

# 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**").

## 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. The purpose of the Audit Committee is to oversee the Company's accounting and financial reporting processes and the audit of the Company's financial statements.

In the performance of its responsibilities, the Audit Committee is the representative of the shareholders. It is the Audit Committee's responsibility to oversee the transparency and integrity of the external financial statements and system of internal controls over external financial reporting. 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.

The Audit Committee has the authority to operate independently of the Company's senior management (including direct access to the Company's employees as needed). In addition, the Audit Committee assists the board in its responsibility to oversee the Company's process for monitoring compliance with laws and regulations and the code of conduct.

The Audit Committee shall have appropriate funding to cover its expenses, as determined by the Audit Committee, as needed to carry out its duties as described herein.

## 2. Responsibilities

The Audit Committee shall be responsible for the following tasks:

### **Responsibilities with respect to the independent auditor:**

- 2.1 Appoint the Company's independent auditor, set the compensation of the independent auditor, evaluate the performance of the independent auditor, and present its recommendations to the Board or General Meeting of the Shareholders, as required under applicable law (including its position with respect to a replacement of the independent auditor or the end of its services). The independent auditor shall report directly to the Audit Committee.
- 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 Review and discuss with the Company's independent auditors (1) the auditors' responsibilities under generally accepted auditing standards and the responsibilities of management in the audit process, (2) the overall audit strategy, (3) the scope and timing of the annual audit, (4) any significant risks identified during the auditors' risk assessment procedures and (5) when completed, the results, including significant findings, of the annual audit.
- 2.5 To review and discuss with the Company's independent auditors and management (1) any audit problems or difficulties, including difficulties encountered by the Company's independent auditors during their audit work (such as restrictions on the scope of their activities or their access to information), (2) any significant disagreements with management, (3) management's response to these problems, difficulties or disagreements; and to resolve any disagreements between the Company's auditors and management.

### **Financial reporting and disclosure matters:**

- 2.6 Conduct meetings with CEO and CFO, the independent auditor, and any other committee of the board as appropriate, 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.
- 2.7 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.
- 2.8 Review, with management, the following prior to the filing of the annual report on Form 20-F: (i) the adequacy and effectiveness of the Company's internal controls, (ii) certifications by the CEO and CFO, as specified in Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 (the "Act"); and (iii) the internal control report from management and the attestation report of the independent auditor, as specified in Section 404 of the Act.
- 2.9 Discuss with the independent auditor with respect to each independent auditor report:
  - 2.9.1. All critical accounting policies and practices to be used in the audit.
  - 2.9.2 All alternative treatments of financial information within GAPP and for policies and practices related to material items that have been discussed with Company management and resolutions of disagreements.
  - 2.9.3 Ramifications of the use of such alternative treatments and the treatment preferred by the independent auditor.
  - 2.9.4 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.
- 2.10 Review significant changes to the Company's selection or application of accounting principles and practices proposed by the independent auditor, the internal auditor, other accounting firms employed by the Company or Company management.
- 2.11 To review and discuss with the Company's independent auditors any other matters required to be discussed by PCAOB Auditing Standards No, 16, Communications with Audit Committees.
- 2.12 To review and discuss with management and the Company's independent auditors the Company's quarterly financials, including the type of information to be included and its presentation and the use of any pro forma or adjusted non-GAAP information.

### **Responsibilities with respect to the internal auditor and risk management and controls:**

- 2.13 Review and advise on the selection and removal of the internal auditor.
- 2.14 Responsible to oversee the performance of the Company's risk assessment, including the risk of fraud (which explicitly includes the risk management override) and discuss the steps management has taken to monitor and control such risks and exposures.
- 2.15 Evaluate the Company's internal auditing procedures, the performance of the internal auditor, and assess whether the internal auditor has the resources and tools required to perform his duties, considering, among others, the Company's size and specific needs, and, if so determined by the Audit Committee, recommend to the Board the replacement thereof.
- 2.16 Approve the audit plan, annual and multi-year (authorized to do so by the Board of Directors).
- 2.17 Review the scope and results of internal audits and discuss the internal auditor's findings and recommendations with Company management.

