

This is an English convenience translation from the original Hebrew version. In case of any discrepancy, the binding version is the Hebrew original.

August 20, 2008

To:
The Securities Authority
via MAGNA

To:
The Tel Aviv Stock Exchange Ltd.
via MAGNA

Dear Sir/Madam,

Re: **Immediate Report**

Further to the Immediate Report of the Company dated August 7, 2008, the Company hereby reports that on August 19, 2008, in the afternoon, a memorandum of understanding was signed between Tower Semiconductor Ltd. (hereinafter: "**Tower**"), Bank Hapoalim B.M. and Bank Leumi le-Israel B.M. (hereinafter: the "**Banks**") and between the Company, for the restructuring of Tower's debt that the result of which will be a substantial reduction to the level of its debts to the Banks and to the Company.

The principal details of the arrangement are as follows:

1. The principal details of the arrangement with the Banks are:
 - 1.1. \$200 million of Tower's debt to the Banks (\$100 million to each Bank) will be converted into equity capital notes, exercisable into shares of Tower. The credit agreements signed with the Banks shall be amended accordingly. The conversion will be on the basis of a price per share of \$1.42, which 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 first public announcement regarding its debt restructuring negotiations).
 - 1.2. The repayment to the Banks of the remaining principal of the loans after the conversion (approximately \$200 million) will be postponed until September 2010.
 - 1.3. The Banks have signed a consent letter for the execution of the expected merger of Tower with Jazz Technologies Inc..

- 1.4. Interest payments of Tower to the Banks pursuant to the credit agreements, originally due in the four quarters beginning September 30, 2008, are postponed and are added to the principal payments, which are scheduled to begin in September 2010, as indicated in Section 1.2 above.
 - 1.5. The banks waived in full Tower's compliance with financial covenants regarding the last two quarters of 2008.
2. The principal details of the arrangement with the Company are:
- 2.1. \$50 million of Tower's debt to the Company will be converted into equity capital notes, exercisable into shares of Tower. The said debt includes a loan of \$30 million pursuant to the Credit Agreement, dated September 10, 2008, and \$20 million of debentures (principal and accrued interest) which were issued to the Company in 2005. The debt conversion will be on the basis of the same price per share of the said debt conversion of the Banks.
 - 2.2. The Company will invest \$20 million in Tower in exchange for 28,169,014 equity capital notes, exercisable into shares of Tower based on 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 first public announcement regarding its debt restructuring negotiations).
 - 2.3. The company undertakes to provide to Tower, from time to time, for a period ending on December 31, 2009, with amounts the sum of which will not exceed \$20 million. The said amounts will be invested in Tower in order to assist it with its net cash balance in certain cases and in circumstances in which Tower will need such amounts for its cash balance. The mentioned aggregate amount may be reduced by the same amount that Tower will manage to raise during the said period. In exchange for each payment by the Company, as aforesaid, Tower will issue to the Company capital notes, exercisable into shares of Tower. The conversion will be 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 each mentioned payment is made, or (ii) the average closing price per share mentioned in Section 2.2 above.

3. Sections 1.3, 1.4 and 1.5 will be in effect as of August 19, 2008. The remaining consents and undertakings will be in effect with the signing of definitive agreements and the receipt of all necessary Tower's corporate approvals, including the approval of Tower's General Assembly.

Sincerely

Noga Yatziv