this Amendment No. 7 (as defined below) relates is Tower Semiconductor Ltd. (“Tower”). Its principal executive offices are located at Ramat Gavriel Industrial Park, P.O. Box 619, Migdal Haemek, 23105 Israel. This Amendment No. 7 relates to Tower’s Ordinary Shares, NIS 1.00 par value per share (the “Ordinary Shares”). This constitutes Amendment No. 7 (the “Amendment No. 7”) to Schedule 13D filed previously by the Reporting Person (as defined in Item 2 below). The percentage of Ordinary Shares reported in this Amendment No. 7 as being beneficially owned by the Reporting Person and any other information disclosed herein (other than descriptions of agreements and transactions to which the Reporting Person is a party) is based on publicly available information provided by Tower or other third parties.

Item 2. Identity and Background

This Amendment No. 7 is filed on behalf of Israel Corporation Ltd. (“TIC” or the “Reporting Person”) The Reporting Person was organized under the laws of the State of Israel.

The principal business address of the Reporting Person is 23 Aranha Street, Tel Aviv 61070 Israel. The principal business of the Reporting Person is a holding company.

Set forth below is certain current information regarding the executive officers and directors of the Reporting Person:

Name/Position with TIC	Business Address	Principal Occupation and Name and address of Employer	Country of Citizenship
Idan Ofer - Chairman of the Board	23 Aranha St. Tel-Aviv	23 Aranha St. Tel-Aviv Chairman of Ofer (Ships Holdings) Ltd. - Einstein 40, Ramat Aviv, Israel	Israel
Ehud Angel – Director	23 Aranha St. Tel-Aviv	Head of Morgan Stanley Israel	Israel
Yair Seroussi – Director	23 Aranha St. Tel-Aviv	17 Ha'dganim St. Givataym CEO of Ofer Management	Israel
Avi Levy – Director	23 Aranha St. Tel-Aviv	Abba Even 1, Herzliya Israel	Israel
Moshe Vidman - Director	23 Aranha St. Tel-Aviv	Director and manager of companies – 14 Megadim St. Yafe Nof, Jerusalem	Israel
Irit Izakson - Director	23 Aranha St. Tel-Aviv	Professional Director- 15 Matityahu Cohen Gadol St. Tel Aviv 62268	Israel
Amnon Lion - Director	23 Aranha St. Tel-Aviv	Chairman, and CEO of Zodiac Maritime Agencies Ltd. - Andrei Sacharov 9, Haifa, Israel	Israel
	23 Aranha St. Tel-Aviv	9 Margalit St. Haifa, Israel	Israel

Avraham Anaby – Alternate
Director

Jacob Amidror Director	23 Aranha St. Tel-Aviv	VP of the Lander Institute in Jerusalem	Israel
Zeev Nahari Director	23 Aranha St. Tel-Aviv	Senior Deputy Chief Executive Officer of Bank Leumi	Israel
Ron Moskovitz Director	23 Aranha St. Tel-Aviv	Meadway 69, Hampstead Garden Suburb, Nw11 6qj, London	Israel
Gideon Langholz Director	23 Aranha St. Tel-Aviv	President of HIT – Holon Institute of Technology	Israel

Name/Position with TIC	Business Address	Address of Employer	Country of Citizenship
Nir Gilad - President & Chief Executive Officer	23 Aranha St. Tel-Aviv	23 Aranha St. Tel-Aviv	Israel
Avisar Paz - Chief Financial Officer	23 Aranha St. Tel-Aviv	23 Aranha St. Tel-Aviv	Israel
Allon Raveh - Vice President Business Development	23 Aranha St. Tel-Aviv	23 Aranha St. Tel-Aviv	Israel
Elie Goldschmidt - Vice President Communication and Regulatory Affairs	23 Aranha St. Tel-Aviv	23 Aranha St. Tel-Aviv	Israel
Shmuel Rosenblum - Internal Auditor	23 Aranha St. Tel-Aviv	23 Aranha St. Tel-Aviv	Israel
Adv. Noga Yatziv - Company Secretary & Assistant to the President	23 Aranha St. Tel-Aviv	23 Aranha St. Tel-Aviv	Israel

The Reporting Person is a public company traded on the Tel Aviv Stock Exchange. As such, all decisions relating to the voting or disposition of stock of the issuer are made by the board of directors of the Reporting Person that contains two independent directors. A discretionary trust, in which Idan Ofer, his children and remoter issue are prime beneficiaries, indirectly holds 80% of Millennium Investments Elad Ltd. ("Millennium") which holds approximately 46.9% of the shares of the Reporting Person. This discretionary trust also indirectly holds an additional 0.7% of the shares of the Reporting Person. A second discretionary trust, in which Idan Ofer, his children and remoter issue are prime beneficiaries, holds 50% of a company that indirectly holds (i) 20% of Millennium and (ii) 2.9% of the shares of the Reporting Person. Mr. Ofer also owns approximately 3.6% of the shares of the Reporting Person.

During the last five years, no Reporting Person nor any of the executive officers or directors of the Reporting Person has been: (i) convicted in a criminal proceeding (excluding traffic violations and similar misdemeanors); or (ii) a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

Item 3. Source and Amount of Funds or Other Consideration.

As a condition precedent to agreements with Tower's lender banks, Bank Leumi Le-Israel, B.M. and Bank Hapoalim, B.M. (the "Banks"), for the restructuring of Tower's debt, a total of \$250 million of Tower's debt to the Banks and TIC, will be converted into equity capital notes of Tower ("Capital Notes"), exercisable into Ordinary Shares on the basis of \$1.42 per share. This represents two times the average closing price per share on NASDAQ for the ten trading days prior to August 7, 2008, which was the date of Tower's public announcement regarding its debt restructuring negotiations with the Banks and TIC. The conversion of the debt into Capital Notes reduces Tower's debt by approximately \$250 million, increases its shareholders' equity by approximately \$250 million, as well as improves its cash flow margins, statement of operations results and financial position.

TIC and Tower entered into a conversion agreement attached hereto as Exhibit 21 and which is incorporated herein by reference (the "Conversion Agreement"), pursuant to which (a) \$30 million owed by Tower to TIC as part of an equipment loan facility and (b) approximately \$20 million of convertible debentures were converted into Capital Notes of Tower, exercisable into an aggregate of 35,211,271 Ordinary Shares. The Capital Notes are attached hereto as Exhibit 25 and are incorporated herein by reference.

TIC also invested \$20 million in Tower in exchange for Capital Notes of Tower, exercisable into 28,169,014 ordinary shares of Tower based on the average closing price per share on NASDAQ for the ten trading days prior to August 7, 2008 pursuant to a Securities Purchase Agreement incorporated herein as Exhibit 19 (the "Securities Purchase Agreement"). Furthermore, TIC committed to invest up to an additional \$20 million between the date hereof and the end of 2009 to cover, from time to time, certain shortfalls in Tower's cash position. The commitment will be reduced by any amounts of other financing raised by Tower between the date hereof and the date of such cash shortfall and is subject to certain other conditions contained in the Undertaking, dated September 25, 2008 and incorporated herein as Exhibit 24. In consideration for such additional investment, TIC will receive an amount of Capital Notes of Tower, exercisable into ordinary shares of Tower, based on the lower of: (i) the average closing price per share on NASDAQ for the last ten trading days prior to the date on which the investment is made, or (ii) \$0.71 per Ordinary Share.

In connection with the closing of the Securities Purchase Agreement and Conversion Agreement, TIC entered into an amended and restated registration rights agreement with Tower incorporated herein as Exhibit 20 (the "Amended and Restated Registration Rights Agreement") pursuant to which the registration rights agreement entered into between Tower and TIC in 2006 was amended and restated to include the ordinary shares to be issued upon conversion of the Capital Notes. In addition, pursuant to a fee Letter attached hereto as Exhibit 26 and incorporated herein by reference (the "Fee Letter"), TIC will receive a \$300,000 fee from Tower.

In September 2006, TIC and each of the Banks entered into an agreement pursuant to which the Banks have been granted co-sale rights in connection with a sale by TIC to a third party (other than non-prearranged sales by TIC into the market on any stock exchange in which the Issuer's ordinary shares are then listed for trading) as a result of which TIC would cease to be Tower's largest shareholder as calculated pursuant to such agreements (each such agreement, a "Tag-Along Agreement"). In September 2008, each of the Tag-Along Agreements was amended to include the Capital Notes issued to the Banks under their agreement with Tower and the amendments are incorporated herein in Exhibits 23 and 24.

The acquisitions of Capital Notes by TIC were funded out of working capital.

Item 4. Purpose of Transaction.

The purpose of the acquisition of the Capital Notes by TIC as provided for in the respective agreements incorporated herein was to participate in restructuring Tower's debt obligations and investing additional capital in Tower.

Item 5. Interest in Securities of the Issuer.

(a)-(b) As a result of the Consolidated Shareholders' Agreement and the Shareholders' Agreement Amendment, each party thereto may be deemed to be the beneficial owner of at least 188,595,115 Ordinary Shares. Such shares constitute approximately 63.2% of the outstanding Ordinary Shares, based on the capitalization of the Tower as of the date hereof (according to publicly available information provided by Tower to date) and calculated in accordance with Rule 13d-3(d)(i) of the Act. Such beneficial ownership is based on (i) the ownership, by TIC, SanDisk, Alliance and Macronix of 14,260,504, 15,878,972, 10,860,031, and 8,773,395 Ordinary Shares, respectively, (ii) the right of TIC to purchase 134,731,305 Ordinary Shares exercisable within sixty (60) days of the date hereof (of which 58,906 may be exercised within sixty (60) days at an exercise price of \$6.17 per Ordinary Share, 2,561,467 are issuable upon conversion of all of the convertible debentures issued to TIC in the Rights Offering, 2,941,176 warrants are exercisable within sixty (60) days at an exercise price of \$2.04 per Ordinary Share and 129,169,756 are issuable upon conversion of the Capital Notes), (iii) the right of SanDisk, Alliance and Macronix to purchase in the aggregate 4,090,908 Ordinary Shares, within sixty (60) days, upon the conversion of all the debentures purchased pursuant to the Rights Offering which are held by such parties.

The statements in this Amendment No. 7 shall not be construed as an admission by the Reporting Person that any such Reporting Person and any other persons or entities constitute a "group" for purposes of Section 13(d) of the Exchange Act and the rules promulgated thereunder. Further, the filing of this Amendment No. 7 shall not be construed as an admission that the Reporting Person is, for the purposes of Section 13(d) or 13(g) of the Exchange Act, or for any other purpose, the beneficial owner of any Ordinary Shares other than those Ordinary Shares over which the Reporting Person has direct voting and dispositive power, as reported herein. The Reporting Person disclaims any pecuniary interest in any securities of Tower owned by any other party, and expressly disclaims the existence of a group.

(c) Except as set forth above, neither the Reporting Person, nor, to the best of its knowledge, any of their directors or executive officers, has effected any transaction in any securities of Tower during the past sixty (60) days.

(d) No person is known to have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, securities covered by this statement.

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer.

With the exception of the information contained in the aforementioned paragraph and other than the Purchase Agreement, Additional Purchase Agreement (including the Series A5 Additional Purchase Obligation, as amended), the Registration Rights Agreement, the Consolidated Shareholders Agreement, the Amendment to the Shareholders' Agreement, the Trustee Nomination Letter (including the termination thereof on March 11, 2002), the 2006 Registration Rights Agreement as amended by the Amended and Restated Registration Rights Agreement, the Bank Voting Agreements, the Tag-Along Agreements (as amended), the Securities Purchase Agreement, the Conversion Agreement, the Fee Letter and the Safety Net Undertaking described above, in previous amendments or attached hereto as exhibits and incorporated herein in their entirety by reference, to the knowledge of the Reporting Person, there are no contracts, arrangements, understandings or relationships (legal or otherwise) among the persons named in Item 2 and between such persons and any person with respect to any securities of the Tower, including but not limited to transfer or voting of any of the securities, finder's fees, joint ventures, loan or option arrangements, puts or calls, guarantees of profits, division of profits or loss, or the giving or withholding of proxies.

Item 7. Materials to be Filed as Exhibits.

The following exhibits are filed herewith:

<u>Exhibit No.</u>	<u>Description</u>
1.	Share Purchase Agreement, dated as of December 12, 2000, between Israel Corporation Ltd. and Tower Semiconductor Ltd.*
2.	Additional Purchase Obligation Agreement, dated as of December 12, 2000, between Israel Corporation Ltd. and Tower Semiconductor Ltd.*
3.	Registration Rights Agreement, dated as of January 18, 2001, by and among Israel Corporation Ltd., SanDisk Corporation, Alliance Semiconductor Ltd., Macronix International Co., Ltd. and QuickLogic Corporation.*
4.	Consolidated Shareholders Agreement, dated as of January 18, 2001, by and among Israel Corporation Ltd., SanDisk Corporation, Alliance Semiconductor Ltd. and Macronix International Co., Ltd.*
5.	Trustee Nomination Letter, dated January 25, 2001, between Zvi Ephrat and Israel Corporation Ltd.*
6.	Amendment to Payment Schedules of Series A-3 and Series A-4 Additional Purchase Obligations, dated March 26, 2002.*
7.	Letter, dated July 23, 2002, regarding Participation in Rights Offering, executed by Israel Corporation Technologies (ICTech) Ltd., SanDisk Corporation, Alliance Semiconductor Corporation and Macronix (BVI) Co., Ltd.*
8.	Joint Filing Agreement, dated December, 2002.*
9.	Amendment to Payment Schedules of Series A-5 Additional Purchase Obligations, dated February 24, 2003.*
10.	Amendment to Payment Schedules of Series A-5 Additional Purchase Obligations, dated February 24, 2003.*
11.	Side Letter for Amendment to Payment Schedules of Series A-5 Additional Purchase Obligations, dated April 14, 2003.*

Exhibit No.	Description
12.	Amendment No.3 to Payment Schedule of Series A-5 Additional Purchase Obligations, Waiver of Series A-5 Conditions, Conversion of Series A-4 Wafer Credits and Other Provisions, dated November 11, 2003. *
13.	Securities Purchase Agreement, dated as of August 24, 2006, between Israel Corporation Ltd. and Tower Semiconductor Ltd.*
14.	Registration Rights Agreement, dated as of September 28, 2006, between Israel Corporation Ltd. and Tower Semiconductor Ltd.*
15.	Voting Agreement, dated as of September 28, 2006, by and among Israel Corporation Ltd., SanDisk Corporation, Alliance Semiconductor Ltd., Macronix International Co., Ltd. and Bank Hapoalim B.M.*
16.	Voting Agreement, dated as of September 28, 2006, by and among Israel Corporation Ltd., SanDisk Corporation, Alliance Semiconductor Ltd., Macronix International Co., Ltd. and Bank Leumi Le-Israel B.M.*
17.	Tag-Along Agreement, dated as of September 28, 2006, between Israel Corporation Ltd., and Bank Hapoalim B.M.*
18.	Tag-Along Agreement, dated as of September 28, 2006, between Israel Corporation Ltd., and Bank Leumi Le-Israel B.M.*
19.	Securities Purchase Agreement, dated as of September 25, 2008, by and between Israel Corporation Ltd. and Tower Semiconductor Ltd.
20.	Amended and Restated Registration Rights Agreement, dated as of September 25, 2008, by and between Israel Corporation Ltd. and Tower Semiconductor Ltd.
21.	Conversion Agreement, dated as of September 25, 2008, by and between Israel Corporation Ltd. and Tower Semiconductor Ltd.
22.	Amendment No. 1 to Tag-Along Agreement, dated September 25, 2008, by and between Israel Corporation Ltd., and Bank Hapoalim B.M.
23.	Amendment No. 1 to Tag-Along Agreement, dated September 25, 2008, by and between Israel Corporation Ltd., and Bank Leumi Le-Israel B.M.
24.	Safety Net Undertaking of Israel Corporation Ltd. to Tower Semiconductor Ltd., dated September 25, 2008
25.	Equity Capital Notes of Tower Semiconductor Ltd. received by Israel Corporation Ltd. , dated September 25, 2008

<u>Exhibit No.</u>	<u>Description</u>
26	Fee Letter, dated September 25, 2008, from Tower Semiconductor Ltd. to Israel Corporation Ltd.

*Previously filed.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: October 14, 2008

ISRAEL CORPORATION LTD.

By: /s/ Nir Gilad
Name: Nir Gilad
Title: President and Chief Executive Officer

By: /s/ Avisar Paz
Name: Avisar Paz
Title: Chief Financial Officer

Exhibit Index

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9.	Amendment to Payment Schedules of Series A-5 Additional Purchase Obligations, dated February 24, 2003.*
10.	Amendment to Payment Schedules of Series A-5 Additional Purchase Obligations, dated February 24, 2003.*
11.	Side Letter for Amendment to Payment Schedules of Series A-5 Additional Purchase Obligations, dated April 14, 2003.*
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25.	Equity Capital Notes of Tower Semiconductor Ltd. issued to Israel Corporation Ltd., dated September 25, 2008
26.	Fee Letter, dated September 25, 2008, from Tower Semiconductor Ltd. to Israel Corporation Ltd.

* Previously filed.

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (the “**Agreement**”) is made and entered into effective as of September 25, 2008 by and between TOWER SEMICONDUCTOR LTD. (the “**Company**” or “**Tower**”), a company organized under the laws of the State of Israel and ISRAEL CORPORATION LTD., a company organized under the laws of the State of Israel (the “**Purchaser**”).

WHEREAS, Tower is an independent manufacturer of wafers whose Ordinary Shares are traded on the Nasdaq National Market under the symbol TSEM and whose Ordinary Shares and certain other securities are traded on the Tel-Aviv Stock Exchange (“**TASE**”) under the symbol TOWER;

WHEREAS, pursuant to a letter between Bank Hapoalim B.M. and Bank Leumi Le-Israel B.M. (collectively the “**Banks**”), Tower and the Purchaser, dated August 19, 2008 (the “**MOU**”), the Purchaser has committed to the Banks, *inter alia*, subject to certain conditions as provided in the MOU, to invest in the Company a sum of twenty million US Dollars as set forth in this Agreement (the “**Investment**”);

WHEREAS, pursuant to the MOU, the Investment in Tower is a condition precedent to the closing of an amendment of the Facility Agreement (as defined in the MOU) and other definitive documentation (the “**Amendment**”); and

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1 Issue and Sale of Securities by the Company.

1.1 Securities. Subject to and in accordance with the terms and conditions of this Agreement, the Company shall issue to the Purchaser, and the Purchaser shall purchase from the Company for an aggregate purchase price of US \$20,000,000 in immediately available funds (the “**Note Purchase Price**”) an equity convertible capital note, which capital note is convertible into 28,169,014 shares of the Company (subject to adjustments to changes in capital structure, stock splits, etc.), such capital note being fully convertible, at any time, in whole or in part and freely transferable, at any time, in whole or in part in the form attached hereto as Schedule 1 (the “**Capital Note**”). For the avoidance of doubt, the Capital Note issuable hereunder shall not entitle TIC to interest, dividends, early redemption rights (for the removal of doubt, no conversion of capital notes by TIC into shares shall be deemed a redemption or pre-payment of the capital note), anti-dilution rights, or any adjustments due to changes to interest rates, the market price of the Company’s shares or indexation of any kind, but shall entitle TIC, as a capital note holder, to participate in rights offerings and shall be subject to certain adjustments, including share splits, combinations and other adjustments and with rights which are at least as good as the capital notes issued to the Banks pursuant to a Conversion Agreement entered into with Tower on the date hereof.

