

Audit Committee Charter
of the Audit Committee of the Board of Directors of
Elron Electronic Industries Ltd.

Purpose.

The purpose of the committee is to oversee on behalf of the company's board of directors: (1) the integrity of the company's financial statements, (2) the appointment, compensation, qualifications, independence and work of the company's independent auditors, (3) the company's compliance with legal and regulatory requirements, and (4) the performance of the company's internal audit and controls function. In addition, the committee will determine any deficiencies in the company's business administration, *inter alia*, by consulting with the company's internal auditor or with the independent auditors, and to make proposals to the board of directors regarding ways of correcting such deficiencies, and resolve whether to approve acts and transactions requiring the approval of the committee under sections 255 and 268 through 275 of the Israeli Companies Law, 1999 (the "Companies Law").

The committee's function is one of oversight only and shall not relieve the company's management of its responsibilities for preparing financial statements which accurately and fairly present the company's financial results and condition, or the responsibilities of the independent auditors relating to the audit or review of financial statements. The committee's function shall not derogate from the powers of the board of directors or the powers of the shareholders meeting under the Companies Law.

In performing its duties, the committee will maintain effective working relationships with the Board of Directors, management and the internal and external auditors. This charter aims at constituting the committee to meet all the legal and other responsibilities prescribed by Israeli and U.S. relevant legislation and instructions as applicable to publicly listed companies.

Composition of the Committee.

At Least Three Qualified Members. There shall be at least three members and no more than six members serving on the committee, all of whom shall be members of the company's board of directors who comply with the membership requirements under Section 115 of the Companies Law and shall be independent as defined in Section 10A(m)(3) of the U.S. Securities Exchange Act of 1934, as amended ("1934 Act") and applicable rules of the U.S. Securities and Exchange Commission ("SEC"). All of the "external directors" as defined under the Companies Law ("External Directors") of the company shall be members of the committee. Each member of the committee shall meet the additional independence, financial literacy and related committee membership requirements set forth in the listing standards in effect from time to time applicable to Nasdaq Global Select Market companies (the "listing standards").

Limitation on Relationships. No member of the committee may be an affiliated person as defined pursuant to Section 10A(m)(3) of the 1934 Act. As more fully set forth in the listing standards, independent directors must not have any current or past relationships with the company which would interfere with their exercise of independent judgment or otherwise fail to meet the independence standard set forth in the listing standards.

Compensation. In compliance with Section 10A(m)(3) of the 1934 Act and except as may otherwise be permitted by any applicable law, no member of the committee shall, other than in

his or her capacity as a member of the committee, the board of directors or other board committee, (a) accept any consulting, advisory, or other compensatory fee from the company, or (b) be an affiliated person of the company or any subsidiary.

Affirmative Determination of Independence. The board shall affirmatively determine, at all times required by law and the listing standards, that the members of the committee are independent.

Financial Literacy. Each member of the committee shall be financially literate upon appointment to the committee, as such qualification is interpreted by the company's board of directors in its business judgment pursuant to the listing standards. Specifically, requirements include the ability to read and understand fundamental financial statements, including the company's balance sheet, income statement and cash flow statement. At least one member of the committee shall be a "financial expert" as defined in applicable SEC rules and at least one member (who may also serve as the financial expert) shall in the judgment of the board of directors have accounting or related financial background or experience which results in the individual's financial sophistication in accordance with the listing standards.

Appointment of Audit Committee Members. The External Directors shall, upon their appointment in such capacity, automatically become members of the committee and shall cease to be members upon the expiry of their terms of office as External Directors. The board may appoint and remove other committee members in accordance with the company's articles of association. Except in the case of the External Directors whose membership on the committee shall be dependent upon his/her term as External Director of the company, upon expiration of any term or to fill any vacancy on the committee, the members of the committee shall be appointed by the board.

Selection and Review of Independent Auditors and Their Services.