### **Compliance oversight.**

- 2.18 Track timely compliance of regulatory tasks and other critical topics
- 2.19 Determine, based on reasoning which will be set down in writing, whether certain actions and transactions relating to officers' duty of loyalty specified pursuant to Section 255 of the Israeli Companies Law, 1999 (the "**Companies Law**"), are material or immaterial, and whether certain actions and transactions with interested parties specified in Sections 270(1), (4) and (4A) of the Companies Law are ordinary transactions or extraordinary transactions and if determined to be extraordinary transactions; such determinations may be made for certain categories of actions or transactions pursuant to criteria that may be set by the Audit Committee annually and in advance.
- 2.10 Determine whether certain transactions with a controlling shareholder as further specified in Sections 270(4) and 270(4A) of the Companies Law, even if they are not extraordinary, require a competitive process, which shall be administered under the Audit Committee's supervision or under the supervision of any other party designated for this purpose by the Audit Committee, and in accordance with pre-determined criteria, or determine that other procedures shall be maintained as shall be determined by the Audit Committee, prior to engaging in such transactions, such determinations to be based on the type of transaction. The Audit Committee may establish for the purposes hereof criteria on an annual basis in advance.
- 2.21 Approve actions and transactions pursuant to Sections 255 and 268-275 of the Companies Law and with related parties as specified in the Nasdaq Rules unless the Company has elected to opt out of compliance with such Nasdaq rules to the extent permitted by foreign private issuers.
- 2.22 Determine the procedure for approving transactions which are deemed to be "non - negligible transactions", and determine which "non - negligible transactions" shall require the approval of the Audit Committee. "Non - negligible transactions" for the purposes hereof, shall mean transactions with controlling shareholders pursuant to Sections 270(4) and 270(4A) of the Companies Law, which are determined by the Audit Committee not to be extraordinary, but which are also determined not to be negligible. The Audit Committee may establish for the purposes hereof criteria on an annual basis in advance.
- 2.23 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.
- 2.24 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.
- 2.25 Responsible with respect to the Company's compliance and ethics program, including legal and regulatory requirements, updates to the code of ethics, and monitoring reported cases of potential violations.
- 2.26 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.
- 2.27 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 and Procedures.**

- 3.1 The composition of the Audit Committee shall be as set forth in the NASDAQ Listing Rules and the rules under the Securities Exchange Act of 1934, as further detailed in this Section 3.
- 3.2 The Audit Committee shall be composed of at least three directors, as determined by the Board:
- 3.2.1 Each of whom must be independent in accordance with the requirements of Rule 10A-3 and the rules of the NASDAQ applicable to the Company;

- 3.2.2 Each of whom must be able to read and understand fundamental financial statements, including a balance sheet, income statement and cash flow statement;
  - 3.2.3 Each of whom 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;
  - 3.2.4 Each of whom must be free of any relationship that, in the opinion of the Board, may interfere with his or her individual exercise of independent judgment in carrying out his or her responsibilities as a member of the Audit Committee; and
  - 3.2.5 Each of whom must not accept any consulting, advisory or other compensatory fee from the Company and is not an affiliated person of the Company or any of its subsidiaries, in either case, other than in his or her capacity as a member of the Audit Committee or the Board.
- 3.3 In the event of non-compliance with the requirements set forth in Section 3.2 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.
- 3.4 At least one member of the Audit Committee must be an audit committee financial expert (as defined under applicable rules and regulations).
- 3.5 Unless the board of directors designates a chair, the committee members may appoint their own chair by majority vote.
- 3.6 The Audit Committee shall meet at least four times a year at such times and places as it deems necessary to fulfill its responsibilities. The Audit Committee shall report regularly to the Board on its discussions and actions, including any significant issues or concerns that arise at its meetings, and shall make recommendations to the Board as appropriate. The Audit Committee is governed by the same rules regarding meetings (including meetings in person or by telephone or other similar communications equipment), action without meetings, notice, waiver of notice, and quorum and voting requirements as are applicable to the Board. The Audit Committee shall provide resolutions of Audit Committee meetings to the Board.
- 3.7 The Committee shall review this Charter at least annually and recommend any proposed changes to the Board for approval.
- 3.8 For so long as the Company remains in continuous compliance with all the requirements set forth in Section 5D of the Israeli Companies Regulations (Relief For Companies Who Shares are Registered for Trading Outside of Israel), 2000, composition of the Audit Committee shall not be subject to any additional requirements under the Israeli Companies law. In the event of non-compliance, at any time, with the provisions of Section 5D of the Regulations, the composition of the Audit Committee shall be governed by provisions of the Companies Law and the regulations promulgated thereunder, including the provisions of Section 115 of the Companies Law.