2 Closing.

2.1 Closing Date. The issue and allotment of the Capital Note, the purchase thereof by the Purchaser and the registration of the Capital Note in the name of the Purchaser in the register of the Company, shall take place at a closing (the “**Closing**”) to be held on September 25, 2008 simultaneous with its signing in Tel Aviv, Israel at the offices of Yigal Arnon & Co., One Azrieli Center, Tel-Aviv, Israel, or such other time and place as the parties shall mutually agree. In the event that the Closing does not take place prior to September 30, 2008, the Purchaser shall have the right, but not the obligation, to cancel this Agreement unless the Purchaser has caused the Closing not to have occurred in breach of this Agreement. The Company shall use its commercially reasonable best efforts to (i) take or cause to be taken all necessary actions, and do or cause to be done all things, necessary, proper or advisable under this Agreement and applicable laws to consummate and make effective all the transactions contemplated by this Agreement as soon as practicable, including, without limitation, preparing and filing all documentation to effect all necessary filings, notices, petitions, statements, registrations, submissions of information, applications and other documents and (ii) obtain all approvals required to be obtained from any third party necessary, proper or advisable to the transactions contemplated by this Agreement. The Purchaser shall cooperate with the Company in the achieving the above but the primary responsibility (including but not limited to bearing the relevant expenses therefor) shall be the Company’s.

2.2 Transactions upon Closing. At the Closing, the following transactions shall occur, which transactions shall be deemed to take place simultaneously and no transaction shall be deemed to have been completed or any document delivered until all such transactions have been completed and all required documents delivered:

- a) the Company shall deliver to the Purchaser copies of resolutions of the Company's Audit Committee, the Company's Board of Directors and the Company's shareholders approving the execution and performance of this Agreement, including the issuance of the Capital Note;
- b) the Note Purchase Price shall be transferred by the Purchaser to the Company by wire transfer into the account of the Company, in accordance with the written instructions provided by the Company to the Purchaser;
- c) the Company shall deliver to the Purchaser a copy of the approval of the TASE for listing the shares issuable upon conversion of the Capital Note (the “**Shares**”);
- d) the Company shall record such issuance of the Capital Note in the name of the Purchaser on the records of the Company;
- e) The Closings of the Amendment and each of the conversion agreements entered into between the Company and the Banks shall take place simultaneously with the Closing under this Agreement; and

- f) The Amended and Restated Registration Rights Agreement shall be executed and delivered by the Company, in the form attached hereto as Schedule 2.
- g) The Company shall pay the Purchaser US \$100,000 as the first installment of the fee of US\$300,000 provided for under the MOU.
- h) The legal opinion of Yigal Arnon & Co., Advocates, the Company's external legal counsel has been delivered to the Purchaser.

3 **Representations and Warranties of the Company.**

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

3.1 Organization. The Company is duly organized and validly existing under the laws of the State of Israel and has full corporate power and authority to own, lease and operate its properties and assets and to conduct its business as now being conducted and to perform all its obligations under this Agreement.

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

3.3 Share Capitalization.

As of September 25, 2008, the authorized share capital of the Company consists of 1,100,000,000 ordinary shares, of which 159,656,318 shares are issued and outstanding, 135,523,401 shares are reserved for issuance upon exercise of outstanding options and warrants (including options granted to employees, officers, directors, related parties, banks, and other public investors), 96,504,214 shares are reserved for issuance upon conversion of outstanding convertible debentures, 321,988,510 shares are reserved for issuance upon conversion of equity equivalent capital notes, and 5,900,000 shares are reserved for future grants of options to employees, officers, consultants and directors. Attached hereto as Schedule 3 is a capitalization table reflecting all shareholdings and holdings of securities (including capital notes, warrants, options and convertible debentures) in the Company after the Closing. All issued and outstanding share capital of the Company has been duly authorized, and is validly issued and outstanding and fully paid and non-assessable. The Capital Note and the Shares issued upon its conversion will be validly issued, fully paid, nonassessable and not subject to any pledge, lien or restriction on transfer, except for restrictions on transfer imposed hereunder and by the applicable securities laws. The Company has reserved for issuance enough ordinary shares to issue the Shares. The issuance of the Capital Note and the Shares issued upon its conversion will not conflict with the Articles of Association of the Company then in effect nor with any outstanding warrant, option, call, preemptive right or commitment of any type relating to the Company's capital stock.

3.4 Authorization; Approvals. Prior to the Closing, all corporate action on the part of the Company necessary for the execution, delivery and performance of this Agreement and the other agreements contemplated to take place at the Closing shall have been taken. Except as set forth in Schedule 4.4, no consent, approval or authorization of, exemption by, or filing with, any governmental or regulatory authority or any third party is required in connection with the execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby. Other than approval by the Company's shareholders, this Agreement when executed and delivered by or on behalf of the Company, shall constitute the valid and legally binding obligations of the Company, legally enforceable against the Company in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other laws relating to creditor's rights generally and general principles of equity.

3.5 No Conflicts. Neither the execution and delivery of this Agreement by Tower, nor the compliance with the terms and provisions of this Agreement on the part of Tower, will: (i) violate any statute or regulation of any governmental authority, domestic or foreign, affecting Tower; (ii) require the issuance of any authorization, license, consent or approval of any governmental agency, or any other person other than as set forth in Schedule 4.4; or (iii) conflict with or result in a breach of any of the terms, conditions or provisions of any judgment, order, injunction, decree, loan agreement or other material agreement or instrument to which Tower is a party, or by which Tower is bound, or constitute a default thereunder, the effect of which might have a material adverse effect on Tower.

3.6 No Litigation. There are no actions, suits, proceedings, or injunctive orders, pending or threatened against or affecting Tower relating to the subject matter of this Agreement or any of the transactions expected to take place simultaneously at the Closing.

3.7 Cross Default. Upon the Closing of the Amendment, the Company will not be in default under the Facility Agreement.

3.8 The Capital Notes shall have rights which are at least as good as the capital notes issued to the Banks pursuant to a Conversion Agreement entered into with Tower on the date hereof.

4 **Representations and Warranties of the Purchaser.**

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

4.1 Organizations; Good Standing. The Purchaser is a corporation duly organized, validly existing, and in good standing under the laws of the State of Israel with full corporate power and authority to perform all its obligations under this Agreement.

4.2 Authorization; Approvals. Prior to the Closing, all corporate action on the part of the Purchaser necessary for the execution and delivery of this Agreement and other agreements contemplated hereby has been taken. No consent, approval or authorization of, exemption by, or filing with, any governmental or regulatory authority is required in connection with the execution, delivery and performance by the Purchaser of this Agreement and the consummation by the Purchaser of the transactions contemplated hereby except relating to the filing of an amendment to a Schedule 13D which will be required with the US Securities and Exchange Commission. This Agreement and other agreements contemplated hereby, when executed and delivered by or on behalf of the Purchaser, shall constitute the valid and legally binding obligations of the Purchaser, legally enforceable against the Purchaser in accordance with their respective terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other laws relating to creditor's rights generally and general principles of equity.

4.3 Investment Intent; No Registration

The Purchaser is acquiring the Capital Note and the Shares issued upon its conversion for its own account and not with a view to their distribution within the meaning of Section 2(11) of the Securities Act of 1933 (the "**Securities Act**"). The Purchaser has requisite knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of an investment in the Company and is an accredited investor as defined under Regulation D as promulgated by the United States Securities and Exchange Commission; and

The Purchaser understands that none of the Capital Note or the Shares issued upon its conversion have been registered under the Securities Act, or the laws of any jurisdiction, and agrees that the Capital Note and the Shares issued upon its conversion may not be sold, offered for sale, transferred, pledged, hypothecated or otherwise disposed of except in compliance with the Securities Act, Israeli Securities Law or any applicable securities laws of any jurisdiction (including but not limited to pursuant to an exemption therefrom). The Purchaser also acknowledges that the Capital Note and the Shares issued upon its conversion, upon issuance, will bear the following legend:

THESE SECURITIES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE OR OTHER JURISDICTION'S SECURITIES LAWS. THESE SECURITIES MAY NOT BE SOLD, OFFERED FOR SALE OR PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER THE ACT OR AN OPINION OF COUNSEL (SATISFACTORY IN FORM AND SUBSTANCE TO THE COMPANY) THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF THE ACT.

4.4 No Litigation. There are no actions, suits, proceedings, or injunctive orders, pending or threatened against or affecting the Purchaser relating to the subject matter of this Agreement.

5 Conditions of Closing of the Purchaser.

The obligations of the Purchaser to purchase the Capital Note and to transfer the Note Purchase Price at the Closing are subject to the fulfillment at or before the Closing of the following conditions precedent, any one or more of which may be waived in whole or in part by the Purchaser, which waiver shall be at the sole discretion of the Purchaser:

5.1 Representations and Warranties. The representations and warranties made by the Company in this Agreement shall have been true and correct when made, and, shall be true and correct in all material respects as of the Closing, as if made on the date of the Closing.

5.2 Covenants. All covenants, agreements, and conditions contained in this Agreement to be performed or complied with by the Company prior the Closing shall have been performed or complied with by the Company prior to or at the Closing.

5.3 Consents, etc. The Company shall have secured all permits, consents and authorizations that shall be reasonably necessary or required lawfully for the Company to consummate this Agreement and to issue the Capital Note and the Shares issued upon its conversion to be purchased by the Purchaser at the Closing, including the approval of the Company's Audit Committee, Board of Directors and General Assembly and third party and/or governmental consents.

5.4 Registration Rights Agreement. The Company and the Purchaser shall have entered into a registration rights agreement in form and substance satisfactory to the Purchaser and the Banks and with rights which are at least as good as those provided to the Banks and no worse than those currently enjoyed by the Purchaser and provides a satisfactory arrangement with respect to the registration rights of the Shares of the Company owned by the Purchaser on the date of this Agreement.

5.5 Delivery of Documents. All of the documents to be delivered by the Company, and all actions to be performed or concluded pursuant to Section 2 by the Company, shall be in a form and substance reasonably satisfactory to the Purchaser and its counsel and shall have been delivered to the Purchaser.

5.6 The Amendment. The conditions precedent for the closing of transactions contemplated by the Amendment shall have been satisfied (or waived by the Bank) other than the Investment contemplated by this Agreement which shall take place simultaneously thereto.

6 Conditions of Closing of the Company.

The obligations of the Company to sell and issue the Capital Note at the Closing are subject to the fulfillment at or before the Closing of the following conditions precedent, any one or more of which may be waived in whole or in part by the Company, which waiver shall be at the sole discretion of the Company:

6.1 Representations and Warranties. The representations and warranties made by the Purchaser in this Agreement shall have been true and correct when made, and shall be true and correct in all material respects as of the Closing, as if made on the date of the Closing.

6.2 Covenants. All covenants, agreements, and conditions contained in this Agreement to be performed or complied with by the Purchaser prior the Closing shall have been performed or complied with by the Purchaser prior to or at the Closing.

6.3 Consents, etc. The Purchaser and the Company shall have secured all permits, consents and authorizations, including, without limitations, approval of its corporate organs that shall be reasonably necessary or required lawfully for the Company to consummate this Agreement and to issue the Capital Note and the Shares issued upon its conversion to be purchased by the Purchaser at the Closing.

6.4 Delivery of Documents. All of the documents to be delivered by the Purchaser, and all actions to be performed or concluded pursuant to Section 2 by the Purchaser, shall be in a form and substance reasonably satisfactory to the Company and its counsel.

6.5 Antitrust Approval. To the extent required under law, the unconditional approval of the Comptroller to the consummation of the Closing under this Agreement has been received.

7 Covenants.

7.1 Ordinary Course. Between the date hereof and the Closing Date, the Company will operate in the ordinary course of business as now being conducted and as currently proposed to be conducted , except that the Company may perform its obligations pursuant to the Agreement and Plan of Merger and Reorganization entered into as of May 19, 2008, by and among the Company, Armstrong Acquisition Corp., a wholly owned subsidiary of the Company, and Jazz Technologies, Inc., and the transactions pursuant thereto, including with respect to the closing of the merger transaction.

7.2 Dividends. Between the date hereof and the Closing Date, the Company will not declare, make or pay any dividend or other distribution.

7.3 Actions inconsistent with this Agreement. Between the date hereof and the Closing Date, neither the Purchaser nor the Company will take any action inconsistent with this Agreement. For the avoidance of any doubt, nothing herein shall require the Purchaser to take or refrain from taking any action as a shareholder or investor in the Company.

7.4 Fees. The Company shall pay the Purchaser a fee of US\$100,000 on January 1, 2009 and an additional fee of US\$100,000 on April 1, 2009.

8 Miscellaneous.

8.1 Further Assurances. Each of the parties hereto shall perform such further acts and execute such further documents as may reasonably be necessary to carry out and give full effect to the provisions of this Agreement and the intentions of the parties as reflected thereby.

8.2 Governing Law; Jurisdiction. This Agreement will be governed by the laws of the State of Israel without regard to conflicts of law principles. Any suit, action or proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the transactions contemplated hereby may be brought in the Courts of Tel Aviv-Jaffa, and each of the parties hereby consents to the jurisdiction of such courts in any such suit, action or proceeding and irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such suit, action or proceeding in any such court or that any such suit, action or proceeding which is brought in any such court has been brought in an inconvenient forum.

8.3 Successors and Assigns; Assignment. Except as otherwise expressly limited herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the parties hereto. This Agreement may not be assigned by any party without the prior written consent of the other party hereto.

8.4 Expenses. Each party to this agreement shall bear its own expenses and costs with respect to this agreement and the transactions contemplated thereby.

8.5 Entire Agreement; Amendment and Waiver. This Agreement and the Schedules hereto constitute the full and entire understanding and agreement between the parties with regard to the subject matters hereof and thereof. Any term of this Agreement may be amended and the observance of any term hereof may be waived (either prospectively or retroactively and either generally or in a particular instance) only with the written consent of the parties to this Agreement.

8.6 Notices, etc. All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed to such party's address as set forth below or at such other address as the party shall have furnished to each other party in writing in accordance with this provision:

If to the Purchaser: Israel Corporation Ltd.
 Millennium Tower,
 23 Aranha St.
 Tel Aviv Israel 61070
 Fax: 972-3-684-4574
 Attn: Chief Financial Officer

with a copy to
(which shall not
constitute notice): Gornitzky & Co.
 45 Rothschild Blvd.,
 Tel-Aviv 65784 Israel
 Fax: 972-3-560-6555
 Attn: Adv. Zvi Ephrat

if to the Company: Tower Semiconductor Ltd.
Ramat Gavriel Industrial Area
P.O. Box 619
Migdal Haemek Israel 23105
Fax. 972-4-6047242
Attn: Oren Shirazi, Acting CFO

with a copy to
(which shall not
constitute notice):

Yigal Arnon & Co.
1 Azrieli Center
46th Floor
Tel Aviv, Israel, 67021
Fax: 03-608-7714
Attn: David Schapiro, Adv.

or such other address with respect to a party as such party shall notify each other party in writing as above provided. Any notice sent in accordance with this Section 8.6 shall be effective (i) if mailed, five (5) business days after mailing, (ii) if sent by messenger, upon delivery, and (iii) if sent via facsimile, one (1) business day following transmission and electronic confirmation of receipt.

8.7 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Agreement, shall be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. Unless provided otherwise herein, all remedies, either under this Agreement or by law or otherwise afforded to any of the parties, shall be cumulative and not alternative.

8.8 Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable under applicable law, then such provision shall be excluded from this Agreement and the remainder of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms; provided, however, that in such event this Agreement shall be interpreted so as to give effect, to the greatest extent consistent with and permitted by applicable law, to the meaning and intention of the excluded provision as determined by such court of competent jurisdiction.

8.9 Counterparts. This Agreement may be executed in any number of counterparts (including facsimile counterparts), each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

8.10 Headings. The headings of the sections and paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction hereof.

IN WITNESS WHEREOF, each of the parties has signed this Agreement as of the date first hereinabove set forth.

TOWER SEMICONDUCTOR LTD.

/s/ Oren Shirazi & /s/ Yoram Glatt

Name: Oren Shirazi & Yoram Glatt

Title: Acting VP/CFO & Treasurer

ISRAEL CORPORATION LTD.

/s/Avisar Paz & Nir Gilad

Name: Avisar Paz & Nir Gilad

Title: CFO & CEO

**AMENDED AND RESTATED
REGISTRATION RIGHTS AGREEMENT**

This Registration Rights Agreement (this “**Agreement**”) was made on September 28, 2006 by and between TOWER SEMICONDUCTOR LTD. (the “**Company**” or “**Tower**”), a company organized under the laws of the State of Israel, and ISRAEL CORPORATION LTD., a corporation organized under the laws of the State of Israel (“**TIC**” or the “**Investor**”) and is hereby amended and restated by the parties on September 25, 2008.

WHEREAS, Tower is an independent manufacturer of wafers whose Ordinary Shares are traded on the Nasdaq Stock Market (“**NASDAQ**”) under the symbol “TSEM” and whose Ordinary Shares and certain other securities are traded on the Tel-Aviv Stock Exchange (“**TASE**”) under the symbol “TSEM”;

WHEREAS, TIC and Tower have entered into a Securities Purchase Agreement dated August 24, 2006, the conditions to the effectiveness of which included, *inter alia*, the issuance to TIC of an equity-equivalent convertible capital note which will in turn be convertible, in whole or in part, by the Investor at any time and from time to time into shares of Tower;

WHEREAS, TIC and Tower have entered into a Securities Purchase Agreement dated September 25, 2008 (the “**Purchase Agreement**”), the conditions to the effectiveness of which include, *inter alia*, the issuance to TIC of an equity-equivalent convertible capital note which will in turn be convertible, in whole or in part, by the Investor at any time and from time to time into shares of Tower;

WHEREAS, Tower, TIC and certain other shareholders of Tower entered into a Registration Rights Agreement, dated January 18, 2001 (the “**2001 Registration Rights Agreement**”); for the avoidance of doubt, nothing herein shall derogate from or limit the registration rights granted to TIC pursuant to the 2001 Registration Rights Agreement.

WHEREAS the parties intend that the registration rights set forth in this Agreement be applicable with respect to all shares issuable upon conversion or exercise of any and all capital notes issued to TIC on September 28, 2006 or issuable pursuant to (i) that certain Conversion Agreement between Tower and TIC of even date herewith, (ii) that certain Undertaking made by TIC to the Company of even date herewith (the “Undertaking”), and (iii) warrants held by TIC; and

WHEREAS, the parties wish to amend and restate this Agreement in its entirety;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Bank hereby agree as follows:

1. DEFINITIONS AND INTERPRETATION.

As used in this Agreement, the following terms shall have the following meanings:

- (a) **"Capital Note"** means any capital note that is convertible into shares of Tower.
- (b) **"Holder"** means TIC, any transferee or assignee to whom TIC, assigns its rights, in whole or in part, and any transferee or assignee thereof to whom a transferee or assignee assigns its rights, in accordance with Section 9.
- (c) **"ISA"** means the Israel Securities Authority or any similar or successor agency of Israel administering the Israel Securities Law.
- (d) **"Israel Securities Law"** means the Israel Securities Law, 5728-1968 (including the regulations promulgated thereunder), as amended.
- (e) **"1933 Act"** means the U.S. Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute.
- (f) **"1934 Act"** means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, or any similar successor statute.

