

Audit Committee Charter

This Audit Committee Charter (the “**Charter**”) has been adopted by the Board of Directors (the “**Board**”) of Tower Semiconductor Ltd. (the “**Company**”). The Audit Committee shall review and reassess this Charter annually and recommend any proposed changes to the Board for approval.

1. Purpose

The purpose of this Charter is to clearly define the Audit Committee’s responsibilities and authority, as applicable to the Company by Israeli, US and any other applicable laws and regulations and by the Board.

In the performance of its responsibilities, the Audit Committee is the representative of the shareholders. However, it is not the responsibility of the Audit Committee to plan or conduct audits, or to determine whether the Company’s financial statements are complete and accurate or in accordance with generally accepted accounting principles.

2. Responsibilities

The Audit Committee shall be responsible for the following tasks:

2.1 Approve the appointment of, and recommend to the board of directors and the shareholders to appoint, the independent auditor and determine his/her compensation, evaluate the performance of the independent auditor periodically and as appropriate, and determine whether to recommend to the Board replacement of the independent auditor. The independent auditor shall report to the Board and the Audit Committee, as representative of the shareholders.

2.2 Evaluate (i) the independent auditor’s quality control procedures; (ii) the approach used by the independent auditor to obtain sufficient audit scope and coverage; and (iii) the independence of the independent auditor in accordance with the relevant laws and regulations.

2.3 Receive specific information on the independent auditor’s proposed services and pre-approve in advance all audit services annually and separately approve any other permitted non-audit related services.

2.4 Conduct meetings with CEO and CFO, the independent auditor, and the Reporting and Disclosure Committee prior to the filing of the annual and quarterly reports including the audited financial statements and other financial information, to discuss the report to be filed or the financial statements and their procedures for interim reviews thereof, as the case may be, including their judgment about the quality and acceptability of the accounting principles, the reasonableness of significant judgments, the clarity of the disclosures in the financial statements, and to discuss significant issues encountered in the course of the audit work, including restrictions on the scope of activities and access to required information. Based on such review and discussion, the Audit Committee shall make a determination whether to recommend to the Board of Directors to approve such report.

2.5 Conduct meetings with Company management, the independent auditor, other accounting firms employed by the Company and the internal auditor, as the Audit Committee shall deem appropriate, to discuss significant financial risk exposures and the plans for monitoring and controlling such exposures.

2.6 Review the following prior to the filing of the annual report on Form 20-F: (i) certifications by the CEO and CFO, as specified in Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 (the “Act”); and (ii) the internal control report from management and the attestation report of the independent auditor, as specified in Section 404 of the Act.

2.7 Discuss with the independent auditor with respect to each independent auditor report:

2.7.1 All critical accounting policies and practices used.

- 2.7.2 All alternative treatments within GAPP for policies and practices related to material items that have been discussed with Company management and resolutions of disagreements.
- 2.7.3 Ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditor.
- 2.7.4 Other written communications between the independent auditor and Company management that are material to the financial statements, including Company management's recommendations and or schedule of unadjusted differences.

2.8 Review significant changes to the Company's accounting principles and practices proposed by the independent auditor, the internal auditor, other accounting firms employed by the Company or Company management.

2.9 Review the scope and results of internal audits and discuss the internal auditor's findings and recommendations with Company management.

2.10 Evaluate the performance of the internal auditor and, if so determined by the Audit Committee, recommend to the Board the replacement thereof.

2.11 Decide whether to approve actions and transactions with interested parties as specified in sections 255 and 268-275 of the Israeli Companies Law, 1999 and with related parties as specified in Nasdaq Rule 4350(h), as amended.

2.12 Discuss with the Company's external legal counsel any evidence of any violations of securities or other laws or breaches of fiduciary duty in the Company.

2.13 Instruct Company management, the independent auditor, other accounting firms employed by the Company and the internal auditor that the Audit Committee must be informed as to any subjects requiring special attention or if such persons perceive any significant deficiencies in the design or operation of the Disclosure Controls and any fraud that involves management or other employees with a significant role in the Disclosure Controls.

2.14 Provide minutes of Audit Committee meetings to the Board, and report to the Board on any significant matters arising from the Audit Committee's activities.

2.15 Collect complaints from employees orally, in writing or anonymously by mail to the Audit Committee Chairperson regarding any illegal, inappropriate or unethical behavior, illegitimate accounting or auditing practices and any violation of the Code of Ethics, whether such has occurred or may occur. Such complaints shall be held in confidence, subject to applicable laws, regulations or legal proceedings. Upon receipt of any such complaints, the Audit Committee shall act according to the Company's Complaints Management Procedure.

2.16 Conduct or authorize another to conduct inquiries into matters, as it shall deem appropriate, within the Audit Committee's responsibility, including by way of engaging independent counsel and other professionals for assistance and receiving from the Company the appropriate funding for the payment of compensation thereto and payment of expenses incurred by the Audit Committee, all as determined by the Audit Committee.

3. Composition

3.1 The Audit Committee shall be composed of at least three directors, as determined by the Board of Directors:

3.1.1 Two of whom must be an Outside Director (as defined by the Israeli Companies Law, 1999);

3.1.2 As of July 31, 2005, each of whom must be independent (as defined by Rule 4200(a)(15) of the National Association of Securities Dealers listing standards and Rule 10A-3(b)(1) of the Securities Exchange Act of 1934);

3.1.3 As of July 31, 2005, each of whom must be able to read and understand fundamental financial statements, including a balance sheet, income statement and cash flow statement; and

3.1.4 As of July 31, 2005, has not participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past 3 years.

3.2 In the event of non-compliance with the requirements set forth in Section 3.1.2 above due to one (1) director ceasing to be independent due to circumstances beyond his/her reasonable control, such director can remain on the Audit Committee until the earlier of the next annual shareholders' meeting of the Company or one (1) year from the start of the non-compliance, at which point the Company must correct such non-compliance. The Company must notify Nasdaq immediately upon learning of the event or circumstance that caused non-compliance.

3.3 At least one member of the Audit Committee must be a financial expert (as defined by Item 401(h) of Regulation S-K and Item 401(e) of Regulation S-B).

3.4 Unless the board of directors designates a chair, the committee members may appoint their own chair by majority vote.