

## AUDIT COMMITTEE CHARTER

### I. General Statement of Purpose

The purpose of the Audit Committee of the Board of Directors (the “Committee”) of Nova Measuring Instruments Ltd. (the “Company”) is to:

- assist the Company's Board of Directors (the “Board”) in fulfilling its responsibility for oversight of the quality and integrity of accounting, auditing and financial reporting practices of the Company;
- oversee the qualifications, independence, appointment, compensation and performance of the Company's independent auditors;
- monitor deficiencies in the management of the Company, including in consultation with the independent auditors or the internal auditor, and to advise the Board on how to correct such deficiencies; Had the Committee found a material deficiency, the Committee will hold at least one meeting regarding such material deficiency, with the presence of the internal auditor or the independent auditors without the presence of officers of the Company; however, an officer can participate in the meeting in order to present an issue which is under his responsibility;
- determine, on the basis of detailed arguments, whether to classify certain engagements or transactions as material or extraordinary as applicable, and therefore as requiring special approval under the Israeli Companies Law, 1999 (the “Companies Law”). The Committee may make such determination according to principles and guidelines predetermined on an annual basis;
- determine whether a competitive bidding process or other procedures are required with respect to certain related party transactions;
- create guidelines for determining whether a transaction with a Controlling Shareholder (as defined in the Companies Law) is deemed insignificant or not and determine ways of approval (including, potentially, the approval of the Committee) for transactions that are not insignificant and not extraordinary. The Committee may make such determination according to principles and guidelines predetermined on an annual basis;
- decide whether to approve engagements or transactions that require Committee approval under the Companies Law;
- examine and approve the annual and periodical working plan of the internal auditor;
- oversee the Company's internal auditing and the performance of the internal auditor; confirm that the internal auditor has sufficient tools and resources at his disposal, taking into account, among other, the special requirements of the Company and its size;
- examine the scope of work of the independent auditor and its pay, and bring such recommendations before the Board;
- consider the adequacy of the Company's internal controls and assess the significant risks or exposures and the steps management has taken to minimize such risks; and

- determine the procedure of addressing complaints of employees regarding shortcomings in the management of the Company and ensure the protection of employees who have filed such complaints.

The Committee's specific responsibilities in carrying out its oversight role are delineated in the Audit Committee Responsibilities Guidelines attached hereto.

## **II. Composition of the Committee**

The Committee shall consist of at least three (3) members of the Board, each of whom must (i) be an "independent director" as defined in Rule 5605(a)(2) under the NASDAQ Listing Rules; (ii) meet the criteria for independence set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), subject to the exemptions provided in Rule 10A-3(c) under the Exchange Act; and (iii) not have participated in the preparation of the financial statements of the Company or a current subsidiary of the Company at any time during the past three years. All of the Company's external directors appointed under the Companies Law shall be appointed to the Committee, and a majority its members shall be independent, as such term is defined under the Companies Law.

Each member of the Committee must be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement, and cash flow statement. One or more members of the Committee shall qualify as an "audit committee financial expert" under the rules promulgated by the Securities and Exchange Commission ("SEC") and at least one member shall meet the applicable accounting and related financial experience requirement by NASDAQ and the Companies Law.

The following persons shall not be appointed to the Committee: (i) the Chairman of the Board, (ii) any director employed by the Company or by the controlling shareholder of the Company or by a company under the control of the controlling shareholder, (iii) a director who provides services, on an ongoing basis, to the Company, the controlling shareholder of the Company or to a company under the control of the controlling shareholder, (iv) a director whose main source of income comes from the controlling shareholder; and (v) the controlling shareholder or his relative, and (vi) any person who owns or controls (or whose relative owns or controls) more than 10% of the Company's shares.

The members of the Committee shall be appointed by the Board and may be replaced or removed by the Board with or without cause. Resignation or removal of a director from the Board, for whatever reason, shall automatically and without any further action constitute resignation or removal, as applicable, from the Committee. Any vacancy on the Committee, occurring for whatever reason, may be filled only by the Board. The Board shall designate one member of the Committee to be Chairman of the Committee who must be an external director which has not served in such capacity for a period of over nine years.

All indemnification, exculpation, expense reimbursement and advancement provisions and rights available to members of the Committee in their capacities as directors of the Company shall be fully applicable with respect to their service on the Committee or any subcommittee thereof.

## **III. Compensation**

A member of the Committee may not, other than in his or her capacity as a member of the Committee, the Board or any other committee established by the Board, receive directly or indirectly from the Company any consulting, advisory or other compensatory fee from the Company. Subject to applicable law, a member of the Committee may receive additional directors' fees to compensate such member for the significant time and effort expended by such member to fulfill his or her duties as a Committee member.