"Register", **"registered"**, and **"registration"** refer to a registration effected by preparing and filing a registration statement (g) 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.

"Registrable Securities" means (i) the ordinary shares of the Company issued or issuable upon conversion of any Capital Note by any Holder, and (ii) the ordinary shares of the Company issued or issuable upon exercise of a Warrant, (iii) the ordinary shares (h) of the Company issuable upon conversion of any Capital Note issued to TIC pursuant to the Undertaking, and (iv) any shares of capital stock issued or issuable with respect to the ordinary shares of the Company as a result of any stock split, stock dividend, rights offering, recapitalization, merger, exchange or similar event or otherwise, including as described in any Capital Note.

"Registration Statement" means registration statements of the Company covering Registrable Securities filed with (a) the SEC (i) under the 1933 Act, and (b) the ISA under the Israel Securities Law, to the extent required under the Israel Securities Law, so as to allow the Holder to freely resell the Registrable Securities in Israel, including on the TASE.

(j) **"SEC"** means the United States Securities and Exchange Commission or any similar or successor agency of the United States administering the 1933 Act.

(k) **"Warrant"** means the warrants issued to TIC by the Company prior to the date hereof and which are amended on the date hereof.

In this Agreement:

- (a) Words importing the singular shall include the plural and *vice versa* and words importing any gender shall include all other genders and references to persons shall include partnerships, corporations and unincorporated associations.
- (b) Any reference in this Agreement to a specific form or to any rule or regulation adopted by the SEC shall also include any successor form or amended or successor rule or regulation subsequently adopted by the SEC, all as the same may be in effect at the time.
- (c) Any reference in this Agreement to a statute, act or law shall be construed as a reference to such statute, act or law as the same may have been, or may from time to time be, amended or reenacted.
- (d) A “**person**” shall be construed as a reference to any person, firm, company, corporation, government, state or agency of a state or any association or partnership (whether or not having separate legal personality) or two or more of the foregoing.
- (e) “**Including**” and “**includes**” means, including, without limiting the generality of any description preceding such terms.
- (f) The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

2. DEMAND REGISTRATION.

- The Company shall prepare, no later than 45 days after the date on which the Company receives a written request from TIC from time to time file with the SEC a Registration Statement on Form F-3 and make all required filings with the ISA covering the resale of all, or at the request of TIC, any portion of the then Registrable Securities that are not already registered. The Company shall use its best efforts to have the Registration Statement declared effective by the SEC and the ISA as soon as possible after such filing with the SEC and the ISA.
- (a)

- 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.
- (b)

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.

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.

The Company shall notify each Holder in writing of the happening of any event, as promptly as practicable after becoming aware of such event, as a result of which the prospectus included in a Registration Statement, as then in effect, includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The Company shall use its best efforts to minimize the period of time during which a Registration Statement includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The Company shall promptly notify each Holder in writing (i) when a prospectus or any prospectus supplement or post-effective amendment has been filed so that the Registration Statement does not include an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and when a Registration Statement or any post-effective amendment has become effective (notification of such effectiveness shall be delivered to each Holder by facsimile on the same day of such effectiveness and by overnight mail), (ii) of any request by the SEC or the ISA for amendments or supplements to a Registration Statement or related prospectus or related information, and (iii) of the Company's reasonable determination that a post-effective amendment to a Registration Statement would be appropriate.

(f) The Company shall use its best efforts to prevent the issuance of any stop order or other suspension of effectiveness of a Registration Statement, or the suspension of the qualification of any of the Registrable Securities for sale in any jurisdiction and, if such an order or suspension is issued, to obtain the withdrawal of such order or suspension at the earliest possible moment and to notify each Holder who holds Registrable Securities being sold of the issuance of such order and the resolution thereof or its receipt of actual notice of the initiation or threat of any proceeding for such purpose.

(g) The Company shall cause all the Registrable Securities covered by a Registration Statement to be listed on each securities exchange on which securities of the same class or series issued by the Company are then listed, including the NASDAQ and the TASE. The Company shall deliver to the Holders a copy of the approvals of the TASE and the NASDAQ (and/or any other exchange, if applicable) to the listing of the Registrable Securities covered by such Registration Statement on such exchange, in the case of the TASE, by not later than the date hereof, and in the case of the NASDAQ (and/or other applicable exchanges) not later than the effective date of such Registration Statement .

(h) The Company shall cooperate with the Holders who hold Registrable Securities being offered and, to the extent applicable, facilitate the timely preparation and delivery of certificates (not bearing any restrictive legend) representing the Registrable Securities to be offered pursuant to a Registration Statement and enable such certificates to be in such denominations or amounts, as the case may be, as the Holders may reasonably request and registered in such names as the Holders may request.

(i) The Company shall provide a transfer agent and registrar of all Registrable Securities and a CUSIP number not later than the effective date of the applicable Registration Statement.

(j) If requested by a Holder, the Company shall (i) as soon as practicable incorporate in a prospectus supplement or post-effective amendment such information as a Holder requests to be included therein, information with respect to the number of Registrable Securities being offered or sold, the purchase price being paid therefor and any other terms of the offering of the Registrable Securities to be sold in such offering; (ii) as soon as practicable make all required filings of such prospectus supplement or post-effective amendment after being notified of the matters to be incorporated in such prospectus supplement or post-effective amendment; and (iii) as soon as practicable, supplement or make amendments to any Registration Statement if reasonably requested by a Holder of such Registrable Securities.

(k) In the event of any underwritten public offering of the Registrable Securities, enter into and perform its obligations under an underwriting agreement with usual and customary terms that are generally satisfactory to the managing underwriter of such offering. The Holder shall also enter into and perform its obligations under such an agreement (the terms of which must be satisfactory to the Holder if the Holder is to participate in such offering).

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).

(l) 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.

(m) The Company shall comply with all applicable rules and regulations of the SEC and shall make generally available to its security holders an earnings statement satisfying the provisions of Section 11(a) of the 1933 Act as soon as practicable after the effective date of the Registration Statement and in any event no later than 45 days after the end of a 12-month period (or 90 days, if such period is a fiscal year) beginning with the first month of the Company's first fiscal quarter commencing after the effective date of the Registration Statement.

4. OBLIGATIONS OF THE HOLDERS.

Each Holder agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in the first sentence of Section 3(e) or the issuance of any stop order or suspension as referred to in Section 3(f), such Holder will immediately discontinue disposition of Registrable Securities pursuant to any Registration Statement(s) covering such Registrable Securities until such Holder's receipt of the copies of the supplemented or amended prospectus contemplated by clause (i) of Section 3(e) or receipt of notice that no supplement or amendment is required.

5. EXPENSES OF REGISTRATION.

All expenses, other than underwriting discounts and commissions, incurred in connection with registrations, filings or qualifications pursuant to Sections 2 and 3, including, without limitation, all registration, listing and qualifications fees, printers and accounting fees, fees and disbursements of counsel to the Company and the Holders, including in connection with such examinations described in Section 3(l) above, shall be paid by the Company.

6. INDEMNIFICATION.

In the event any Registrable Securities are included in a Registration Statement under this Agreement:

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.

- 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;

file with the SEC in a timely manner all reports and other documents required by the Company under the 1933 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
- (b) 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.
- (c)

9. ASSIGNMENT OF REGISTRATION RIGHTS.

The rights under this Agreement shall be freely assignable, in whole or in part at any time and from time to time during the Registration Period, by the Holder to any transferee of all or any portion of a Capital Note or of the Registrable Securities (provided that, in the case of the transfer of Registrable Securities only, the rights under the Agreement may be transferred only if the Holder reasonably believes that such transferee cannot immediately make a public distribution of such Registrable Securities without restriction under the 1933 Act, the Israel Securities Law or other applicable securities laws) if: (i) the Holder agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement is furnished to the Company within a reasonable time after such transfer or assignment; (ii) the Company is, within a reasonable time after such transfer or assignment, furnished with written notice of (a) the name and address of such transferee or assignee, and (b) the securities with respect to which such registration rights are being transferred or assigned; and (iii) within a reasonable period of time after such transfer or assignment, the transferee or assignee agrees in writing with the Company to be bound by all of the provisions contained herein. At the transferee's request, the Company shall promptly prepare and file any required prospectus supplement under Rule 424(b)(3) of the 1933 Act or other applicable provision of the 1933 Act and/or the Israel Securities Law to appropriately amend the list of selling shareholders thereunder to include such transferee.

10. AMENDMENT OF REGISTRATION RIGHTS.

Provisions of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the Holders. Any amendment or waiver effected in accordance with this Section 10 shall be binding upon each Holder and the Company. No such amendment shall be effective to the extent that it applies to less than all of the Holders of the Registrable Securities. No consideration shall be offered or paid to any Person to amend or consent to a waiver or modification of any provision of any of this Agreement unless the same consideration also is offered to all of the parties to this Agreement.

11. OTHER REGISTRATION STATEMENTS; INCIDENTAL REGISTRATIONS; NO CONFLICTING AGREEMENTS.

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

- (a) statement demanded to be filed pursuant to a “demand” right granted by the Company prior to the filing of any such Registration Statement. For the purposes of this Section 11(a) only, Registration Statement shall mean a Registration Statement that is filed for an amount of Registrable Securities, that the Holder believes in good faith can be reasonably sold pursuant to such Registration Statement.

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

- (b) issuable in connection with stock option or other employee benefit plans, then the Company shall send each Holder written notice of such determination and, if within twenty days after receipt of such notice, any such Holder shall so request in writing, the Company shall include in such registration statement all or any part of such Registrable Securities such Holder requests to be registered, subject to customary underwriter cutbacks applicable on a basis consistent with the Company's obligation to other existing holders of registration rights.

- (c) The Company represents and warrants to the Holder that the Company is not a party to any agreement that conflicts in any manner with the Holder's rights to cause the Company to register Registrable Shares pursuant to this Agreement.

12. MISCELLANEOUS.

(a) Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered: (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) three business days after deposit if deposited in the mail for mailing by certified mail, postage prepaid, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

to Tower at:

Tower Semiconductor Ltd.
P.O. Box 619
Migdal Haemek
Israel
Facsimile: (04) 604 7242
Attention: Oren Shirazi
Acting Chief Financial Officer

with a copy to:

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

to TIC at:

Israel Corporation Ltd.
Millennium Tower
23 Aranha St.
Tel Aviv Israel 61070
Facsimile: (03) 684 4574
Attention: Chief Financial Officer

with a copy to:

Gornitzky & Co.
45 Rothschild Blvd.
Tel Aviv, Israel 65784
Facsimile: (03) 560 6555
Attention: Zvi Ephrat, Adv.

to any other Holder at:

such address as shall be notified to the Company pursuant to Section 9 above.

- (b) Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.
- (c) This Agreement shall be governed by and construed in accordance with the laws of the State of Israel as applicable to contracts between two residents of the State of Israel entered into and to be performed entirely within the State of Israel. Any dispute arising under or in relation to this Agreement shall be resolved in the competent court for Tel Aviv-Jaffa district, and each of the parties hereby submits irrevocably to the jurisdiction of such court.
- (d) This Agreement constitutes the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein and therein. This Agreement supersedes all prior agreements and understandings among the parties hereto with respect to the subject matter hereof and thereof.
- (e) Neither this Agreement, nor any of Tower's obligations hereunder, may be assigned by Tower, except with the prior written consent of all the Holders. Subject to the requirements of Section 9, this Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties hereto.
- (f) The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.
- (g) This Agreement may be executed in identical counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.
- (h) Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as another party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.
- (i) The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent and no rules of strict construction will be applied against any party.
- (j) This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties have caused this amended and restated Registration Rights Agreement to be duly executed as of the day and year first above written.

TOWER SEMICONDUCTOR LTD.

/s/ Oren Shirazi & /s/ Yoram Glatt

Name: Oren Shirazi & Yoram Glatt

Its: Acting VP/CFO & Treasurer

ISRAEL CORPORATION LTD.:

/s/ Avisar Paz & Nir Gilad

By: Avisar Paz & Nir Gilad

Title: CFO & CEO

CONVERSION AGREEMENT

This Conversion Agreement (this “**Agreement**”) is made and entered into effective as of September 25 2008 by and between TOWER SEMICONDUCTOR LTD. (the “**Company**” or “**Tower**”), a company organized under the laws of the State of Israel and ISRAEL CORPORATION LTD., a corporation organized under the laws of the State of Israel (“**TIC**”).

WHEREAS, Tower is an independent manufacturer of wafers whose Ordinary Shares are traded on the Nasdaq Stock Market (“**NASDAQ**”) under the symbol TSEM and whose Ordinary Shares and certain other securities are traded on the Tel-Aviv Stock Exchange (“**TASE**”) under the symbol TSEM;

WHEREAS, Bank Leumi Le-Israel B.M. and Bank Hapoalim B.M. (collectively, the “**Banks**”) and Tower are parties to a Facility Agreement dated January 18, 2001, as amended and restated on August 24, 2006 and as further amended by Amendment No. 1 thereto dated September 10, 2007 (the “**Facility Agreement**”);

WHEREAS, TIC and Tower are parties to an Equipment Loan Facility dated September 10, 2007 (the “**Equipment Facility**”);

WHEREAS, TIC holds convertible debentures series B of the Company convertible into an amount of 18,181,823 Company ordinary shares (the “**CD B's**”); and

WHEREAS, at the request of Tower, the Banks and Tower have entered into an Amending Agreement dated September 25, 2008 (the “**Amending Agreement**”);

WHEREAS, in connection with this Agreement and the Amending Agreement, Tower and TIC have entered on the date hereof into (i) an Amended and Restated Registration Rights Agreement (the “**Amended and Restated Registration Rights Agreement**”), and (ii) a Securities Purchase Agreement (the “**Securities Purchase Agreement**”) ; and

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Preamble.

1.1. Preamble. The preamble to this Agreement constitutes an integral part thereof.

2. Conversion of Equipment Facility, CD B's and Issue of Capital Note on the Amendment Closing Date.

The Company hereby:

2.1. issues to TIC, and TIC hereby receives from the Company, in conversion of US \$30,000,000 (thirty million US dollars) owed pursuant to the Equipment Facility, a convertible capital note in the principal amount of US \$30,000,000 (thirty million US dollars) in the form attached as **Exhibit 1** hereto. For the avoidance of doubt (i) as of the date of the effectiveness of the Amending Agreement (the “**Amendment Closing Date**”), the principal amount under the Equipment Facility outstanding and owed by Tower to TIC shall be zero, (ii) there shall be no further amounts (principal or interest) payable by the Company under the Equipment Facility and the Equipment Facility shall be terminated as at the Amendment Closing Date, and (iii) the amount of Company ordinary shares into which the capital note TIC receives pursuant to this Section 2.1 is calculated on the basis of \$1.42 per share, representing two times the average closing price of the ordinary shares of the Company on the NASDAQ for the last ten trading days prior to August 7, 2008;

2.2. issues to TIC, and TIC hereby receives from the Company, in exchange for delivery to the Company of US \$20,000,000 (twenty million US dollars) of CD B's (comprising (i) such part of the principal of the CD B's that together with the accrued interest thereon as of the date of the Amendment Closing Date aggregates \$20 million and (ii) such accrued interest) an executed convertible capital note (and together with the capital note given to TIC pursuant to Section 2.1 above, the "**Capital Notes**") in the principal amount of US \$20,000,000 (twenty million US dollars) in the form attached as **Exhibit 2** hereto. For the avoidance of doubt (i) following the Amendment Closing Date, TIC will remain the holder of \$2,817,609 of convertible debentures series B of the Company convertible into an amount of 2,561,467 Company ordinary shares, such remaining CD B's will bear interest of 5% to be accrued from the Amendment Closing Date payable in accordance with the CD B's terms, and TIC will no longer hold or have the rights and obligations of a holder of the CD B's delivered to the Company pursuant to this Section 2.2, (ii) there shall be no further amounts (principal or interest) payable by the Company under CD B's save for unconverted remaining principal of \$2,817,609 and interest thereon incurred after the Amendment Closing Date, and (iii) the amount of Company ordinary shares into which the capital note TIC receives pursuant to this Section 2.2 is calculated on the basis of \$1.42 per share, representing two times the average closing price of the ordinary shares of the Company on the NASDAQ for the last ten trading days prior to August 7, 2008;

2.3. furnishes to TIC a copy of the approval of the TASE for listing the 35,211,271 (thirty-five, two hundred and eleven thousand, two hundred and seventy-one) shares issuable upon conversion of said Capital Notes; and

2.4. confirms that the Company has recorded such issuance of the Capital Notes in the name of TIC on the records of the Company.

3. Representations and Warranties of the Company.

The Company hereby represents and warrants to TIC on the Amendment Closing Date as follows:

3.1. **Organization.** The Company is duly organized and validly existing under the laws of its jurisdiction of incorporation and has full corporate power and authority to own, lease and operate its properties and assets and to conduct its business as now being conducted and to perform all its obligations under this Agreement.

3.2. **Share Capital.** All issued and outstanding share capital of the Company has been duly authorized and is validly issued. The shares to be issued upon conversion of any Capital Note issued pursuant to this Agreement (the "**Conversion Shares**") are duly authorized and reserved for issuance by the Company and, when issued in accordance with the terms of such Capital Note will be validly issued, fully paid, nonassessable and not subject to any pledge, lien or restriction on transfer, except for restrictions on transfer imposed by applicable securities laws. The entering into and performance of this Agreement and the issuance of any shares, or Capital Notes hereunder do not, and the issuance of any Conversion Shares will not, conflict with the Memorandum of Association or the Articles of Association of the Company nor with any outstanding convertible security, warrant, option, call, preemptive right or commitment of any type relating to the Company's capital stock (collectively, "**Equity Rights**"). The entering into and performance of this Agreement, the issuance of any shares or Capital Notes hereunder and the issuance of the Conversion Shares do not require, or give any holder of Equity Rights the right to have made, any adjustments to be made in the conversion or exercise price, the number of shares issuable upon conversion or exercise or any other provision of the foregoing Equity Rights.

3.3. Authorization; Approvals. All corporate action on the part of the Company necessary for the execution, delivery and performance of this Agreement and the issuance of any shares, Capital Notes, and Conversion Shares has been taken. Except as set forth in Schedule 3.3 hereto, save for any consents, approvals, authorisations or exemptions already obtained, and filings already made, no consent, approval or authorization of, exemption by, or filing with, any governmental or regulatory authority, including any approval of, or filings with, the Israeli Securities Authority (the “ISA”), the TASE or any third party is required in connection with the execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby, including the issuance by way of private placement pursuant to this Agreement of any Capital Notes, or shares. This Agreement and all Capital Notes issued hereunder on the date which this representation is given have been executed and delivered by the Company, and each constitutes the valid and legally binding obligations of the Company, legally enforceable against the Company in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other laws relating to creditor’s rights generally and general principles of equity.

3.4. Cross-Default. No Default or Event of Default exists under the Facility Agreement.

3.5. No Conflicts. Neither the execution and delivery of this Agreement by Tower, nor the compliance with the terms and provisions of this Agreement on the part of Tower, including the issuance of shares, Capital Notes, or Conversion Shares, will: (i) violate any statute or regulation of any governmental authority, domestic or foreign, affecting Tower; (ii) require the issuance of any authorization, license, consent or approval of any governmental agency, or any other person which has not been obtained, save as set forth in Schedule 3.5 hereto; or (iii) conflict with or result in a breach of any of the terms, conditions or provisions of any judgment, order, injunction, decree, loan agreement or other material agreement or instrument to which Tower is a party, or by which Tower is bound, or constitute a default thereunder, the effect of which might have a material adverse effect on Tower.

