

## AUDIT COMMITTEE CHARTER

The Board of Directors (the “Board”) of Nova Measuring Instruments Ltd. (the “Company”) has constituted and established an Audit Committee (the “Committee”) with the authority, responsibility and specific duties as described in this Audit Committee Charter (this “Charter”).

### **I. General Statement of Purpose**

The purposes of the Committee are to:

- (a) provide oversight of the accounting and financial reporting process of the Company and the audits of the financial statements of the Company;
- (b) assist the Board in its oversight of (i) the integrity of the Company's financial statements and other published financial information, (ii) the Company's compliance with applicable financial and accounting related standards, rules and regulations, (iii) the selection, engagement and termination, subject to shareholder approval, of the Company's independent auditor, (iv) the pre-approval of all audit, audit-related and all permitted non-audit services, if any, by the Company's independent auditor, and the compensation therefor, (v) the Company's internal controls over financial reporting and (vi) risk assessment and risk management;
- (c) determine whether there are deficiencies in the business management practices of the Company, including in consultation with the Company's internal auditor or independent auditor, as applicable, and make recommendations to the Board to improve such practices;
- (d) make such determinations as to the approval of certain engagements or transactions to the extent required under the Israeli Companies Law, 5759-1999 including with respect to related party transactions (the “Companies Law”);
- (e) determine, as required under the Companies Law, how to approve certain engagements or transactions with a Controlling Shareholder (as defined in the Companies Law) that the Committee deems as insignificant; the Committee may make such determination according to principles and guidelines predetermined on an annual basis;
- (f) determine whether a competitive bidding process or other procedures are required with respect to certain related party transactions;
- (g) provide the Board with the results of its monitoring and recommendations derived from the foregoing; and
- (h) fulfill any other duties of the Committee as shall be required under the Companies Law.

The purposes, responsibilities and other provisions specified in this Charter are meant to serve as guidelines, and the Committee is delegated the authority to adopt such additional procedures and standards as it deems necessary from time to time to fulfill its responsibilities. Unless otherwise prescribed in this Charter, the rules and procedures applicable to the operation of the Board shall apply to the operation of the Committee with any necessary changes. Nothing herein is intended to expand applicable standards of liability under Israeli or U.S. federal law for directors of a corporation.

The Committee relies on the expertise and knowledge of management and the Company's independent auditor in carrying out its oversight responsibilities. The 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. It is not the duty of the Committee to plan or conduct audits, to determine that the financial statements are

complete and accurate and in accordance with generally accepted accounting principles, to conduct investigations, or to assure compliance with laws and regulations or the Company's standards of business conduct, codes of ethics, internal policies, procedures and controls.

## **II. Membership and Compensation**

The Committee's composition and governance is subject to the Sarbanes-Oxley Act of 2002 and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") thereunder (the "SEC Rules"), and the Nasdaq Listing Rules (the "Nasdaq Rules").

The Committee's membership shall satisfy the following requirements:

- The Committee shall have at least three members.
- The members of the Committee shall be "independent" (or be subject to an applicable exception) as determined in accordance with applicable law.
- No member of the Committee may have participated in the preparation of the financial statements of the Company or any of the Company's current subsidiaries during the preceding three years.
- Each member of the Committee must be able to read and understand fundamental financial statements (including a company's balance sheet, statement of operation and comprehensive income and statement of cash flows).
- At least one member of the Committee shall have past employment experience in finance or accounting, requisite professional certification in accounting or other comparable experience or background that results in the member's financial sophistication, in each case, consistent with the Nasdaq Rules. That individual shall also be an "audit committee financial expert" consistent with the SEC's Rules.

In determining whether a person is eligible to serve on the Committee, the Board shall consider, among others, whether such person is affiliated with the Company, a subsidiary of the Company or an affiliate of a subsidiary of the Company to determine whether such affiliation would impair such person's judgment as a member of the Committee.

The operations of the Committee shall be in accordance with the Company's Articles of Association.

The Board shall designate one member of the Committee to serve as Chairperson of the Committee. A majority of the members of the Committee shall constitute a quorum for the transaction of business. The act of a majority of those present at any meeting at which there is a quorum shall be the act of the Committee, subject in each case to any other requirements under applicable law.

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.