**IV. Meetings of the Committee**

The Committee shall meet as often as it determines is appropriate to carry out its responsibilities under this Charter, but not less frequently than quarterly. In addition, had the Committee found a material deficiency, it will hold at least one meeting regarding such material deficiency, with the presence of the internal auditor or the independent auditors without the presence of officers of the Company; however, an officer can participate in the meeting in order to present an issue which is under his responsibility.

A majority of the members of the Committee shall constitute a quorum for purposes of holding a meeting and the Committee may act by a vote of a majority of the members present at such meeting, as long as the majority of the members present are independent, as such term is defined under the Companies Law, and at least one of them is an external director.

In lieu of a meeting, the Committee may act by unanimous written consent. The Chairman of the Committee, in consultation with the other committee members, may determine the frequency and length of the Committee meetings and may set meeting agendas consistent with this Charter. A person who is not eligible to be appointed as a member of the Committee shall not attend meetings, unless the Chairman of the Committee deems such person is required in order to present a certain issue, however (i) an employee of the Company who is not the controlling shareholder or his relative may be present at the meeting, so long as a decision is made without his presence; and (ii) the Company’s general counsel and corporate secretary which are not a controlling shareholder or his relative may be present during meeting and the decision making, if so requested by the Committee.

The independent auditor shall be invited to every meeting of the Committee that relates to the financial statements of the Company. The internal auditor shall be invited to all Committee meetings. In addition, the internal auditor may request the Chairman of the Committee to convene a meeting to discuss a particular issue, and the Chairman of the Committee shall convene such meeting within a reasonable period of time, if the Chairman of the Committee finds it appropriate to do so. The Committee shall maintain minutes of its meetings.

Committee's actions shall be reported to the Board with such conclusions or recommendations on an ongoing basis. Such conclusions or recommendations which require the approval of the board will be brought to the attention of the directors a reasonable period of time prior to the discussion of such conclusions at the Board.

**V. Independent Counsel and Advisors**

The Committee may engage independent counsel and such other advisors as it deems necessary or advisable to carry out its responsibilities and powers, and if such counsel or other advisors are engaged, shall determine the composition and/or fees payable to such counsel or other advisors.

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The Committee relies on the expertise and knowledge of management, the independent auditor and the Company’s internal auditor in carrying out its oversight responsibilities. Management of the Company is responsible for determining that the company’s financial statements are complete, accurate and in accordance with generally accepted accounting principles. The independent auditor is responsible for auditing the Company’s financial statements.

## **AUDIT COMMITTEE RESPONSIBILITIES GUIDELINES**

### **I. General**

- Be empowered to conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee shall be empowered to retain, at the Company's expense and without approval from the Board, independent counsel, accountants, or others to assist it in the conduct of any investigation.
- The Chairman of the Committee or any person appointed by him will communicate with the internal auditor, independent auditor, management and the Board. Committee actions shall be reported to the Board with such conclusions or recommendations on an ongoing basis. The decisions or recommendations of the Committee which require the approval of the board will be brought to the attention of the directors a reasonable period of time prior to the discussion of such conclusions at the Board.
- Monitor deficiencies in the management of the Company, including in consultation with the independent auditors or the internal auditor, and to advise the Board on how to correct such deficiencies; Had the Committee found a material deficiency, the Committee will hold at least one meeting regarding such material deficiency, with the presence of the internal auditor or the independent auditors without the presence of officers of the Company; however, an officer can participate in the meeting in order to present an issue which is under his responsibility.
- Review the independence of each Committee member based on all applicable laws.
- Review legal and regulatory matters that may have a material impact on the financial statements, related Company compliance policies, and programs and reports received from regulators.
- Meet with the Company's financial management in executive sessions to discuss any matters that the Committee or the financial management believe should be discussed privately with the Committee.
- Establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (ii) the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters, and the protection of such employees. The Chairman of the Committee has been appointed by the Board as the address for any such complaints.
- The Committee may perform such other oversight functions outside of its stated purpose as may be requested by the Board from time to time.
- The Committee is authorized to request that any officer or employee of the Company, the Company's legal counsel, the Company's independent auditor or any other professional retained by the Company to render advice to the Company attend a meeting of the Committee or meet with any members of or advisors to the Committee.

### **II. Oversight of Relationship with Independent Auditor**

- Confirm the independence of the public accounting firm, including through receipt from the independent auditors of a formal written statement delineating all relationships between the auditor and the company.

- Recommend to the Board and shareholders the appointment, termination and approval of the compensation of, and oversee, the Company's independent auditor.
- Approve all audit and non-audit services to be provided by the independent auditor and review the audit firm's non-audit services and related fees.
- Oversee the hiring by the Company of any employees or former employees of the Company's auditors.
- Meet with the independent auditor in executive sessions to discuss any matters that the Committee or the independent auditor believes should be discussed privately with the Committee.