3.6. No Litigation. There are no actions, suits, proceedings, or injunctive orders, pending or threatened against or affecting Tower relating to the subject matter of this Agreement.

3.7. No Brokers. Tower has not engaged any broker or finder in connection with the transactions contemplated by this Agreement, and no broker or other person is entitled to any commission or finder’s fee in connection with such transactions.

3.8. The Company acknowledges that TIC is acquiring the Capital Notes on the Amendment Closing Date in full reliance upon the representations and warranties made by the Company in this Agreement.

4. Representations and Warranties of TIC.

TIC hereby represents and warrants to the Company that it:

- 4.1. is acquiring the securities issued and to be issued to TIC pursuant to this Agreement for investment and not with a view to distribution without registration under the U.S. Securities Act of 1933 (the “Securities Act”);
- 4.2. has requisite knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of an investment in the Company and is an accredited investor as defined in Rule 501(a) under the Securities Act;
- 4.3. understands that none of the Capital Notes issued and to be issued under this Agreement have been, or will be, registered under the Securities Act, or the laws of any jurisdiction;
- 4.4. agrees that none of the securities issued and to be issued to TIC pursuant to this Agreement may be sold, offered for sale, transferred, pledged, hypothecated or otherwise disposed of except by registration under the Securities Act or otherwise in compliance with the Securities Act, the Israeli Securities Law or any applicable securities laws of any jurisdiction (including pursuant to an exemption therefrom); and
- 4.5. acknowledges that the securities, upon issuance, will, unless in the reasonable opinion of counsel for the Company such legend is not required in order to ensure compliance under the Securities Act, bear the following legend:

THESE SECURITIES [(INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO)]¹ HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, OR ANY U.S. STATE OR OTHER JURISDICTION’S SECURITIES LAWS. THESE SECURITIES (INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO) MAY NOT BE SOLD, OFFERED FOR SALE OR PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, (THE “ACT”) WITH RESPECT TO ANY SUCH SECURITIES OR AN OPINION OF COUNSEL (REASONABLY SATISFACTORY TO THE COMPANY) THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF THE ACT OR ON THE TEL-AVIV STOCK EXCHANGE IN COMPLIANCE WITH REGULATIONS UNDER THE ACT.

For the avoidance of doubt, nothing in this Section 4 shall derogate from the Company’s obligations under the Registration Rights Agreement.

5. Undertakings by the Company.

- 5.1. The Company shall fulfil all of its obligations under this Agreement, the Amended and Restated Registration Rights Agreement, the Capital Notes and the Securities Purchase Agreement, including the Capital Notes issued pursuant hereto and the under any registration rights agreement .

¹ Following the effective date of any registration statement covering the Conversion Shares or any of them, if applicable, bracketed language to be removed from future Capital Notes relating to such Conversion Shares and, at the request of the holder, a substitute Capital Note or Notes omitting the bracketed language will promptly be delivered to the holder.

5.2. In the event that the adjustment provisions of any Capital Notes issued pursuant hereto result in additional Conversion Shares to be issued upon conversion of the Capital Notes, the Company shall promptly furnish TIC with a copy of the approval of the TASE for listing such additional Conversion Shares (if the Company's shares are then traded on the TASE).

5.3. To the extent that ordinary shares (or other shares of capital stock substituted therefor) of the Company are listed on one or more securities exchanges, including the NASDAQ and the TASE, the Company shall maintain, at its expense, the listing of the shares of the Company issued pursuant to this Agreement (including upon conversion of Capital Notes issued pursuant to this Agreement) on such exchanges or, in the event such shares of the Company are listed on only one securities exchange, such exchange. Nothing in this Section 5.4 shall constitute an obligation of the Company to list or maintain the listing of its ordinary shares (or other shares of capital stock substituted therefor) on any securities exchanges, including the NASDAQ and the TASE.

5.4. The Company undertakes not to issue Shares or Securities (as defined in the Securities Law, 1968) of the Company, save on market terms and conditions.

6. **Conditions Precedent.**

This Agreement and the issuance and allotment of the shares of the Company, or the issuance of Capital Notes, pursuant to and in accordance with this Agreement, to TIC or its nominee (which shall be a Subsidiary of TIC) shall be subject to closing of the Amending Agreement and the satisfaction or waiver of all the conditions precedent thereto. For the purposes of this Agreement, "Subsidiary" of any person means any company which directly or indirectly is controlled by such person; "control" shall in this Section 6 bear the meaning assigned to such term in Section 1 of the Securities Law, 1968.

7. **Miscellaneous.**

7.1. Governing Law; Jurisdiction. This Agreement shall be governed by and shall be construed in accordance with Israeli law and the courts of Tel-Aviv-Jaffa shall have exclusive jurisdiction to hear any matters, provided that TIC and any other Subsidiary of TIC party to this Agreement shall be entitled to sue Tower in any jurisdiction in which it has an office or holds assets.

7.2. Successors and Assigns; Assignment. Except as otherwise expressly limited herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors and permitted assigns of the parties hereto. This Agreement may not be assigned by any party without the prior written consent of the other party hereto, provided that TIC may assign this Agreement, in whole or in part, to any Subsidiary of TIC or add a Subsidiary of TIC as an additional party hereto, Nothing in this Agreement shall be deemed to restrict the (a) transferability of the shares, and Capital Notes to be issued pursuant to this Agreement or the Conversion Shares, in each case, in whole or in part at any time and from time to time, except for restrictions on transfer imposed by applicable securities laws or (b) the assignability of the registration rights in accordance with the Registration Rights Agreement .

7.3. Expenses. The Company shall bear the expenses and costs of all the parties to the transactions contemplated hereby (except for the fees and expenses of counsel to TIC which shall be borne by TIC).

7.4. Entire Agreement; Amendment and Waiver. This Agreement constitutes the full and entire understanding and agreement between the parties with regard to the subject matter hereof. Any term of this Agreement may be amended and the observance of any term hereof may be waived (either prospectively or retroactively and either generally or in a particular instance) only with the written consent of the parties to this Agreement.

7.5. Notices, etc. All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed to such party's address as set forth below:

If to Israel Corporation: Israel Corporation Ltd.
23 Arania St.
Millennium Tower
Tel-Aviv
Facsimile: 03-684-4574
Attention: Avisar Paz, CFO

with a copy to: Gornitzky & Co.
45 Rothschild Blvd.
Tel-Aviv, 65784
Facsimile: 03-560-6555
Attention: Zvi Ephrat, Adv.

If to the Company: Tower Semiconductor Ltd.
Ramat Gavriel Industrial Area
P.O. Box 619
Migdal Haemek
Israel 23105
Fax. 972-4-6047242
Attn: Oren Shirazi, Acting CFO

with a copy to
(which shall not
constitute notice): Yigal Arnon & Co.
1 Azrieli Center
46th Floor
Tel-Aviv, Israel, 67021
Fax: 972-3-6087714
Attn: David Schapiro, Adv.

or such other address with respect to a party as such party shall notify each other party in writing as above provided. Any notice sent in accordance with this Section 7.5 shall be effective (i) if mailed, five (5) business days after mailing, (ii) if sent by messenger, upon delivery, and (iii) if sent via facsimile, one (1) business day following transmission and electronic confirmation of receipt.

7.6. Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Agreement, shall be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. Unless provided otherwise herein, all remedies, either under this Agreement or by law or otherwise afforded to any of the parties, shall be cumulative and not alternative.

7.7. Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable under applicable law, then such provision shall be excluded from this Agreement and the remainder of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms; provided, however, that in such event this Agreement shall be interpreted so as to give effect, to the greatest extent consistent with and permitted by applicable law, to the meaning and intention of the excluded provision as determined by such court of competent jurisdiction.

7.8. Counterparts. This Agreement may be executed in any number of counterparts (including facsimile counterparts), each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

7.9. Headings. The headings of the sections and paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction hereof.

7.10. Further Assurances. Each of the parties hereto shall perform such further acts and execute such further documents as may reasonably be necessary to carry out and give full effect to the provisions of this Agreement and the intentions of the parties as reflected thereby.

IN WITNESS WHEREOF, each of the parties has signed this Agreement as of the date first hereinabove set forth.

TOWER SEMICONDUCTOR LTD.

/s/ Oren Shirazi & /s/ Yoram Glatt

Name: Oren Shirazi & Yoram Glatt

Title: Acting VP/CFO & Treasurer

ISRAEL CORPORATION LTD

/s/Avisar Paz & Nir Gilad

By: Avisar Paz & Nir Gilad

Title: CFO & CEO

AMENDMENT NO. 1
to
TAG ALONG AGREEMENT

Made and entered into on this 25th day of September, 2008

(**“this Amendment No. 1”**)

By and Between:

ISRAEL CORPORATION LTD.

a company duly organised under the laws of the State of Israel

(hereinafter, **“TIC”**)

and

BANK HAPOALIM B.M.

a banking corporation organised under the laws of the State of Israel

(hereinafter, **“the Bank”**)

WHEREAS: TIC and the Bank are parties to a Tag Along Agreement dated September 28, 2006 (**“the Tag Along Agreement”**) with respect to the securities of Tower Semiconductor Ltd. (**“Tower”**); 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 and restated on August 24, 2006 and as further amended by Amendment No. 1 thereto, dated September 10, 2007 (**“the Facility Agreement”**); and

WHEREAS: at the request of Tower, the Banks and Tower have entered into a further Amending Agreement dated September 25, 2008 (“**the 2008 Amending Agreement**”), the conditions to the effectiveness of which include, *inter alia*, the conversion by each Bank of approximately US \$85,000,000 (eighty-five million United States Dollars) of its loans made to Tower pursuant to the Facility Agreement and all US \$15,000,000 (fifteen million United States Dollars) of loans made by each Bank to Tower pursuant to each Bank’s Equipment Facility Agreement dated September 10, 2007 with Tower, into an equity-equivalent convertible capital note (“**the New Capital Notes**”) to be issued to the Bank or its nominee in the amount of US \$100,000,000 (one hundred million United States Dollars) which will in turn be convertible, in whole or in part, at any time and from time to time into 70,422,535 (seventy million four hundred and twenty-two thousand five hundred and thirty-five) shares of Tower (“**the New Shares**”) and the entering into by the Bank and TIC of this Amendment No. 1, so as to include the New Capital Notes and the New Shares issuable upon conversion thereof within the tag along rights granted to the Bank by TIC pursuant to the Tag Along Agreement; and

WHEREAS: the parties wish to amend the Tag Along Agreement as set out below,

NOW, THEREFORE, THE PARTIES AGREE AS FOLLOWS:

1. Capitalised terms in this Amendment No. 1 shall bear the meaning ascribed to such terms in the Tag Along Agreement unless the context otherwise requires.
2. The recitals to the Tag Along are hereby amended to add the following as the penultimate “WHEREAS” clause:

“WHEREAS: at the request of Tower, the Banks and Tower have entered into a further Amending Agreement dated September 25, 2008 (“**the 2008 Amending Agreement**’), the conditions to the effectiveness of which include, *inter alia*, the conversion by each Bank of approximately US \$85,000,000 (eighty-five million United States Dollars) of its loans made to Tower pursuant to the Facility Agreement and all US \$15,000,000 (fifteen million United States Dollars) of loans made by each Bank to Tower pursuant to each Bank’s Equipment Facility Agreement dated September 10, 2007 with Tower, into an equity-equivalent convertible capital note (“**the New Capital Notes**’) to be issued to the Bank or its nominee in the amount of US \$100,000,000 (one hundred million United States Dollars) which will in turn be convertible, in whole or in part, at any time and from time to time into 70,422,535 (seventy million four hundred and twenty-two thousand five hundred and thirty-five) shares of Tower (“**the New Shares**’) and the entering into by the Bank and TIC of Amendment No. 1 to this Agreement, so as to include the New Capital Notes and the New Shares issuable upon conversion thereof within the tag along rights granted to the Bank by TIC pursuant to the this Agreement; and”

3. Clause 2.3(i) of the Tag Along Agreement is hereby amended to read in its entirety as follows:

“(i) Capital Notes issued pursuant to clause 5.4 of the Amending Agreement and pursuant to clause 5.4 of the 2008 Amending Agreement (collectively, ‘**the Amending Agreements**’), or Shares received from the conversion of any such Capital Notes issued pursuant to the Amending Agreements;”

4. TIC refers to the representations and warranties made by it in the Tag Along Agreement and hereby confirms that such representations and warranties are true and correct on the date hereof as if all references therein to “this Agreement” were references to “this Amendment No. 1”.

5. This Amendment No. 1 shall be read together with the Tag Along Agreement, and save for the changes contained herein, all the terms and conditions contained in the Tag Along Agreement remain unchanged, and in full force and effect.

6. The recitals hereto shall form an integral part of this Amendment No. 1.

7. This Amendment No. 1 may be amended only by a written document signed by both parties hereto.

[Remainder of page intentionally left blank]

[Signature Page to Amendment No. 1 to Bank Hapoalim Tag Along Agreement]

IN WITNESS WHEREOF, the parties have duly executed this Amendment No. 1 to the Tag Along Agreement as of the date hereinbefore mentioned.

for **ISRAEL CORPORATION LTD**

Signature: /s/Avisar Paz & Nir Gilad
Name Avisar Paz & Nir Gilad
Title CFO & CEO

for **BANK HAPOALIM B.M.**

Signature: /s/ Erez Frances & /s/ Liat Kenforty
Name: Erez Frances & /s/ Liat Kenforty
Title: Customer Relation Manager

AMENDMENT NO. 1
to
TAG ALONG AGREEMENT

Made and entered into on this 25th day of September, 2008
 (“**this Amendment No. 1**”)

By and Between:

ISRAEL CORPORATION LTD.

a company duly organised under the laws of the State of Israel
(hereinafter, “**TIC**”)

and

BANK LEUMI LE-ISRAEL B.M.

a banking corporation organised under the laws of the State of Israel
(hereinafter, “**the Bank**”)

WHEREAS: TIC and the Bank are parties to a Tag Along Agreement dated September 28, 2006 (“**the Tag Along Agreement**”) with respect to the securities of Tower Semiconductor Ltd. (“**Tower**”); 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 and restated on August 24, 2006 and as further amended by Amendment No. 1 thereto, dated September 10, 2007 (“**the Facility Agreement**”); and

WHEREAS: at the request of Tower, the Banks and Tower have entered into a further Amending Agreement dated September 25, 2008 (“**the 2008 Amending Agreement**”), the conditions to the effectiveness of which include, *inter alia*, the conversion by each Bank of approximately US \$85,000,000 (eighty-five million United States Dollars) of its loans made to Tower pursuant to the Facility Agreement and all US \$15,000,000 (fifteen million United States Dollars) of loans made by each Bank to Tower pursuant to each Bank’s Equipment Facility Agreement dated September 10, 2007 with Tower, into an equity-equivalent convertible capital note (“**the New Capital Notes**”) to be issued to the Bank or its nominee in the amount of US \$100,000,000 (one hundred million United States Dollars) which will in turn be convertible, in whole or in part, at any time and from time to time into 70,422,535 (seventy million four hundred and twenty-two thousand five hundred and thirty-five) shares of Tower (“**the New Shares**”) and the entering into by the Bank and TIC of this Amendment No. 1, so as to include the New Capital Notes and the New Shares issuable upon conversion thereof within the tag along rights granted to the Bank by TIC pursuant to the Tag Along Agreement; and

WHEREAS: the parties wish to amend the Tag Along Agreement as set out below,

NOW, THEREFORE, THE PARTIES AGREE AS FOLLOWS:

1. Capitalised terms in this Amendment No. 1 shall bear the meaning ascribed to such terms in the Tag Along Agreement unless the context otherwise requires.
2. The recitals to the Tag Along are hereby amended to add the following as the penultimate “WHEREAS” clause:

“WHEREAS: at the request of Tower, the Banks and Tower have entered into a further Amending Agreement dated September 25, 2008 (“**the 2008 Amending Agreement**”), the conditions to the effectiveness of which include, *inter alia*, the conversion by each Bank of approximately US \$85,000,000 (eighty-five million United States Dollars) of its loans made to Tower pursuant to the Facility Agreement and all US \$15,000,000 (fifteen million United States Dollars) of loans made by each Bank to Tower pursuant to each Bank’s Equipment Facility Agreement dated September 10, 2007 with Tower, into an equity-equivalent convertible capital note ‘**the New Capital Notes**’) to be issued to the Bank or its nominee in the amount of US \$100,000,000 (one hundred million United States Dollars) which will in turn be convertible, in whole or in part, at any time and from time to time into 70,422,535 (seventy million four hundred and twenty-two thousand five hundred and thirty-five) shares of Tower (**‘the New Shares’**) and the entering into by the Bank and TIC of Amendment No. 1 to this Agreement, so as to include the New Capital Notes and the New Shares issuable upon conversion thereof within the tag along rights granted to the Bank by TIC pursuant to the this Agreement; and”

3. Clause 2.3(i) of the Tag Along Agreement is hereby amended to read in its entirety as follows:

“(i) Capital Notes issued pursuant to clause 5.4 of the Amending Agreement and pursuant to clause 5.4 of the 2008 Amending Agreement (collectively, **‘the Amending Agreements’**), or Shares received from the conversion of any such Capital Notes issued pursuant to the Amending Agreements;”

4. TIC refers to the representations and warranties made by it in the Tag Along Agreement and hereby confirms that such representations and warranties are true and correct on the date hereof as if all references therein to “this Agreement” were references to “this Amendment No. 1”.

5. This Amendment No. 1 shall be read together with the Tag Along Agreement, and save for the changes contained herein, all the terms and conditions contained in the Tag Along Agreement remain unchanged, and in full force and effect.

6. The recitals hereto shall form an integral part of this Amendment No. 1.

7. This Amendment No. 1 may be amended only by a written document signed by both parties hereto.

[Remainder of page intentionally left blank]

[Signature Page to Amendment No. 1 to Bank Leumi Tag Along Agreement]

IN WITNESS WHEREOF, the parties have duly executed this Amendment No. 1 to the Tag Along Agreement as of the date hereinbefore mentioned.

for **ISRAEL CORPORATION LTD**

for **BANK LEUMI LE- ISRAEL B.M.**

Signature: /s/Avisar Paz & Nir Gilad
Name By: Avisar Paz & Nir Gilad
Title Title: CFO & CEO

Signature: /s/ Anat Golan & /s/ R Vataba
Name: Anat Golan & R Vataba
Title: SRM & Head of Technology Sector

Tower Semiconductor Ltd.

Re: **Undertaking**

1. General Provisions

1.1. This undertaking (hereinafter: **“this Undertaking”**) has been furnished by Israel Corporation Ltd. (hereinafter: the **“Company”** or the **“Safety Net Investor”**) as part of arrangements that were requested by Bank Hapoalim B.M. and Bank Leumi le-Israel B.M. (hereinafter: the **“Banks”**) in order to facilitate, and as a condition to, the debt restructuring pursuant to the letter between the Banks, Tower Semiconductor Ltd. (hereinafter: **“Tower”**) and the Company, dated August 19, 2008 (the **“MOU”**). This Undertaking shall neither confer any rights or remedies upon, nor create any obligations by, the Company to any person (including, for the avoidance of doubt, any of Tower’s shareholders), other than Tower.