## **III. Meetings and Authority**

The Committee shall meet at least once every fiscal quarter, or more frequently as circumstances require. The Committee may ask members of management or others to attend meetings and provide pertinent information, as necessary. In addition, the Committee shall, at such times as it deems appropriate, meet separately with management, the internal auditor, representatives of the internal auditing department, if any, employees or the independent auditor to discuss any matters that the Committee or any of these persons or firms believe should be discussed privately. The Committee shall endeavor to maintain free and open

communication among the Committee, the independent auditor, the internal auditor and management of the Company.

The Committee may act by unanimous written consent in lieu of a meeting. The Chairperson 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.

The Committee shall have the power to retain, without Board approval and at the Company's expense, and terminate the services of, as it deems appropriate, outside counsel and other experts and consultants to assist the Committee in connection with its responsibilities, and shall have the sole authority to approve such firms' fees and other retention terms.

Subject to applicable law, the Committee may delegate its authority to subcommittees established from time to time by the Committee. Such subcommittees shall consist of one or more members of the Committee and shall report to the Committee.

#### **IV. Responsibilities**

The Committee shall have the power and authority of the Board to perform the duties and to fulfill the responsibilities detailed:

##### Independent Auditor:

1. Engage and terminate the independent auditor subject to approval of the Board and, in the case of engagement, the shareholders as well. In making its determination regarding the engagement or termination of the independent auditor and otherwise as it deems necessary from time to time, the Committee shall:
  - (a) (i) at least annually, obtain and review a written report by the independent auditor describing any material issues raised by the most recent Public Company Accounting Oversight Board inspection, by an internal quality control review of the firm, or by any inquiry or investigation by governmental or professional authorities within the past five years, concerning an independent audit or audits carried out by the firm, and any steps taken to deal with any such issues; and (ii) review the independent auditor's work throughout the year, including obtaining the opinions of management;
  - (b) receive written statements from the independent auditor delineating all relationships between the independent auditor and the Company, discuss with the independent auditor any disclosed relationships or services that may impact the objectivity and independence of the independent auditor and recommend any appropriate actions to be taken;
  - (c) meet periodically in separate executive sessions with the Company's independent auditor; and
  - (d) oversee the hiring by the Company of any employees or former employees of the Company's auditors.
2. Pre-approve all audit, audit-related and all permitted non-audit services, and related fees and terms, to be provided to the Company by the independent auditor under applicable law and regulations. The Committee may, in accordance with applicable law, establish pre-approval policies and procedures for the engagement of independent accountants to render services to the Company, including a delegation of authority to its Chairperson. The pre-

approval of auditing and non-auditing services can be carried out with input from, but no delegation of authority to, management.

Internal Control over Financial Reporting and Risk Management:

3. Review periodically with management, the internal auditor and the independent auditor, the adequacy and effectiveness of the Company's system of internal control over financial reporting.
4. Evaluate whether management is effectively communicating to employees and other persons retained by the Company the importance of internal accounting and financial control effectiveness.
5. Determine whether internal control over financial reporting improvement recommendations made by the internal auditor and the independent auditor have been appropriately implemented by management.
6. Review with management, the internal auditor and the independent auditor the processes followed for assessment of internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, the disclosure regarding such assessment and any attestation by the independent auditor thereon.
7. Discuss Company policies with respect to risk assessment and risk management, and review contingent liabilities and risks that may be material to the Company and relevant major legislative and regulatory developments that could materially impact the Company's contingent liabilities and risks.
8. 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.

Financial Reporting:

1. Review with management and the independent auditor the annual and quarterly financial statements of the Company prior to publication and/or filing (or submission, as the case maybe) with the SEC.
2. Receive periodic reports from the independent auditor regarding:
  - (a) critical accounting policies and practices;
  - (b) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management of the Company, ramifications of the use of alternative disclosures and accounting treatments and the accounting treatment preferred by the independent auditor; and
  - (c) other material written communications between the independent auditor and management, including any management letter or schedule of adjusted differences.
3. Review with the independent auditor: (i) the scope and results of the audit; (ii) any problems or difficulties that the auditor encountered in the course of the audit work, and management's response; and (iii) any questions, comments or suggestions the auditor may have relating to the internal controls and accounting practices and procedures of the Company.
4. Review and discuss with the independent auditor the independent auditor's judgments as to the quality, not just the acceptability, of the Company's accounting principles.
5. Discuss with the independent auditor matters relating to the conduct of the audit, including any difficulties encountered in the course of the audit effort, restrictions on the scope of procedures or access to requested information and any significant disagreements with management.