### **III. Internal Control Oversight and Risk Management**

- Propose to the Board the appointment of an internal auditor, and express its opinion with regard to the termination of the internal auditor's engagement by the Company.
- Meet with the internal auditor in executive sessions to discuss any matters that the Committee or the internal auditor believes should be discussed privately with the Committee.
- Discuss with management and the Company's independent auditor about significant risks or exposures and assess the steps management has taken to minimize such risk to the Company.
- Consider and review with the independent auditor:
  - the adequacy of the Company's internal financial controls, including computerized information system controls and security, and
  - any related significant findings and recommendations of the independent auditor and internal audit together with management's responses thereto.
- Consider and review with management and the internal auditor:
  - significant findings during the year and management's responses thereto,
  - any difficulties or disputes with management encountered in the course of his or her audits, including any restrictions on the scope of their work or access to required information, and
  - any changes required in planned scope of his or her audit plan.
- Oversee the functioning of the internal auditor and approve its work plans, review internal audit reports prepared by the internal auditor and confirm that it has sufficient tools and resources at its disposal, taking into account, among other, the special requirements of the Company and its size. The Chairman of the Committee may instruct the internal auditor to perform special audits and shall review the internal auditor's reports of such audits.

### **IV. Audit Oversight**

- Prior to the annual audit, review the scope of the independent auditor's audit plan, including the scope, timing and procedures for the audit and bring its recommendations to before the Board;
- Review with management and the independent auditor at the completion of the annual audit:
  - the Company's annual financial statements and related footnotes;

- the independent auditor’s audit of the financial statements and its report thereon;
  - any significant changes required in the independent auditor’s audit plan;
  - the effect or potential effect of any regulatory regime, accounting initiatives or off-balance sheet structures on the Company’s financial statements;
  - any correspondence with regulators or governmental agencies and any employee complaints or published reports that raise material issues regarding the Company’s financial statements or accounting policies;
  - any serious difficulties or disputes with management encountered during the course of the audit; and
  - other matters related to the conduct of the audit that are to be communicated to the Committee under generally accepted auditing standards.
- Review with the Company’s financial management and the independent auditor at least annually the Company’s critical accounting policies, alternative treatments discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the registered public accounting firm, and any material written communications between the independent auditor and management (such as any management letters or schedules of unadjusted differences).
  - Review with management any significant changes to GAAP policies or standards.
  - Review, at least annually, (i) the material reserves established for the contingent liabilities of the Company and its subsidiaries, (ii) the Company’s major financial risk exposures and the Company’s policies for managing such risks and (iii) any “off-balance sheet” transaction or off-balance sheet assets or liabilities.
  - Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61, as modified or supplemented.
  - Obtain from the independent auditor assurance that it has compiled with Section 10A of the Securities Exchange Act of 1934.

#### **Related Party Transactions**

- Review policies and procedures with respect to transactions between the Company and officers and directors, or affiliates of officers or directors, or transactions that are not in the ordinary course of the Company’s business.
- Review and approve any engagements or transactions that require the Committee’s approval under the Companies Law, as more fully described in the Company’s Procedure for Identifying Interested Party Transactions.
- In accordance with Company’s Procedure for Identifying Interested Party Transactions, the Committee shall appoint, from time to time, a person to be responsible of all of the data regarding transactions with interested parties and of the compliance with such procedure.

#### **Public Financial Disclosures**

- Participate in a meeting or telephonic conference call with the Chief Financial Officer and the independent auditor prior to earnings releases and review earnings releases prior to their distribution.

- Prior to the approval of the financial statements by the Board, examine the financial statements, discuss them in its meetings and formulate a recommendation to the Board in respect to the following: (a) the estimates made in connection with the financial statements; (b) internal controls related to financial reporting; (c) the integrity and appropriate disclosure in the financial statements; (d) the accounting policies adopted in the accounting treatment applied the substantive matters of the Company; and (e) valuations, including their underlying assumptions and estimates, on which the financial statement data is based.
- Review and discuss with management, before release, the audited financial statements.
- Review and discuss with management the Operating and Financial Review and Prospects proposed to be included in the Corporation's Annual Report on Form 20-F.
- In connection with each Annual Report on Form 20-F of the Company, review and approve:
  - management's disclosure to the Committee about all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data; and, any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls as required under Section 302 of the Sarbanes-Oxley Act, and
  - the contents of the Chief Executive Officer and the Chief Financial Officer certificates to be filed under Sections 302 and 906 of the Sarbanes-Oxley Act.
- Review filings with the SEC and other published documents containing the Company's financial statements and consider whether the information contained in these documents is consistent with the information contained in the financial statements before it is filed with the SEC or other regulators.

#### **Annual Review of Charter**

- Review the adequacy of this Charter as necessary and recommend to the Board any amendments or modifications to the Charter that the Committee deems appropriate.

AS AMENDED: December 17, 2014