1.2. This Undertaking is furnished by the Company in connection with Tower's obligation under the Facility Agreement to raise Additional Capital (as defined in Section 2 below) of US \$20 million by no later than December 31, 2009.

1.3. The maximum aggregate amount of the Safety Net Investments (as defined in Section 2 below), that Tower may require from the Company pursuant to this Undertaking is limited to US \$20 million. The said maximum aggregate amount of Safety Net Investments by the Company will be decreased by any amount actually raised as Additional Capital by Tower prior to December 31, 2009.

2. Definitions and Interpretation

With regard to this Undertaking, the terms below shall have the following meanings:

2.1. **“Additional Capital”** shall mean US \$20 million which Tower is required to raise pursuant to clause 16.27 of the Facility Agreement, a copy of which clause is attached as **Schedule 1** hereto.

2.2. **“Business Day”** means a day (other than Friday or Saturday) on which banks generally are open for trading in Israel in US Dollars.

2.3. **“Capital Notes”** means the Capital Notes (in the same form, *mutatis mutandis*, as those issued to the Company by Tower on or about the date of this Undertaking), that will be convertible into ordinary shares of Tower at a rate equal to the Amount to be Paid (as defined below in Section 3.1) pursuant to each Contribution Notice divided by the lower of: (i) the average closing price of Tower's ordinary shares on the NASDAQ for the last ten trading days prior to the date on which such Safety Net Investment is made, and (ii) US \$0.71 per share, representing the average closing price of the ordinary shares of Tower on the NASDAQ for the last ten trading days prior to August 7, 2008.

2.4. **“Contribution Notice”** means a notice substantially in the form set out in **Schedule 2** hereto pursuant to which Tower requests a Safety Net Investment to be made pursuant to Section 3 below.

2.5. **“Expiry Date”** means the earliest of: (i) the date on which Tower shall have fulfilled all of its obligations under clause 16.27 of the Facility Agreement (including, if applicable, by way of any written amendment or written waiver by the Banks (if any) to clause 16.27 that may reduce Tower’s obligations thereunder); (ii) December 31, 2009 (subject to Section 4); and (iii) the date on which Safety Net Investments in an amount of US \$20 million are made or the Safety Net Investments made plus the Additional Capital raised by Tower equals or exceeds US \$20 million.

2.6. **“Facility Agreement”** shall mean the Facility Agreement that was executed between the Banks and Tower on January 18, 2001 including all amendments made from time to time thereto, as amended and restated on August 24, 2006, as further amended by Amendment No. 1 thereto dated September 10, 2007, and as further amended and restated on September 25, 2008.

2.7. **“Net Cash Balance”**, on any date, means the cash balance in the bank accounts of Tower (on a Tower only, unconsolidated, basis) on such date, less outstanding payments to the Banks and to third parties which have fallen due prior to or on such date, exclusive of any payment of interest or payment of principal (other than a mandatory prepayment under clause 8 of the Facility Agreement) by Tower to the Banks under the Facility Agreement. Any such interest or principal payments (other than a mandatory prepayment under clause 8 of the Facility Agreement) actually made by Tower to the Banks after the date hereof under the Facility Agreement but prior to the date of calculation of the Net Cash Balance, shall be deemed to be part of the cash balance.

For the avoidance of doubt, any recordal in the books of any Bank of any “technical” payment by Tower of the principal of its current Loans with the proceeds of “new loans” in order to implement the debt restructuring, as contemplated in the second paragraph of clause 2.1 of the Facility Agreement, shall not be considered a payment of principal.

2.8. **“Paid-in Equity”** shall bear the meaning ascribed to such term in clause 1.1.112 of the Facility Agreement, a copy of which clause is attached as **Schedule 3** hereto;

- 2.9. **“Project Accounts”** means: (i) account number 545454 at Bank Hapoalim, Migdal Haemek Branch, No. 728, in the name of Tower; and (ii) account number 13030062 at Bank Leumi, Haifa Branch, in the name of Tower.
- 2.10. **“Safety Net Investments”** means the amount received by Tower from the Safety Net Investor in cash in exchange for Capital Notes, or, in the circumstances referred to in the second paragraph of Section 3.1 below, Paid-in Equity or other securities of Tower, in form and substance satisfactory to Tower, the Company and the Banks (in the case of Paid-in Equity, in the same number of shares, or in the case of other securities as aforesaid, convertible into the same number of shares, in each case as determined with respect to the Capital Notes in accordance with Section 2.3 above), issued to the Company by Tower.
- 2.11. **“TIC Amendment Closing Date Investment”** means the investment of US \$20 million by way of capital notes made by the Company in Tower on or about the date of this Undertaking.
- 2.12. In this Undertaking, unless the context otherwise requires:
- 2.12.1. **“Affiliate”**, with respect to any person, mean any company which controls, is controlled by, or under common control with, such person; **“control”** shall in this clause 2.12.1 and in clause 2.12.5 below bear the meaning assigned to such term in Section 1 of the Securities Law, 1968;
- 2.12.2. **“including”** means including, without limiting the generality of any description preceding such terms;
- 2.12.3. **“law”** shall mean any Israeli statute, law, regulation, treaty, rule, official directive, request or guideline of any governmental, fiscal, monetary or regulatory body, agency, department or regulatory, self-regulatory or other authority or organisation;
- 2.12.4. a **“person”** shall be construed as a reference to any person, firm, company, corporation, government, state or agency of a state or any association or partnership (whether or not having separate legal personality) or two or more of the foregoing;
- 2.12.5. **“Subsidiary”** of a person means any company which is directly or indirectly controlled by such person; and
- 2.12.6. **“US Dollars”** denotes the lawful currency of the United States of America.
- 2.13. Nothing herein shall deem the Company to be a party to the Facility Agreement.

3. The Undertaking

If from the date hereof and until the Expiry Date Tower's Net Cash Balance is less than US \$10 million (subject to Section 4 below), Tower shall send a Contribution Notice to the Company requiring the Company to make a Safety Net Investment, in an amount equal to the larger of: (i) the amount by which Tower's Net Cash Balance on that date is less than US \$10 million; and (ii) the amount of US \$2 million (hereinafter: the "**Deficient Amount**"). The Deficient Amount will in no event exceed the difference between: (1) US \$20 million and (2) the sum of: (a) the amount of Additional Capital in fact raised by Tower by such date (including Safety Net Investments already made by the Company pursuant to this Undertaking by way of Capital Notes or Paid-in Equity); and (b) Safety Net Investments already made by the Company pursuant to this Undertaking in accordance with the next following paragraph by way of securities of Tower (other than Capital Notes or Paid-in Equity) in form and substance satisfactory to Tower, the Company and the Banks ("**Other Acceptable Securities**") (the relevant amount as aforesaid as shall be the subject of a Contribution Notice, hereinafter: the "**Amount to be Paid**"). The Company irrevocably undertakes that in the event that a Contribution Notice will be delivered as aforesaid, the Company will make, a Safety Net Investment in Tower in an amount equal to the Amount to be Paid, by no later than two Business Days after the date such Contribution Notice is received by the Company.

3.1.

Such investment as aforesaid shall be made in Capital Notes unless prevented from doing so, in which event such investment shall be Paid-in Equity or in other Acceptable Securities (in the case of Paid-in Equity, in the same number of shares, or in the case of Other Acceptable Securities as aforesaid, convertible into the same number of shares, in each case as determined with respect to the Capital Notes in accordance with Section 2.3 above). This Undertaking is in addition to the TIC Amendment Closing Date Investment and, for the avoidance of doubt, the TIC Amendment Closing Date Investment shall not be considered a Safety Net Investment or Additional Capital hereunder.

3.2.

For the avoidance of doubt, amounts invested by the Safety Net Investor by way of Paid-in Equity in a rights offering or private placement, as the case may be, shall also be counted as Safety Net Investments procured to be made by the Company for purposes of this Undertaking (as well as Additional Capital pursuant to Section 3.1 above).

3.3.

Payments made in respect of any Safety Net Investment pursuant to this Section 3 shall be made only by way of cash deposit in US Dollars into one of the Project Accounts.

3.4.

Within two Business Days after receipt of each Safety Net Investment, Tower shall issue Capital Notes (or, in the event that the second paragraph of Section 3.1 above shall be applicable, Paid-in Equity or Other Acceptable Securities) to the Company and shall record such issuance of Capital Notes (or Paid-in Equity or Other Acceptable Securities as aforesaid) in the name of the Company in the records of the Tower.

3.5. Tower will use its best efforts to obtain the approval of the Tel-Aviv Stock Exchange for the listing of the shares underlying the Capital Notes (or Paid-in Equity or Other Acceptable Securities as aforesaid).

4. Termination or Suspension of the Undertaking

4.1. This Undertaking shall terminate in the event that: (i) the Banks demand immediate payment of the outstanding amounts due to the Banks under the Facility Agreement; or (ii) the provisions of clause 17.8 of the Facility Agreement become applicable to Tower (other than in the case of a solvent re-organisation or proceedings with respect to less than all of Tower's revenues or assets), as a result of Proceedings instituted by the Banks, provided that such termination shall not apply in the event that the Banks' demand or proceedings as aforesaid was made or were instituted, as applicable, following any Proceedings as referred to in clause 17.8 of the Facility Agreement (including, for the avoidance of doubt, any freeze order (*Hakpa'at Halichim*) instituted by Tower, any Affiliate of Tower, the Company or any Affiliate of the Company).

4.2. In the event that the provisions of clause 17.8 of the Facility Agreement shall be applicable to Tower (other than in the case of a solvent re-organisation or proceedings with respect to less than all of Tower's revenues or assets) due to Proceedings instituted against Tower by a third party (that is, a person other than Tower, any Affiliate of Tower, the Company or any Affiliate of the Company), the Company's obligation to make Safety Net Investments shall be suspended for so long as such provisions of clause 17.8 are still in effect. Notwithstanding the suspension of the Company's obligations as aforesaid, once such suspension is lifted, the Company will be obligated, upon the lifting of such suspension, to make Safety Net Investments in compliance with Contribution Notices given prior to or during the period of such suspension (provided that such suspension is lifted on or prior to December 31, 2009.).

5. Entry of this Undertaking into Effect

This Undertaking will become effective upon:

5.1. the signature of, and fulfillment of the conditions precedent set out in clause 3 of, the Amending Agreement to the Facility Agreement, dated September 25, 2008 (the "**Amendment**") and confirmation thereof by the Banks and Tower pursuant to clause 3.1 of the Amendment; provided that, for the purpose of this Section 5.1, any condition precedent which is waived by the Banks, shall not be considered a condition precedent set out in said clause 3; and

5.2. the Amendment, this Undertaking and the issuance of the Capital Notes have received all necessary approvals of the Tower audit committee, Board of Directors and shareholders.

6. Company Obligation

Subject only to the express provisions of this Undertaking, the obligations of the Company under this Undertaking constitute the irrevocable and unconditional obligations of the Company and, for the avoidance of doubt, neither such obligations nor the rights, powers and remedies conferred upon Tower by this Undertaking or by law shall be discharged or otherwise affected by the failure by Tower to comply with clause 16.27 of the Facility Agreement or with its undertaking as set out in the foot of this Undertaking above Tower's signature.

7. No Set-Off or Counterclaim

All payments required to be made by the Company hereunder shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without deduction for or on account of any set-off or counterclaim.

8. Representations and Warranties

8.1. The Company makes the representations and warranties set out in Sections 8.2 to 8.6 (inclusive) below on the date hereof and on the date on which this Undertaking becomes effective pursuant to Section 5 above. The Company acknowledges that each of the Banks has entered into the Amendment in reliance on these representations and warranties.

8.2. It is a company limited by shares, duly incorporated and validly existing under the laws of the place of its incorporation and has the power to own its property and assets and carry on its business as it is now being and will be conducted. No administrator, examiner, receiver, liquidator or similar officer has been appointed with respect to it or any material part of its assets nor (so far as it is aware) is any petition or proceeding for such appointment pending.

8.3. It has the power to enter into and perform this Undertaking and the transactions to be implemented pursuant thereto and has taken all necessary action to authorise the entry into and performance thereof. Without derogating from the generality of the foregoing, all authorisations, actions, approvals, consents and other matters required by law or by the Company's constitutional documents for its provision and performance of this Undertaking have been obtained or effected and are in full force and effect.

8.4. This Undertaking constitutes its legal, valid, binding and enforceable obligations of the Company.

8.5. The entry into and performance of this Undertaking and the transactions to be implemented pursuant thereto do not conflict with:

8.5.1. any law or regulation or any official or judicial order applicable to it in any respect, or

8.5.2. its constitutional documents or any of its resolutions (having current effect) in any respect, or

8.5.3. any agreement or instrument to which it is a party or which is binding upon it or on any of its assets.

9. Binding Agreement; No Transfer

Without derogating from the last sentence of Section 1.1, this Undertaking shall be binding on and enure to the benefit of each party hereto. Neither the Company nor Tower shall assign all or any of its rights, benefits and obligations under this Undertaking provided, that nothing herein shall prohibit the Company from procuring that a Subsidiary of the Company makes a Safety Net Investment and receives the Capital Notes related thereto.

10. Remedies and Waivers

No failure to exercise, nor any delay in exercising on the part of Tower, on the one hand, or the Company, on the other hand, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law. No waiver by Tower of any right hereunder shall be effective without the prior written consent of the Banks.

11. Notices

11.1. Notices to be given hereunder shall be in writing and may be given personally, by facsimile or, if not available, as required by Section 11.2 below. Any notice to be given to a party to another party must be given during normal business hours of such recipient party to the person and at the address designated below. If notice is sent by facsimile during normal business hours as aforesaid, it shall be deemed to have been served when confirmation of receipt by the intended recipient has been received. All notices given by facsimile shall be confirmed by letter dispatched in the manner provided in Section 11.2 within 24 (twenty-four) hours of transmission.

11.2. Any other notices to be given hereunder shall be served on an entity by prepaid express registered letter (or nearest equivalent) to its address given below or such other address as may from time to time be notified for this purpose and any notice so served shall be deemed to have been served within five days after the time at which such notice was posted and in proving such service, it shall be sufficient to prove that the notice was properly addressed and posted:

11.2.1. to the Company: Israel Corporation Ltd.
23 Arania St.
Millennium Tower
Tel-Aviv
Facsimile: 03-684-4574
Attention: Avisar Paz, CFO

with a copy to:
(which shall not constitute notice) Gornitzky & Co.
45 Rothschild Blvd.
Tel-Aviv 65784
Facsimile: 03-560-6555
Attention: Zvi Ephrat, Adv. and
Benjamin Waltuch, Adv.

11.2.2. to Tower at: Tower Semiconductor Ltd.
P.O. Box 619
Migdal Haemek
Israel
Facsimile: (04) 654 7788
Attention: Chief Executive Officer

with a copy to:
(which shall not constitute notice) Yigal Arnon & Co.
1 Azrieli Center
Tel-Aviv 67021
Facsimile: (03) 608 7714
Attention: David H. Schapiro, Adv.

11.3. A copy of any notices sent under this Section 11 shall be sent:

11.3.1. to Bank Hapoalim at: Corporate Division
Migdal Levenstein
23 Menachem Begin Road
Tel-Aviv

Facsimile: (03) 567 2995
Attention: Head of
Corporate Division

11.3.2. to Bank Leumi at:

Corporate Division
32 Yehuda Halevi Street
Tel-Aviv
Facsimile: (03) 514 9017
Attention: Manager of Hi-Tech
Industries Section

12. Amendments

Any addition, variation, modification or amendment to this Undertaking shall not be effective unless any such addition, variation, modification or amendment is in writing and signed by the authorised signatories of the Company and Tower and approved in writing by the Banks.

13. Counterparts

This Undertaking may be executed in any number of counterparts and by facsimile signature and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

14. Governing Law And Jurisdiction

This Undertaking shall be governed by and shall be construed in accordance with Israeli law and the courts of Tel-Aviv-Jaffa shall have exclusive jurisdiction to hear any matters.

15. Entire Agreement

15.1. This Undertaking constitutes the entire agreement between the parties with respect to the subject-matter hereof and supersedes any prior agreement, or arrangement amongst the parties. Drafts of this Undertaking exchanged between the parties shall not be used in interpretation of this Undertaking.

15.2. Nothing in this Undertaking shall in any way derogate from the obligations and undertakings under the outside investment undertaking attached hereto as Schedule 4.

16. Partial Invalidity

If any provision of any of this Undertaking is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

Sincerely,

Israel Corporation Ltd.

/s/Avisar Paz & Nir Gilad

By: Avisar Paz & Nir Gilad

Title: CFO & CEO

We hereby confirm and agree to the above and confirm that all corporate action to be taken by us (including by our Board of Directors, Audit Committee and by our shareholders) in order to approve the contents of the above Undertaking has been duly and properly obtained and the terms hereof constitute our legal, valid, binding and enforceable obligations

We undertake to use commercially reasonable efforts to fulfill our obligations to raise the US \$20 million of new funds required under clause 16.27 of the Facility Agreement, which clause we will not amend without the prior written consent of Israel Corporation Ltd.

Tower Semiconductor Ltd.

/s/ Oren Shirazi & /s/ Yoram Glatt

By: Oren Shirazi & Yoram Glatt

Title: Acting VP/CFO & Treasurer

SCHEDULE 1

Clause 16.27 of the Facility Agreement

Investments in the Borrower

The Borrower shall procure the receipt by it by no later than December 31, 2009 of an amount of at least US \$20,000,000 (twenty million United States Dollars) in: (a) Paid-in Equity; or (b) capital notes in form and substance the same as those issued to TIC on or about the Amendment Closing Date. For the purposes of the foregoing, the Borrower's obligation as aforesaid is in addition to the investment of US \$20,000,000 (twenty million United States Dollars) in capital notes made by TIC on or about the Amendment Closing Date which shall not be taken into account for this clause 16.27. For the avoidance of doubt, nothing contained in the TIC Safety Net Undertaking shall in any way derogate from the Borrower's obligations under this clause 16.27.

SCHEDULE 2

Form of Contribution Notice

From: Tower Semiconductor Ltd. ("Tower")

To: Israel Corporation Ltd.