6. Periodically review and discuss with management and the independent auditor significant accounting and reporting issues, including financial reporting pronouncements and proposals, and understand their impact on the Company's financial statements.
7. 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 submission by employees of the Company of concerns regarding questionable accounting or auditing matters, and review any complaints or concerns received pursuant to such procedures.
8. Review with management and the independent auditor, as deem necessary, risks of material misstatements due to fraud, and the process and controls implemented by the Company to manage the risks.
9. Meet periodically in separate executive sessions with the Company's Chief Financial Officer and A&C Director.

Internal Auditor:

1. Recommend to the Board the engagement and termination of the internal auditor, and the internal auditor's engagement fees and terms, in accordance with the Companies Law.
2. Approve the yearly or periodic work plan proposed by the internal auditor.
3. Review and discuss the results of internal auditor activities, including significant findings and management's responses to significant findings.
4. Meet periodically in separate executive sessions with the Internal Auditor.
5. If the Committee finds necessary, review whether the Company should implement an internal audit function consisting of employees of the Company and, if so, review the internal audit function, including its independence, effectiveness, proposed control review plans and resources for the coming year (determining whether the internal auditor has sufficient resources and tools to dispose of its responsibilities, taking into consideration the Company's special needs and size), and the coordination of such plans with the independent public accountant.

Legal Compliance:

1. Review with the Company's general counsel and/or external counsel, as deem necessary, legal and regulatory matters that could have a material impact on the financial statements.
2. Receive reports of suspected business irregularities and legal compliance issues through periodic and, when appropriate, immediate reporting by members of the Company's management, legal counsel, the independent or internal auditor or pursuant to any "whistleblower policy" adopted by the Committee. Establish procedures for handling complaints by the Company's employees with respect to deficiencies in its business operations, including the protection to be granted to such complaining employees. In the event that the Committee is informed of any irregularities, it will suggest to the Board remedial courses of action. The Committee shall be fully entitled to rely on reports that it receives and shall be under no obligation to conduct any independent investigation or verification.
3. Oversee the Company's policies and procedures regarding compliance with applicable financial and accounting related standards, rules and regulations.

Related Party Transactions:

1. Review policies and procedures with respect to transactions (other than transactions related to the compensation or terms of services) 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.

2. 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.
3. 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.

Other Responsibilities:

1. Conduct or authorize investigations into any matters within the Committee's scope of responsibilities.
2. Review and approve any material change or waiver in the Company's Corporate Code of Conduct regarding directors or executive officers, and disclosures made in the Company's annual report in such regard.
3. Perform such other duties consistent with this Charter, the Company's governing documents and governing law that may be requested by the Board.

**V. Reporting**

The Committee will apprise the Board regularly of its decisions and recommendations and of significant developments in the course of performing the above responsibilities and duties. Without derogating from the aforesaid, the Committee shall submit any recommendation or resolution which is subject to Board approval a reasonable time prior to the contemplated Board meeting.

**VI. Review**

The Committee shall annually review and assess the adequacy of this Charter and recommend any proposed changes to the approval of the Board.

**VII. Minutes**

The Committee will maintain written minutes of its meetings.

**VIII. Interpretation; Definitions**

To the extent any of the provisions included herein is a description or summary of any applicable law or is intended to recite the provisions of any applicable law, then in the event of any inconsistency, contradiction or any other conflict between the provisions herein and the provisions of such applicable law, then the provisions of such applicable law shall prevail and supersede and shall be deemed to constitute an integral part of this charter. In the event that any such provision of applicable law is amended to include any relief or exclusion, then, such relief and exclusions shall be deemed to constitute an integral part of this charter, whether or not such conflict, inconsistency or contradiction arises.

Any references to any law, statute or regulation are to it as amended, supplemented or restated, from time to time (and, in the case of any law, to any successor provisions or re-enactment or modification thereof being in force at the time); any reference to "law" shall include any supranational, national, federal, state, local, or foreign statute or law and all rules and regulations promulgated thereunder (including, any rules, regulations or forms prescribed by any governmental authority or securities exchange commission or authority); and any reference to "law" shall be read subject to the Company's Articles of Association, as amended from time to time.

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AS AMENDED: May 1, 2018