Date: [insert date, which shall be a date on or prior to the Expiry Date]

Dear Sirs,

1. We refer to the Undertaking dated September 25, 2008 ("**the Undertaking**") given by you to Tower. Terms defined in the Undertaking shall have the same meaning in this notice.
2. The Net Cash Balance was calculated as follows:
 - 2.1 Cash Balance:
Tower's cash balance (based on Tower's bank account balances) as of ____ is ____.
 - 2.2 Outstanding Payments due to Third Parties:
[payee] _____ – US \$ ____ due on ____, for _____.
[payee] _____ – US \$ ____ due on ____, for _____. - 2.3 Outstanding payments due to the Banks (other than payments that would be included in paragraph 2.4 below):
Bank Hapoalim – US \$ ____ due on ____, for _____.
Bank Leumi – US \$ ____ due on ____, for _____. - 2.4 Actual Principal (other than mandatory prepayment under clause 8 of the Facility Agreement) and Interest Payments made to the Banks since September 29, 2008: _____
Bank Hapoalim – US \$ ____ due on ____, for _____.
Bank Leumi – US \$ ____ due on ____, for _____.
3. We hereby give you notice that pursuant to the Undertaking, we require you to make, or procure to be made, a Safety Net Investment in an amount of at least US \$ _____ (_____) by no later than 2 Business Days following the date hereof, on the terms and conditions contained in the Undertaking.

for and on behalf of
TOWER SEMICONDUCTOR LTD

SCHEDULE 3

Clause 1.1.112 of the Facility Agreement

“Paid-in Equity”

- means the aggregate amount paid-up in cash in respect of irredeemable ordinary share capital of the Borrower or in respect of the sale of warrants by the Borrower where the purchase price of such warrants is registered as owners' equity and is non-refundable and the purchaser or holder of such warrants shall not be entitled to claim refund of such purchase price (or any part thereof) under any circumstances whatsoever. For the removal of doubt: (i) for the purposes of this Agreement, any credit, prepayment or other entitlement granted to any person in respect of any amount paid-up in cash in respect of the irredeemable share capital of the Borrower or in respect of the sale of any warrant pursuant to agreements with such person shall not be regarded as Paid-in Equity and shall be deducted from the amount of such equity; (ii) the subsequent application of the debt of the Borrower represented by such credit, prepayment or other entitlement on account of the purchase price for shares of the Borrower shall not be considered Paid-in Equity at the time of such application; and (iii) the net amount credited in the books of the Borrower as irredeemable share capital as a consequence of the conversion of convertible debentures or any other securities of the Borrower issued or which may be issued by the Borrower shall not be considered Paid-in Equity at the time of such conversion;

THESE SECURITIES [(INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO)]¹ Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from Capital Notes relating to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder. 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 \$30,000,000)

THIS EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE (“this Capital Note”) in the principal amount of US \$30,000,000 (“**the Principal Amount**”) has been issued by Tower Semiconductor Ltd., an Israeli company (“**the Company**”), whose shares are currently traded on The Nasdaq National Market (“**NASDAQ**”) and the Tel-Aviv Stock Exchange (“**TASE**”), to Israel Corporation Ltd. (“**the Holder**”). This Capital Note was originally issued by the Company in exchange for the conversion by the original Holder of this Capital Note of loans to the Company in a principal amount (including certain accrued and unpaid interest) equal to the Principal Amount and represents the obligation of the Company to pay the Principal Amount to the Holder in accordance with and subject to the terms set forth in this Capital Note.

1. **DEFINITIONS**

In this Capital Note, the following terms have the meanings given to them in this clause 1:

Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from Capital Notes relating to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder.

- 1.1. **“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.
- 1.3. **“Ordinary Shares”** means the ordinary shares, nominal value NIS 1.00 (one New Israel Sheqel) per share, of the Company (and any shares of capital stock substituted for the ordinary shares as a result of any stock split, stock dividend, recapitalisation, rights offering, exchange, merger or similar event or otherwise, including as described in this Capital Note).

2. **TERMS**

The Principal Amount shall neither bear interest nor be linked to any index and shall be subordinated to all liabilities of the Company having priority over the Ordinary Shares.

The Principal Amount shall only be payable by the Company to the Holder out of distributions made upon the winding-up (whether solvent or insolvent), liquidation or dissolution of the Company and, in such event, on a *pari passu* and pro rata basis with the Ordinary Shares after payment of all liabilities of the Company having priority over the Ordinary Shares. For the purposes only of calculation of the allocation of such distributions between holders of the Capital Note and holders of Ordinary Shares, the holder of this Capital Note shall be deemed to own the number of Ordinary Shares into which this Capital Note may then be converted. The Company shall not be entitled to prepay or redeem this Capital Note.

This Capital Note shall be convertible into Ordinary Shares as set forth below and, for the removal of doubt, no such conversion shall be deemed a redemption or prepayment of this Capital Note.

3. **CONVERSION**

3.1. **Conversion Right**

The Holder of this Capital Note has the right, at the Holder's option, at any time and from time to time, to convert this Capital Note, without payment of any additional consideration, in accordance with the provisions of this clause 3, in whole or in part, into fully-paid and non-assessable Ordinary Shares. The number of Ordinary Shares into which this Capital Note may be converted (**“the Conversion Shares”**) shall be determined by dividing the aggregate Principal Amount of this Capital Note by the conversion price in effect at the time of such conversion (**“the Conversion Price”**). The Conversion Price initially shall be US \$1.42, as adjusted at any time and from time to time in accordance with clause 7 below.

3.2. **Conversion Procedure**

This Capital Note may be converted in whole or in part at any time and from time to time by the surrender of this Capital Note to the Company at its principal office together with written notice of the election to convert all or any portion of the Principal Amount thereof, duly signed on behalf of the Holder. The Company shall, on such surrender date or as soon as practicable thereafter, issue irrevocable instructions to its stock transfer agent to deliver to the Holder a certificate or certificates for the number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. Such conversion, the issue and allotment of such Conversion Shares and the registration of the Holder in the register of members of the Company as the holder of such Conversion Shares shall be deemed to have been made immediately prior to the close of business on the date of such surrender of this Capital Note or portion thereof and the person or persons entitled to receive the Conversion Shares issuable upon such conversion shall be treated for all purposes as the record holder or holders as of such date of such number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. In the event of a partial conversion, the Company shall concurrently issue to the Holder a replacement Capital Note of like tenor as this Capital Note, but representing the Principal Amount remaining after such partial conversion. For the avoidance of doubt, the Company confirms that the terms of this Capital Note, including, without limitation, this clause 3, constitute the issue terms of the Conversion Shares and that, accordingly, the right of the Company pursuant to clauses 16.1 and 16.2 of the Company's Articles of Association to delay the issuance of stock certificates for up to 6 (six) months after the allotment and registration of transfer is inapplicable. For the further removal of doubt, nothing herein shall derogate from the second sentence of clause 16.1 of the Company's Articles of Association.

4. **FRACTIONAL INTEREST**

No fractional shares will be issued in connection with any conversion hereunder. The Company shall round-down, to the nearest whole number, the number of Conversion Shares issuable in connection with any conversion hereunder.

5. **CAPITAL NOTE CONFERS NO RIGHTS OF SHAREHOLDER**

The Holder shall not, by virtue of this Capital Note, have any rights as a shareholder of the Company prior to actual conversion into Conversion Shares in accordance with clause 3.2 above.

6. **ACQUISITION FOR INVESTMENT**

This Capital Note [, including the Conversion Shares,² Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from all future Capital Notes to be issued with respect to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder.] 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 Following the effective date of any Registration Statement covering the Conversion Shares or any of them,, bracketed language to be replaced with the following: “The Conversion Shares have been registered under the Securities Act on Form F-3 Registration Statement No. [*insert relevant registration number*].” on all future Capital Notes to be issued with respect to such Conversion Shares, and, at the request of the Holder, a substitute Capital Note having such replacement language will promptly be delivered to the Holder.] 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.

² Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from all future Capital Notes to be issued with respect to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder.

³ Following the effective date of any Registration Statement covering the Conversion Shares or any of them,, bracketed language to be replaced with the following: “The Conversion Shares have been registered under the Securities Act on Form F-3 Registration Statement No. [*insert relevant registration number*].” on all future Capital Notes to be issued with respect to such Conversion Shares, and, at the request of the Holder, a substitute Capital Note having such replacement language will promptly be delivered to the Holder.

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.

7. **ADJUSTMENT OF CONVERSION PRICE AND NUMBER OF CONVERSION SHARES**

The number and kind of securities issuable initially upon the conversion of this Capital Note and the Conversion Price shall be subject to adjustment at any time and from time to time upon the occurrence of certain events, as follows:

7.1. **Adjustment for Shares Splits and Combinations**

If the Company at any time or from time to time effects a subdivision of the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the subdivision shall be proportionately increased, and conversely, if the Company at any time or from time to time combines the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the combination shall be proportionately decreased. Any adjustment under this clause 7.1 shall become effective at the close of business on the date the subdivision or combination becomes effective.

7.2. **Adjustment for Certain Dividends and Distributions**

In the event the Company at any time, or from time to time, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in additional Ordinary Shares, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be increased as of the time of such issuance or, in the event such a record date is fixed, as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable, plus the number of Ordinary Shares issuable in payment of such dividend or distribution; and (ii) the denominator of which is the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable; provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be recomputed accordingly as of the close of business on such record date and thereafter the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7.2 as of the time of the actual payment of such dividends or distribution.

7.3. **Adjustments for Other Dividends and Distributions**

In the event the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in securities of the Company other than Ordinary Shares (for the avoidance of doubt, other than in a rights offering as to which clause 7.7 shall be applicable), then in each such event provision shall be made so that the Holder shall receive upon conversion of this Capital Note and for no additional consideration, in addition to the number of Ordinary Shares receivable thereupon, the amount of securities of the Company that the Holder would have received had this Capital Note been converted immediately prior to such event, or the record date for such event, as applicable.

7.4. **Adjustment for Reclassification, Exchange and Substitution**

If the Ordinary Shares issuable upon conversion of this Capital Note are changed into the same or a different number of shares of any class or classes of shares, whether by recapitalization, reclassification, exchange, substitution or otherwise (other than a subdivision or combination of shares, dividends payable in Ordinary Shares or other securities of the Company or a reorganization, merger, consolidation or sale of assets, provided for elsewhere in this clause 7), then and in any such event the Holder shall have the right thereafter to exercise this Capital Note into the kind and amount of shares and other securities receivable upon such recapitalization, reclassification, exchange, substitution or other change, by holders of the number of Ordinary Shares for which this Capital Note might have been converted immediately prior to such recapitalization, reclassification, exchange, substitution or other change (or the record date for such event), all subject to further adjustment as provided herein and under the Company's Articles of Association.

7.5. **Reorganization, Mergers, Consolidations or Sales of Assets**

If at any time or from time to time there is a capital reorganization of the Ordinary Shares (other than a recapitalization, subdivision, combination, reclassification, exchange or substitution of shares as provided for elsewhere in this clause 7), or a merger or consolidation of the Company with or into another corporation, or the sale of all or substantially all of the Company's properties and assets to any other person, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the Holder shall thereafter be entitled to receive upon conversion of this Capital Note and for no additional consideration, the number of shares or other securities or property (including, without limitation, cash) of the Company, or of the successor corporation resulting from such merger or consolidation or sale, to which a holder of the number of Ordinary Shares issuable upon conversion of this Capital Note would have been entitled on such capital reorganization, merger, consolidation or sale.

7.6. **Other Transactions**

In the event that the Company shall issue shares to its shareholders as a result of a split-off, spin-off or the like, then the Company shall only complete such issuance or other action if, as part thereof, allowance is made to protect the economic interest of the Holder either by increasing the number of Conversion Shares or by procuring that the Holder shall be entitled, on terms economically proportionate to those provided to its shareholders, to acquire additional shares of the spun-off or split-off entities.

7.7. **Rights Offerings**

If the Company, at any time and from time to time, shall fix a record date for, or shall make a distribution to, its shareholders of rights or warrants to subscribe for or purchase any security (collectively, "**Rights**"), then, in each such event, the Company will provide the Holder, concurrently with the distribution of the Rights to its shareholders, identical rights, having terms and conditions identical to the Rights (for the avoidance of doubt, exercisable at the same time as the Rights), in such number to which the Holder would be entitled had the Holder converted this Capital Note into Conversion Shares immediately prior to the record date for such distribution, or if no record date shall be fixed, then immediately prior to such distribution, as applicable. Nothing in this clause 7.7 shall require the Company to complete any such distribution of Rights to its shareholders, including following the record date thereof, unless required pursuant to the terms of such distribution and, if such distribution of Rights to its shareholders is not completed in conformity with the terms of such distribution, then the Company shall be entitled not to complete the provision of rights to the Holder pursuant to this clause 7.7 above.

7.8. **Adjustment for Cash Dividends and Distributions**

In the event the Company, at any time or from time to time until September 28, 2023, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a cash dividend or distribution, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted (for the avoidance of doubt, never decreased but either shall remain the same or increased), as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the closing price per share of the Ordinary Shares on the TASE on the determining date (“*Hayom Hakovaya*”) for such dividend or distribution; and (ii) the denominator of which shall be the adjusted “ex-dividend” price of the Ordinary Shares as such prices set out in (i) and (ii) are determined in each case by the TASE in accordance with its rules.

7.9. **General Protection**

The Company will not, by amendment of its Articles of Association or other charter document or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder, or impair the economic interest of the Holder, but will at all times in good faith assist in the carrying out of all the provisions hereof and in taking of all such actions and making all such adjustments as may be necessary or appropriate in order to protect the rights and the economic interests of the Holder against impairment.

7.10. **Notice of Capital Changes**

If at any time the Company shall declare any dividend or distribution of any kind, or offer for subscription pro rata to the holders of Ordinary Shares any additional shares of any class, other rights or any security of any kind, or there shall be any capital reorganization or reclassification of the capital shares of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to another company or there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company, or other transaction described in this clause 7, then, in any one or more of the said cases, the Company shall give the Holder prior written notice, by registered or certified mail, postage prepaid, of the date on which: (i) a record shall be taken for such dividend, distribution or subscription rights; or (ii) such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up shall take place, as the case may be. Such notice shall also specify the date as of which the holders of record of Ordinary Shares shall participate in such dividend or distribution, subscription rights, or shall be entitled to exchange their Ordinary Shares for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, as the case may be. Such written notice shall be given at least 14 (fourteen) days prior to the action in question and not less than 14 (fourteen) days prior to the record date in respect thereto.

7.11. **Adjustment of Conversion Price**

Upon each adjustment in the number of Ordinary Shares purchasable hereunder, the Conversion Price shall be proportionately increased or decreased, as the case may be, in a manner that is the inverse of the manner in which the number of Ordinary Shares purchasable hereunder shall be adjusted.

7.12. **Notice of Adjustments**

Whenever the Conversion Price or the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7, the Company shall prepare a certificate signed by the chief financial officer of the Company setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Conversion Price and the number of Conversion Shares issuable upon conversion of this Capital Note after giving effect to such adjustment, and shall cause copies of such certificate to be mailed (by first class mail, postage prepaid) to the Holder.

8. **OTHER TRANSACTIONS**

In the event that the Company or its shareholders receive an offer to transfer all or substantially all of the shares in the Company, or to effect a merger or acquisition or sale of all or substantially all of the assets of the Company, then the Company shall promptly inform the Holder in writing of such offer.

9. **TRANSFER OF THIS CAPITAL NOTE BY THE HOLDER**

This Capital Note shall be freely transferable or assignable by the Holder in whole or in part, at any time and from time to time, subject to the provisions of this clause 9. With respect to any transfer of this Capital Note, in whole or in part, the Holder shall surrender the Capital Note, together with a written request to transfer all or a portion of the Principal Amount of this Capital Note to the transferee, as well as, if reasonably requested by the Company, a written opinion of such Holder's counsel, to the effect that such offer, sale or other distribution may be effected without registration under the Securities Act. Upon surrender of such Capital Note (and delivery of such opinion, if so requested) by the Holder, the Company shall immediately register such transferee as the Holder of this Capital Note, or the portion thereof, transferred to such transferee, such registration shall be deemed to have been made immediately prior to the close of business on the date of such surrender and delivery (if applicable), and such transferee or transferees shall be treated for all purposes as the record holder or holders as of such date of a Capital Note in that portion of the Principal Amount of this Capital Note so transferred. The Company shall, as promptly as practicable, deliver to the Holder one or more Capital Notes, of like tenor as this Capital Note, except that the Principal Amount thereof shall be the amount transferred to such transferee, for delivery to the transferee or transferees (or, if the Holder requests, deliver such Capital Note directly to such transferee or transferees) and shall, if only a portion of the Principal Amount of this Capital Note is being transferred, concurrently deliver to the Holder one or more replacement Capital Notes to represent the portion of the Principal Amount of this Capital Note not so transferred. For the avoidance of doubt, the Company confirms that no approval by the Board of Directors of the Company of any transfer of this Capital Note or the Conversion Shares is required.

10. **REPRESENTATIONS, WARRANTIES AND COVENANTS**

The Company represents, warrants and covenants to the Holder as follows:

10.1. this Capital Note has been duly authorized and executed by the Company and is a valid and binding obligation of the Company enforceable in accordance with its terms;

10.2. the Conversion Shares are duly authorized and are, and will be, reserved (for the avoidance of doubt, without the need for further corporate action by the Company) for issuance by the Company and, when issued in accordance with the terms hereof, will be validly issued, fully paid and non-assessable and not subject to any pre-emptive rights;

10.3. the execution and delivery of this Capital Note are not, and the issuance of the Conversion Shares upon conversion of this Capital Note in accordance with the terms hereof will not be, inconsistent with the Company's Certificate of Incorporation, Memorandum of Association or Articles of Association, do not and will not contravene any law, governmental or regulatory rule or regulation, including NASDAQ and TASE rules and regulations, judgment or order applicable to the Company, do not and will not conflict with or contravene any provision of, or constitute a default under, any indenture, mortgage, contract or other instrument of which the Company is a party or by which it is bound or, except for consents that have already been obtained and filings already made, require the consent or approval of, the giving of notice to, the registration with or the taking of any action in respect of or by, any Israeli or foreign governmental authority or agency or other person; and

10.4. the Conversion Shares have been approved for listing and trading on TASE.

11. **LOSS, THEFT, DESTRUCTION OR MUTILATION OF CAPITAL NOTE**

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Capital Note or Conversion Shares certificate, and in case of loss, theft or destruction, of indemnity, or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of such Capital Note or Conversion Shares certificate, if mutilated, the Company will make and deliver a new Capital Note or Conversion Shares certificate of like tenor and dated as of such cancellation, in lieu of such Capital Note or Conversion Shares certificate.

12. **NOTICES**

All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed to such party's address as set forth below:

If to the Holder: Israel Corporation Ltd.
Millennium Tower
23 Aranha St.
Tel-Aviv, Israel 61070
Attention: Chief Financial Officer
Facsimile: 972-3-684-4574

with a copy to: Gornitzky & Co.
45 Rothschild Blvd.
Tel Aviv, Israel 65784
Attention: Zvi Ephrat, Adv.
Facsimile: (03) 560 6555

If to the Company: Tower Semiconductor Ltd.
P.O. Box 619
Ramat Gabriel Industrial Zone
Migdal Haemek 23105
Israel
Attention: Oren Shirazi, Acting
Chief Financial Officer
Facsimile: (04) 604 7242

with a copy to: Yigal Arnon & Co.
1 Azrieli Center
Tel Aviv
Israel
Attention: David H. Schapiro, Adv.
Facsimile: (03) 608 7714

or such other address with respect to a party as such party shall notify each other party in writing as above provided. Any notice sent in accordance with this clause 12 shall be effective: (a) if mailed, 5 (five) business days after mailing; (b) if sent by messenger, upon delivery; and (c) if sent via facsimile, 1 (one) business day following transmission and electronic confirmation of receipt.

13. **APPLICABLE LAW; JURISDICTION**

This Capital Note shall be governed by and construed in accordance with the laws of the State of Israel as applicable to contracts between two residents of the State of Israel entered into and to be performed entirely within the State of Israel. Any dispute arising under or in relation to this Capital Note shall be resolved in the competent court for Tel Aviv-Jaffa district, and the Company and the Holder hereby submits irrevocably to the jurisdiction of such court.

Dated: September 25, 2008

for **TOWER SEMICONDUCTOR LTD.**

/s/ Oren Shirazi & /s/ Yoram Glatt

Title: Acting VP/CFO & Treasurer

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THESE SECURITIES [(INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO)]¹ HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (“**THE ACT**”), OR ANY U.S. STATE OR OTHER JURISDICTION’S SECURITIES LAWS. THESE SECURITIES (INCLUDING THE SECURITIES ISSUABLE PURSUANT HERETO) MAY NOT BE SOLD, OFFERED FOR SALE OR PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT UNDER THE ACT WITH RESPECT TO ANY SUCH SECURITIES OR AN OPINION OF COUNSEL (REASONABLY SATISFACTORY TO THE COMPANY) THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF THE ACT OR ON THE TEL-AVIV STOCK EXCHANGE IN COMPLIANCE WITH REGULATIONS UNDER THE ACT.

EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE

(Principal Amount of US \$20,000,000)

THIS EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE (“this Capital Note”) in the principal amount of US \$20,000,000 (“**the Principal Amount**”) has been issued by Tower Semiconductor Ltd., an Israeli company (“**the Company**”), whose shares are currently traded on The Nasdaq National Market (“**NASDAQ**”) and the Tel-Aviv Stock Exchange (“**TASE**”), to Israel Corporation Ltd. (“**the Holder**”). This Capital Note was originally issued by the Company in exchange for the conversion by the original Holder of this Capital Note of loans to the Company in a principal amount (including certain accrued and unpaid interest) equal to the Principal Amount and represents the obligation of the Company to pay the Principal Amount to the Holder in accordance with and subject to the terms set forth in this Capital Note.

1. **DEFINITIONS**

In this Capital Note, the following terms have the meanings given to them in this clause 1:

1 Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from Capital Notes relating to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder.

- 1.1. **“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.
- 1.3. **“Ordinary Shares”** means the ordinary shares, nominal value NIS 1.00 (one New Israel Sheqel) per share, of the Company (and any shares of capital stock substituted for the ordinary shares as a result of any stock split, stock dividend, recapitalisation, rights offering, exchange, merger or similar event or otherwise, including as described in this Capital Note).

2. **TERMS**

The Principal Amount shall neither bear interest nor be linked to any index and shall be subordinated to all liabilities of the Company having priority over the Ordinary Shares.

The Principal Amount shall only be payable by the Company to the Holder out of distributions made upon the winding-up (whether solvent or insolvent), liquidation or dissolution of the Company and, in such event, on a *pari passu* and pro rata basis with the Ordinary Shares after payment of all liabilities of the Company having priority over the Ordinary Shares. For the purposes only of calculation of the allocation of such distributions between holders of the Capital Note and holders of Ordinary Shares, the holder of this Capital Note shall be deemed to own the number of Ordinary Shares into which this Capital Note may then be converted. The Company shall not be entitled to prepay or redeem this Capital Note.

This Capital Note shall be convertible into Ordinary Shares as set forth below and, for the removal of doubt, no such conversion shall be deemed a redemption or prepayment of this Capital Note.

3. **CONVERSION**

3.1. **Conversion Right**

The Holder of this Capital Note has the right, at the Holder's option, at any time and from time to time, to convert this Capital Note, without payment of any additional consideration, in accordance with the provisions of this clause 3, in whole or in part, into fully-paid and non-assessable Ordinary Shares. The number of Ordinary Shares into which this Capital Note may be converted (**“the Conversion Shares”**) shall be determined by dividing the aggregate Principal Amount of this Capital Note by the conversion price in effect at the time of such conversion (**“the Conversion Price”**). The Conversion Price initially shall be US \$1.42, as adjusted at any time and from time to time in accordance with clause 7 below.

3.2. **Conversion Procedure**

This Capital Note may be converted in whole or in part at any time and from time to time by the surrender of this Capital Note to the Company at its principal office together with written notice of the election to convert all or any portion of the Principal Amount thereof, duly signed on behalf of the Holder. The Company shall, on such surrender date or as soon as practicable thereafter, issue irrevocable instructions to its stock transfer agent to deliver to the Holder a certificate or certificates for the number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. Such conversion, the issue and allotment of such Conversion Shares and the registration of the Holder in the register of members of the Company as the holder of such Conversion Shares shall be deemed to have been made immediately prior to the close of business on the date of such surrender of this Capital Note or portion thereof and the person or persons entitled to receive the Conversion Shares issuable upon such conversion shall be treated for all purposes as the record holder or holders as of such date of such number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. In the event of a partial conversion, the Company shall concurrently issue to the Holder a replacement Capital Note of like tenor as this Capital Note, but representing the Principal Amount remaining after such partial conversion. For the avoidance of doubt, the Company confirms that the terms of this Capital Note, including, without limitation, this clause 3, constitute the issue terms of the Conversion Shares and that, accordingly, the right of the Company pursuant to clauses 16.1 and 16.2 of the Company's Articles of Association to delay the issuance of stock certificates for up to 6 (six) months after the allotment and registration of transfer is inapplicable. For the further removal of doubt, nothing herein shall derogate from the second sentence of clause 16.1 of the Company's Articles of Association.

4. **FRACTIONAL INTEREST**

No fractional shares will be issued in connection with any conversion hereunder. The Company shall round-down, to the nearest whole number, the number of Conversion Shares issuable in connection with any conversion hereunder.

5. **CAPITAL NOTE CONFERS NO RIGHTS OF SHAREHOLDER**

The Holder shall not, by virtue of this Capital Note, have any rights as a shareholder of the Company prior to actual conversion into Conversion Shares in accordance with clause 3.2 above.

6. **ACQUISITION FOR INVESTMENT**

This Capital Note [, including the Conversion Shares,²] has not been registered under the Securities Act of 1933, as amended (“**the Securities Act**”), or any other securities laws. The Holder acknowledges by acceptance of this Capital Note that it has acquired this Capital Note for investment and not with a view to distribution. [The Holder agrees that, unless the Conversion Shares have been registered under the Securities Act, any Conversion Shares issuable upon conversion of this Capital Note will be acquired for investment and not with a view to distribution in a manner inconsistent with the registration requirements of the U.S. securities laws and may have to be held indefinitely unless they are subsequently registered under the Securities Act or, based on an opinion of counsel reasonably satisfactory to the Company, an exemption from such registration is available; provided, however, that no opinion shall be required if sold pursuant to Rule 144 of the Securities Act or the transfer will be effected on the TASE and the Holder represents that the applicable conditions under Regulation S under the Securities Act have been satisfied.³] The Holder, by acceptance hereof, consents to the placement of legend(s) on this Capital Note and also on the Conversion Shares issuable upon conversion of this Capital Note, as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act, unless in the reasonable opinion of counsel for the Company such legend is not required in order to ensure compliance with the Securities Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

² Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from all future Capital Notes to be issued with respect to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder.

³ Following the effective date of any Registration Statement covering the Conversion Shares or any of them,, bracketed language to be replaced with the following: “The Conversion Shares have been registered under the Securities Act on Form F-3 Registration Statement No. [*insert relevant registration number*].” on all future Capital Notes to be issued with respect to such Conversion Shares, and, at the request of the Holder, a substitute Capital Note having such replacement language will promptly be delivered to the Holder.

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.

7. **ADJUSTMENT OF CONVERSION PRICE AND NUMBER OF CONVERSION SHARES**

The number and kind of securities issuable initially upon the conversion of this Capital Note and the Conversion Price shall be subject to adjustment at any time and from time to time upon the occurrence of certain events, as follows:

7.1. **Adjustment for Shares Splits and Combinations**

If the Company at any time or from time to time effects a subdivision of the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the subdivision shall be proportionately increased, and conversely, if the Company at any time or from time to time combines the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the combination shall be proportionately decreased. Any adjustment under this clause 7.1 shall become effective at the close of business on the date the subdivision or combination becomes effective.

7.2. **Adjustment for Certain Dividends and Distributions**

In the event the Company at any time, or from time to time, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in additional Ordinary Shares, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be increased as of the time of such issuance or, in the event such a record date is fixed, as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable, plus the number of Ordinary Shares issuable in payment of such dividend or distribution; and (ii) the denominator of which is the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable; provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be recomputed accordingly as of the close of business on such record date and thereafter the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7.2 as of the time of the actual payment of such dividends or distribution.

7.3. **Adjustments for Other Dividends and Distributions**

In the event the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in securities of the Company other than Ordinary Shares (for the avoidance of doubt, other than in a rights offering as to which clause 7.7 shall be applicable), then in each such event provision shall be made so that the Holder shall receive upon conversion of this Capital Note and for no additional consideration, in addition to the number of Ordinary Shares receivable thereupon, the amount of securities of the Company that the Holder would have received had this Capital Note been converted immediately prior to such event, or the record date for such event, as applicable.

7.4. **Adjustment for Reclassification, Exchange and Substitution**

If the Ordinary Shares issuable upon conversion of this Capital Note are changed into the same or a different number of shares of any class or classes of shares, whether by recapitalization, reclassification, exchange, substitution or otherwise (other than a subdivision or combination of shares, dividends payable in Ordinary Shares or other securities of the Company or a reorganization, merger, consolidation or sale of assets, provided for elsewhere in this clause 7), then and in any such event the Holder shall have the right thereafter to exercise this Capital Note into the kind and amount of shares and other securities receivable upon such recapitalization, reclassification, exchange, substitution or other change, by holders of the number of Ordinary Shares for which this Capital Note might have been converted immediately prior to such recapitalization, reclassification, exchange, substitution or other change (or the record date for such event), all subject to further adjustment as provided herein and under the Company's Articles of Association.

7.5. **Reorganization, Mergers, Consolidations or Sales of Assets**

If at any time or from time to time there is a capital reorganization of the Ordinary Shares (other than a recapitalization, subdivision, combination, reclassification, exchange or substitution of shares as provided for elsewhere in this clause 7), or a merger or consolidation of the Company with or into another corporation, or the sale of all or substantially all of the Company's properties and assets to any other person, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the Holder shall thereafter be entitled to receive upon conversion of this Capital Note and for no additional consideration, the number of shares or other securities or property (including, without limitation, cash) of the Company, or of the successor corporation resulting from such merger or consolidation or sale, to which a holder of the number of Ordinary Shares issuable upon conversion of this Capital Note would have been entitled on such capital reorganization, merger, consolidation or sale.

7.6. **Other Transactions**

In the event that the Company shall issue shares to its shareholders as a result of a split-off, spin-off or the like, then the Company shall only complete such issuance or other action if, as part thereof, allowance is made to protect the economic interest of the Holder either by increasing the number of Conversion Shares or by procuring that the Holder shall be entitled, on terms economically proportionate to those provided to its shareholders, to acquire additional shares of the spun-off or split-off entities.

7.7. **Rights Offerings**

If the Company, at any time and from time to time, shall fix a record date for, or shall make a distribution to, its shareholders of rights or warrants to subscribe for or purchase any security (collectively, "**Rights**"), then, in each such event, the Company will provide the Holder, concurrently with the distribution of the Rights to its shareholders, identical rights, having terms and conditions identical to the Rights (for the avoidance of doubt, exercisable at the same time as the Rights), in such number to which the Holder would be entitled had the Holder converted this Capital Note into Conversion Shares immediately prior to the record date for such distribution, or if no record date shall be fixed, then immediately prior to such distribution, as applicable. Nothing in this clause 7.7 shall require the Company to complete any such distribution of Rights to its shareholders, including following the record date thereof, unless required pursuant to the terms of such distribution and, if such distribution of Rights to its shareholders is not completed in conformity with the terms of such distribution, then the Company shall be entitled not to complete the provision of rights to the Holder pursuant to this clause 7.7 above.

7.8. **Adjustment for Cash Dividends and Distributions**

In the event the Company, at any time or from time to time until September 28, 2023, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a cash dividend or distribution, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted (for the avoidance of doubt, never decreased but either shall remain the same or increased), as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the closing price per share of the Ordinary Shares on the TASE on the determining date (“*Hayom Hakovaya*”) for such dividend or distribution; and (ii) the denominator of which shall be the adjusted “ex-dividend” price of the Ordinary Shares as such prices set out in (i) and (ii) are determined in each case by the TASE in accordance with its rules.

7.9. **General Protection**

The Company will not, by amendment of its Articles of Association or other charter document or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder, or impair the economic interest of the Holder, but will at all times in good faith assist in the carrying out of all the provisions hereof and in taking of all such actions and making all such adjustments as may be necessary or appropriate in order to protect the rights and the economic interests of the Holder against impairment.

7.10. **Notice of Capital Changes**

If at any time the Company shall declare any dividend or distribution of any kind, or offer for subscription pro rata to the holders of Ordinary Shares any additional shares of any class, other rights or any security of any kind, or there shall be any capital reorganization or reclassification of the capital shares of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to another company or there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company, or other transaction described in this clause 7, then, in any one or more of the said cases, the Company shall give the Holder prior written notice, by registered or certified mail, postage prepaid, of the date on which: (i) a record shall be taken for such dividend, distribution or subscription rights; or (ii) such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up shall take place, as the case may be. Such notice shall also specify the date as of which the holders of record of Ordinary Shares shall participate in such dividend or distribution, subscription rights, or shall be entitled to exchange their Ordinary Shares for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, as the case may be. Such written notice shall be given at least 14 (fourteen) days prior to the action in question and not less than 14 (fourteen) days prior to the record date in respect thereto.

7.11. **Adjustment of Conversion Price**

Upon each adjustment in the number of Ordinary Shares purchasable hereunder, the Conversion Price shall be proportionately increased or decreased, as the case may be, in a manner that is the inverse of the manner in which the number of Ordinary Shares purchasable hereunder shall be adjusted.

7.12. **Notice of Adjustments**

Whenever the Conversion Price or the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7, the Company shall prepare a certificate signed by the chief financial officer of the Company setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Conversion Price and the number of Conversion Shares issuable upon conversion of this Capital Note after giving effect to such adjustment, and shall cause copies of such certificate to be mailed (by first class mail, postage prepaid) to the Holder.

8. **OTHER TRANSACTIONS**

In the event that the Company or its shareholders receive an offer to transfer all or substantially all of the shares in the Company, or to effect a merger or acquisition or sale of all or substantially all of the assets of the Company, then the Company shall promptly inform the Holder in writing of such offer.

9. **TRANSFER OF THIS CAPITAL NOTE BY THE HOLDER**

This Capital Note shall be freely transferable or assignable by the Holder in whole or in part, at any time and from time to time, subject to the provisions of this clause 9. With respect to any transfer of this Capital Note, in whole or in part, the Holder shall surrender the Capital Note, together with a written request to transfer all or a portion of the Principal Amount of this Capital Note to the transferee, as well as, if reasonably requested by the Company, a written opinion of such Holder's counsel, to the effect that such offer, sale or other distribution may be effected without registration under the Securities Act. Upon surrender of such Capital Note (and delivery of such opinion, if so requested) by the Holder, the Company shall immediately register such transferee as the Holder of this Capital Note, or the portion thereof, transferred to such transferee, such registration shall be deemed to have been made immediately prior to the close of business on the date of such surrender and delivery (if applicable), and such transferee or transferees shall be treated for all purposes as the record holder or holders as of such date of a Capital Note in that portion of the Principal Amount of this Capital Note so transferred. The Company shall, as promptly as practicable, deliver to the Holder one or more Capital Notes, of like tenor as this Capital Note, except that the Principal Amount thereof shall be the amount transferred to such transferee, for delivery to the transferee or transferees (or, if the Holder requests, deliver such Capital Note directly to such transferee or transferees) and shall, if only a portion of the Principal Amount of this Capital Note is being transferred, concurrently deliver to the Holder one or more replacement Capital Notes to represent the portion of the Principal Amount of this Capital Note not so transferred. For the avoidance of doubt, the Company confirms that no approval by the Board of Directors of the Company of any transfer of this Capital Note or the Conversion Shares is required.

10. **REPRESENTATIONS, WARRANTIES AND COVENANTS**

The Company represents, warrants and covenants to the Holder as follows:

- 10.1. this Capital Note has been duly authorized and executed by the Company and is a valid and binding obligation of the Company enforceable in accordance with its terms;
- 10.2. the Conversion Shares are duly authorized and are, and will be, reserved (for the avoidance of doubt, without the need for further corporate action by the Company) for issuance by the Company and, when issued in accordance with the terms hereof, will be validly issued, fully paid and non-assessable and not subject to any pre-emptive rights;
- 10.3. the execution and delivery of this Capital Note are not, and the issuance of the Conversion Shares upon conversion of this Capital Note in accordance with the terms hereof will not be, inconsistent with the Company's Certificate of Incorporation, Memorandum of Association or Articles of Association, do not and will not contravene any law, governmental or regulatory rule or regulation, including NASDAQ and TASE rules and regulations, judgment or order applicable to the Company, do not and will not conflict with or contravene any provision of, or constitute a default under, any indenture, mortgage, contract or other instrument of which the Company is a party or by which it is bound or, except for consents that have already been obtained and filings already made, require the consent or approval of, the giving of notice to, the registration with or the taking of any action in respect of or by, any Israeli or foreign governmental authority or agency or other person; and
- 10.4. the Conversion Shares have been approved for listing and trading on TASE.

11. **LOSS, THEFT, DESTRUCTION OR MUTILATION OF CAPITAL NOTE**

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Capital Note or Conversion Shares certificate, and in case of loss, theft or destruction, of indemnity, or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of such Capital Note or Conversion Shares certificate, if mutilated, the Company will make and deliver a new Capital Note or Conversion Shares certificate of like tenor and dated as of such cancellation, in lieu of such Capital Note or Conversion Shares certificate.

12. **NOTICES**

All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed to such party's address as set forth below:

If to the Holder: Israel Corporation Ltd.
Millennium Tower
23 Aranha St.
Tel-Aviv, Israel 61070
Attention: Chief Financial Officer
Facsimile: 972-3-684-4574

with a copy to: Gornitzky & Co.
45 Rothschild Blvd.
Tel Aviv, Israel 65784
Attention: Zvi Ephrat, Adv.
Facsimile: (03) 560 6555

If to the Company: Tower Semiconductor Ltd.
P.O. Box 619
Ramat Gabriel Industrial Zone
Migdal Haemek 23105
Israel
Attention: Oren Shirazi, Acting
Chief Financial Officer
Facsimile: (04) 604 7242

with a copy to: Yigal Arnon & Co.
1 Azrieli Center
Tel Aviv
Israel
Attention: David H. Schapiro, Adv.
Facsimile: (03) 608 7714

or such other address with respect to a party as such party shall notify each other party in writing as above provided. Any notice sent in accordance with this clause 12 shall be effective: (a) if mailed, 5 (five) business days after mailing; (b) if sent by messenger, upon delivery; and (c) if sent via facsimile, 1 (one) business day following transmission and electronic confirmation of receipt.

13. **APPLICABLE LAW; JURISDICTION**

This Capital Note shall be governed by and construed in accordance with the laws of the State of Israel as applicable to contracts between two residents of the State of Israel entered into and to be performed entirely within the State of Israel. Any dispute arising under or in relation to this Capital Note shall be resolved in the competent court for Tel Aviv-Jaffa district, and the Company and the Holder hereby submits irrevocably to the jurisdiction of such court.

Dated: September 25, 2008

for **TOWER SEMICONDUCTOR LTD.**

/s/ Oren Shirazi & /s/ Yoram Glatt

Title: Acting VP/CFO & Treasurer

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 \$20,000,000)

THIS EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE (“this Capital Note”) in the principal amount of US \$20,000,000 (“**the Principal Amount**”) has been issued by Tower Semiconductor Ltd., an Israeli company (“**the Company**”), whose shares are currently traded on The Nasdaq National Market (“**NASDAQ**”) and the Tel-Aviv Stock Exchange (“**TASE**”), to Israel Corporation Ltd. (“**the Holder**”). This Capital Note was originally issued by the Company pursuant to a Securities Purchase Agreement between the Company and the original Holder, dated September 25, 2008, in a principal amount equal to the Principal Amount and represents the obligation of the Company to pay the Principal Amount to the Holder in accordance with and subject to the terms set forth in this Capital Note.

1. **DEFINITIONS**

In this Capital Note, the following terms have the meanings given to them in this clause 1:

Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from Capital Notes relating to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder.

- 1.1. **“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.
- 1.3. **“Ordinary Shares”** means the ordinary shares, nominal value NIS 1.00 (one New Israel Sheqel) per share, of the Company (and any shares of capital stock substituted for the ordinary shares as a result of any stock split, stock dividend, recapitalisation, rights offering, exchange, merger or similar event or otherwise, including as described in this Capital Note).

2. **TERMS**

The Principal Amount shall neither bear interest nor be linked to any index and shall be subordinated to all liabilities of the Company having priority over the Ordinary Shares.

The Principal Amount shall only be payable by the Company to the Holder out of distributions made upon the winding-up (whether solvent or insolvent), liquidation or dissolution of the Company and, in such event, on a *pari passu* and pro rata basis with the Ordinary Shares after payment of all liabilities of the Company having priority over the Ordinary Shares. For the purposes only of calculation of the allocation of such distributions between holders of the Capital Note and holders of Ordinary Shares, the holder of this Capital Note shall be deemed to own the number of Ordinary Shares into which this Capital Note may then be converted. The Company shall not be entitled to prepay or redeem this Capital Note.

This Capital Note shall be convertible into Ordinary Shares as set forth below and, for the removal of doubt, no such conversion shall be deemed a redemption or prepayment of this Capital Note.

3. **CONVERSION**

3.1. **Conversion Right**

The Holder of this Capital Note has the right, at the Holder's option, at any time and from time to time, to convert this Capital Note, without payment of any additional consideration, in accordance with the provisions of this clause 3, in whole or in part, into fully-paid and non-assessable Ordinary Shares. The number of Ordinary Shares into which this Capital Note may be converted (**“the Conversion Shares”**) shall be determined by dividing the aggregate Principal Amount of this Capital Note by the conversion price in effect at the time of such conversion (**“the Conversion Price”**). The Conversion Price initially shall be US \$0.71, as adjusted at any time and from time to time in accordance with clause 7 below.

3.2. **Conversion Procedure**

This Capital Note may be converted in whole or in part at any time and from time to time by the surrender of this Capital Note to the Company at its principal office together with written notice of the election to convert all or any portion of the Principal Amount thereof, duly signed on behalf of the Holder. The Company shall, on such surrender date or as soon as practicable thereafter, issue irrevocable instructions to its stock transfer agent to deliver to the Holder a certificate or certificates for the number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. Such conversion, the issue and allotment of such Conversion Shares and the registration of the Holder in the register of members of the Company as the holder of such Conversion Shares shall be deemed to have been made immediately prior to the close of business on the date of such surrender of this Capital Note or portion thereof and the person or persons entitled to receive the Conversion Shares issuable upon such conversion shall be treated for all purposes as the record holder or holders as of such date of such number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. In the event of a partial conversion, the Company shall concurrently issue to the Holder a replacement Capital Note of like tenor as this Capital Note, but representing the Principal Amount remaining after such partial conversion. For the avoidance of doubt, the Company confirms that the terms of this Capital Note, including, without limitation, this clause 3, constitute the issue terms of the Conversion Shares and that, accordingly, the right of the Company pursuant to clauses 16.1 and 16.2 of the Company's Articles of Association to delay the issuance of stock certificates for up to 6 (six) months after the allotment and registration of transfer is inapplicable. For the further removal of doubt, nothing herein shall derogate from the second sentence of clause 16.1 of the Company's Articles of Association.

4. **FRACTIONAL INTEREST**

No fractional shares will be issued in connection with any conversion hereunder. The Company shall round-down, to the nearest whole number, the number of Conversion Shares issuable in connection with any conversion hereunder.

5. **CAPITAL NOTE CONFERS NO RIGHTS OF SHAREHOLDER**

The Holder shall not, by virtue of this Capital Note, have any rights as a shareholder of the Company prior to actual conversion into Conversion Shares in accordance with clause 3.2 above.

6. **ACQUISITION FOR INVESTMENT**

This Capital Note [, including the Conversion Shares,²] has not been registered under the Securities Act of 1933, as amended (“**the Securities Act**”), or any other securities laws. The Holder acknowledges by acceptance of this Capital Note that it has acquired this Capital Note for investment and not with a view to distribution. [The Holder agrees that, unless the Conversion Shares have been registered under the Securities Act, any Conversion Shares issuable upon conversion of this Capital Note will be acquired for investment and not with a view to distribution in a manner inconsistent with the registration requirements of the U.S. securities laws and may have to be held indefinitely unless they are subsequently registered under the Securities Act or, based on an opinion of counsel reasonably satisfactory to the Company, an exemption from such registration is available; provided, however, that no opinion shall be required if sold pursuant to Rule 144 of the Securities Act or the transfer will be effected on the TASE and the Holder represents that the applicable conditions under Regulation S under the Securities Act have been satisfied.³] The Holder, by acceptance hereof, consents to the placement of legend(s) on this Capital Note and also on the Conversion Shares issuable upon conversion of this Capital Note, as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act, unless in the reasonable opinion of counsel for the Company such legend is not required in order to ensure compliance with the Securities Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

² Following the effective date of any Registration Statement covering the Conversion Shares or any of them, bracketed language to be removed from all future Capital Notes to be issued with respect to such Conversion Shares and, at the request of the Holder, a substitute Capital Note omitting the bracketed language will promptly be delivered to the Holder.

³ Following the effective date of any Registration Statement covering the Conversion Shares or any of them,, bracketed language to be replaced with the following: “The Conversion Shares have been registered under the Securities Act on Form F-3 Registration Statement No. [*insert relevant registration number*].” on all future Capital Notes to be issued with respect to such Conversion Shares, and, at the request of the Holder, a substitute Capital Note having such replacement language will promptly be delivered to the Holder.

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.

7. **ADJUSTMENT OF CONVERSION PRICE
AND NUMBER OF CONVERSION SHARES**

The number and kind of securities issuable initially upon the conversion of this Capital Note and the Conversion Price shall be subject to adjustment at any time and from time to time upon the occurrence of certain events, as follows:

7.1. **Adjustment for Shares Splits and Combinations**

If the Company at any time or from time to time effects a subdivision of the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the subdivision shall be proportionately increased, and conversely, if the Company at any time or from time to time combines the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the combination shall be proportionately decreased. Any adjustment under this clause 7.1 shall become effective at the close of business on the date the subdivision or combination becomes effective.

7.2. **Adjustment for Certain Dividends and Distributions**

In the event the Company at any time, or from time to time, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in additional Ordinary Shares, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be increased as of the time of such issuance or, in the event such a record date is fixed, as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable, plus the number of Ordinary Shares issuable in payment of such dividend or distribution; and (ii) the denominator of which is the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable; provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be recomputed accordingly as of the close of business on such record date and thereafter the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7.2 as of the time of the actual payment of such dividends or distribution.

7.3. **Adjustments for Other Dividends and Distributions**

In the event the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in securities of the Company other than Ordinary Shares (for the avoidance of doubt, other than in a rights offering as to which clause 7.7 shall be applicable), then in each such event provision shall be made so that the Holder shall receive upon conversion of this Capital Note and for no additional consideration, in addition to the number of Ordinary Shares receivable thereupon, the amount of securities of the Company that the Holder would have received had this Capital Note been converted immediately prior to such event, or the record date for such event, as applicable.

7.4. **Adjustment for Reclassification, Exchange and Substitution**

If the Ordinary Shares issuable upon conversion of this Capital Note are changed into the same or a different number of shares of any class or classes of shares, whether by recapitalization, reclassification, exchange, substitution or otherwise (other than a subdivision or combination of shares, dividends payable in Ordinary Shares or other securities of the Company or a reorganization, merger, consolidation or sale of assets, provided for elsewhere in this clause 7), then and in any such event the Holder shall have the right thereafter to exercise this Capital Note into the kind and amount of shares and other securities receivable upon such recapitalization, reclassification, exchange, substitution or other change, by holders of the number of Ordinary Shares for which this Capital Note might have been converted immediately prior to such recapitalization, reclassification, exchange, substitution or other change (or the record date for such event), all subject to further adjustment as provided herein and under the Company's Articles of Association.

7.5. **Reorganization, Mergers, Consolidations or Sales of Assets**

If at any time or from time to time there is a capital reorganization of the Ordinary Shares (other than a recapitalization, subdivision, combination, reclassification, exchange or substitution of shares as provided for elsewhere in this clause 7), or a merger or consolidation of the Company with or into another corporation, or the sale of all or substantially all of the Company's properties and assets to any other person, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the Holder shall thereafter be entitled to receive upon conversion of this Capital Note and for no additional consideration, the number of shares or other securities or property (including, without limitation, cash) of the Company, or of the successor corporation resulting from such merger or consolidation or sale, to which a holder of the number of Ordinary Shares issuable upon conversion of this Capital Note would have been entitled on such capital reorganization, merger, consolidation or sale.

7.6. **Other Transactions**

In the event that the Company shall issue shares to its shareholders as a result of a split-off, spin-off or the like, then the Company shall only complete such issuance or other action if, as part thereof, allowance is made to protect the economic interest of the Holder either by increasing the number of Conversion Shares or by procuring that the Holder shall be entitled, on terms economically proportionate to those provided to its shareholders, to acquire additional shares of the spun-off or split-off entities.

7.7. **Rights Offerings**

If the Company, at any time and from time to time, shall fix a record date for, or shall make a distribution to, its shareholders of rights or warrants to subscribe for or purchase any security (collectively, "**Rights**"), then, in each such event, the Company will provide the Holder, concurrently with the distribution of the Rights to its shareholders, identical rights, having terms and conditions identical to the Rights (for the avoidance of doubt, exercisable at the same time as the Rights), in such number to which the Holder would be entitled had the Holder converted this Capital Note into Conversion Shares immediately prior to the record date for such distribution, or if no record date shall be fixed, then immediately prior to such distribution, as applicable. Nothing in this clause 7.7 shall require the Company to complete any such distribution of Rights to its shareholders, including following the record date thereof, unless required pursuant to the terms of such distribution and, if such distribution of Rights to its shareholders is not completed in conformity with the terms of such distribution, then the Company shall be entitled not to complete the provision of rights to the Holder pursuant to this clause 7.7 above.

7.8. **Adjustment for Cash Dividends and Distributions**

In the event the Company, at any time or from time to time until September 28, 2023, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a cash dividend or distribution, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted (for the avoidance of doubt, never decreased but either shall remain the same or increased), as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the closing price per share of the Ordinary Shares on the TASE on the determining date (“*Hayom Hakovaya*”) for such dividend or distribution; and (ii) the denominator of which shall be the adjusted “ex-dividend” price of the Ordinary Shares as such prices set out in (i) and (ii) are determined in each case by the TASE in accordance with its rules.

7.9. **General Protection**

The Company will not, by amendment of its Articles of Association or other charter document or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder, or impair the economic interest of the Holder, but will at all times in good faith assist in the carrying out of all the provisions hereof and in taking of all such actions and making all such adjustments as may be necessary or appropriate in order to protect the rights and the economic interests of the Holder against impairment.

7.10. **Notice of Capital Changes**

If at any time the Company shall declare any dividend or distribution of any kind, or offer for subscription pro rata to the holders of Ordinary Shares any additional shares of any class, other rights or any security of any kind, or there shall be any capital reorganization or reclassification of the capital shares of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to another company or there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company, or other transaction described in this clause 7, then, in any one or more of the said cases, the Company shall give the Holder prior written notice, by registered or certified mail, postage prepaid, of the date on which: (i) a record shall be taken for such dividend, distribution or subscription rights; or (ii) such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up shall take place, as the case may be. Such notice shall also specify the date as of which the holders of record of Ordinary Shares shall participate in such dividend or distribution, subscription rights, or shall be entitled to exchange their Ordinary Shares for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, as the case may be. Such written notice shall be given at least 14 (fourteen) days prior to the action in question and not less than 14 (fourteen) days prior to the record date in respect thereto.

7.11. **Adjustment of Conversion Price**

Upon each adjustment in the number of Ordinary Shares purchasable hereunder, the Conversion Price shall be proportionately increased or decreased, as the case may be, in a manner that is the inverse of the manner in which the number of Ordinary Shares purchasable hereunder shall be adjusted.

7.12. **Notice of Adjustments**

Whenever the Conversion Price or the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7, the Company shall prepare a certificate signed by the chief financial officer of the Company setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Conversion Price and the number of Conversion Shares issuable upon conversion of this Capital Note after giving effect to such adjustment, and shall cause copies of such certificate to be mailed (by first class mail, postage prepaid) to the Holder.

8. **OTHER TRANSACTIONS**

In the event that the Company or its shareholders receive an offer to transfer all or substantially all of the shares in the Company, or to effect a merger or acquisition or sale of all or substantially all of the assets of the Company, then the Company shall promptly inform the Holder in writing of such offer.

9. **TRANSFER OF THIS CAPITAL NOTE BY THE HOLDER**

This Capital Note shall be freely transferable or assignable by the Holder in whole or in part, at any time and from time to time, subject to the provisions of this clause 9. With respect to any transfer of this Capital Note, in whole or in part, the Holder shall surrender the Capital Note, together with a written request to transfer all or a portion of the Principal Amount of this Capital Note to the transferee, as well as, if reasonably requested by the Company, a written opinion of such Holder's counsel, to the effect that such offer, sale or other distribution may be effected without registration under the Securities Act. Upon surrender of such Capital Note (and delivery of such opinion, if so requested) by the Holder, the Company shall immediately register such transferee as the Holder of this Capital Note, or the portion thereof, transferred to such transferee, such registration shall be deemed to have been made immediately prior to the close of business on the date of such surrender and delivery (if applicable), and such transferee or transferees shall be treated for all purposes as the record holder or holders as of such date of a Capital Note in that portion of the Principal Amount of this Capital Note so transferred. The Company shall, as promptly as practicable, deliver to the Holder one or more Capital Notes, of like tenor as this Capital Note, except that the Principal Amount thereof shall be the amount transferred to such transferee, for delivery to the transferee or transferees (or, if the Holder requests, deliver such Capital Note directly to such transferee or transferees) and shall, if only a portion of the Principal Amount of this Capital Note is being transferred, concurrently deliver to the Holder one or more replacement Capital Notes to represent the portion of the Principal Amount of this Capital Note not so transferred. For the avoidance of doubt, the Company confirms that no approval by the Board of Directors of the Company of any transfer of this Capital Note or the Conversion Shares is required.

10. **REPRESENTATIONS, WARRANTIES AND COVENANTS**

The Company represents, warrants and covenants to the Holder as follows:

- 10.1. this Capital Note has been duly authorized and executed by the Company and is a valid and binding obligation of the Company enforceable in accordance with its terms;
- 10.2. the Conversion Shares are duly authorized and are, and will be, reserved (for the avoidance of doubt, without the need for further corporate action by the Company) for issuance by the Company and, when issued in accordance with the terms hereof, will be validly issued, fully paid and non-assessable and not subject to any pre-emptive rights;
- 10.3. the execution and delivery of this Capital Note are not, and the issuance of the Conversion Shares upon conversion of this Capital Note in accordance with the terms hereof will not be, inconsistent with the Company's Certificate of Incorporation, Memorandum of Association or Articles of Association, do not and will not contravene any law, governmental or regulatory rule or regulation, including NASDAQ and TASE rules and regulations, judgment or order applicable to the Company, do not and will not conflict with or contravene any provision of, or constitute a default under, any indenture, mortgage, contract or other instrument of which the Company is a party or by which it is bound or, except for consents that have already been obtained and filings already made, require the consent or approval of, the giving of notice to, the registration with or the taking of any action in respect of or by, any Israeli or foreign governmental authority or agency or other person; and
- 10.4. the Conversion Shares have been approved for listing and trading on TASE.

11. **LOSS, THEFT, DESTRUCTION OR
MUTILATION OF CAPITAL NOTE**

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Capital Note or Conversion Shares certificate, and in case of loss, theft or destruction, of indemnity, or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of such Capital Note or Conversion Shares certificate, if mutilated, the Company will make and deliver a new Capital Note or Conversion Shares certificate of like tenor and dated as of such cancellation, in lieu of such Capital Note or Conversion Shares certificate.

12. **NOTICES**

All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed to such party's address as set forth below:

If to the Holder: Israel Coropration Ltd.
Millennium Tower
23 Aranha St.
Tel-Aviv, Israel 61070
Attention: Chief Financial Officer
Facsimile: 972-3-684-4574

with a copy to: Gornitzky & Co.
45 Rothschild Blvd.
Tel Aviv, Israel 65784
Attention: Zvi Ephrat, Adv.
Facsimile: (03) 560 6555

If to the Company: Tower Semiconductor Ltd.
P.O. Box 619
Ramat Gabriel Industrial Zone
Migdal Haemek 23105
Israel
Attention: Oren Shirazi, Acting
Chief Financial Officer
Facsimile: (04) 604 7242

with a copy to: Yigal Arnon & Co.
1 Azrieli Center
Tel Aviv
Israel
Attention: David H. Schapiro, Adv.
Facsimile: (03) 608 7714

or such other address with respect to a party as such party shall notify each other party in writing as above provided. Any notice sent in accordance with this clause 12 shall be effective: (a) if mailed, 5 (five) business days after mailing; (b) if sent by messenger, upon delivery; and (c) if sent via facsimile, 1 (one) business day following transmission and electronic confirmation of receipt.

13. **APPLICABLE LAW; JURISDICTION**

This Capital Note shall be governed by and construed in accordance with the laws of the State of Israel as applicable to contracts between two residents of the State of Israel entered into and to be performed entirely within the State of Israel. Any dispute arising under or in relation to this Capital Note shall be resolved in the competent court for Tel Aviv-Jaffa district, and the Company and the Holder hereby submits irrevocably to the jurisdiction of such court.

Dated: September 25, 2008

for **TOWER SEMICONDUCTOR LTD.**

/s/ Oren Shirazi & /s/ Yoram Glatt

Title: Acting VP/CFO & Treasurer

Fee Letter

September 25, 2008

To:
Israel Corporation Ltd.

Dear Sirs,

1. We refer to the Securities Purchase Agreement (the “SPA”) made and entered into effective as of September 25, 2008 by and between Tower Semiconductor Ltd. (“**Tower**”), and Israel Corporation Ltd. (“**Israel Corp.**”).

2. We confirm that in connection with the SPA, Tower will pay an aggregate of US \$300,000 (three hundred thousand United States Dollars) to Israel Corp. (“**the Fee**”), such fee to be payable in three equal installments of US\$100,000 (one hundred thousand United States Dollars) each, the first payable on the Closing (as defined in the SPA), the second payable on January 1, 2009 and the third payable on April 1, 2009 to Israel Corp.’s account at Bank Leumi, Tel Aviv Main Branch No. 800, Account 59700/07.

3. We agree and confirm that the contents of this Fee Letter are confidential and shall not be disclosed to any third parties.
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[Signature Page to Israel Corp. Fee Letter]

Yours faithfully

/s/ Oren Shirazi & /s/ Yoram Glatt
for and on behalf of
TOWER SEMICONDUCTOR LTD.

We agree to the above.

/s/ Avisar Paz and Nir Gilad
ISRAEL CORPORATION, LTD.

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