Overall Authority of Audit Committee to Select and Oversee Auditors. Pursuant to Section 10A(m)(2) of the 1934 Act, applicable SEC rules and the listing standards, the committee in its capacity as a committee of the board of directors of the company, in addition to and in no way derogating from the approval of the board of directors and /or shareholders as may be required under the Companies Law, shall be directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditors engaged by the company for purpose of preparing or issuing an audit report or related work. The independent auditors shall report directly to the committee. The committee's authority includes, without limitation, resolution of disagreements between management and the auditors regarding financial reporting. If the termination of the services of the independent auditor is brought before the shareholders, the committee will present its opinion to the shareholders regarding such proposed termination.

Terms of Audit and Non-Audit Engagements. Subject to Companies law the committee shall have sole authority to, and must, pre-approve all audit and permitted non-audit services from the independent auditors. The committee shall have sole authority to pre-approve all audit fees and other terms of engagement of the independent auditors. The committee may confer with company management on these matters but may not delegate this responsibility to management. Inasmuch as the approval of non-audit services must be timely disclosed in the periodic reports of the company filed with the SEC, all approvals of non-audit services on behalf of the committee shall be promptly reported to the officer of the company having primary responsibility for the SEC reports filed by the company.

Delegated Pre-approval Authority. Subject to applicable law, the committee is authorized from time to time to delegate to one of its members the authority to grant pre-approval of audit and permitted non-audit services, provided that all decisions by that member to pre-approve any service shall be reported to the full committee at its next scheduled meeting.

Prohibited Non-Audit Services: The committee and the company shall not engage the independent auditors for the following services, except as may be exempted pursuant to any applicable law: bookkeeping or other services related to the accounting records or financial statements of the company ; financial information systems design and implementation; appraisal or valuation services, fairness opinions, or contribution-in-kind reports; actuarial services; internal audit outsourcing services; management functions or human resources; broker or dealer, investment adviser or investment banking services; legal services and expert services unrelated to the audit; and any other service that the Public Company Accounting Oversight Board determines (by issuing regulations) is impermissible.

Annual Quality Control Review. The committee will obtain and review annually a report by the independent auditors describing the firm's internal quality-control procedures; and any material issues raised by the most recent internal quality-control review, or peer review, of the auditing firm or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.

In addition, the committee's annual review of the independent auditors will also include: review and evaluation of the lead partner of the independent auditors for the company's account, evaluation of such other matters as the committee may consider relevant to the engagement of the auditors, including views of company management and internal finance employees, and whether the lead partner or auditing firm itself should be rotated, and other staffing matters incident to the review and audit of the company's financial statements.

Independent Auditors' Partner Rotation and Conflicts. As required by Sections 10A(j) and (l) of the 1934 Act, (a) the audit partner and review partner of the independent auditors must be rotated by the independent auditors at least every 5 years, and (b) an accounting firm shall not be engaged to audit the company's financial statements if a chief executive officer, controller, chief financial officer, chief accounting officer, or any person serving in an equivalent position for the company was employed by that accounting firm and participated in any capacity in the audit of the company during the one-year period preceding the date of the initiation of the audit.

Policy on Hiring Employees of the Auditor. The committee shall from time to time establish hiring policies that will govern the company's hiring of employees or former employees of the independent auditors, and report these policies to the board.

Annual Financial Reporting.

In connection with the audit of each fiscal year's financial statements, the committee will:

Discuss Financial Statements with Management: review and discuss the audited financial statements, related accounting and auditing principles and practices, and internal controls assessment with appropriate members of the company's management.

Section 10A Report: timely request and receive from the independent auditors the report required in connection with the annual audit concerning (a) all critical accounting policies and practices

used, (b) all alternative treatments of financial information discussed with company management, ramifications of the use of alternative disclosures and treatments, and the treatment preferred by the independent auditors, and (c) other material written communications between the independent auditors and company management, such as any management letter or schedule of unadjusted differences.

SAS 114 Review: discuss with the independent auditors the audited financial statements and the matters required to be discussed by Statement of Auditing Standards No. 114, including such matters as (1) the quality as well as acceptability of the accounting principles applied in the financial statements, (2) new or changed accounting policies, and significant estimates, judgments, uncertainties or unusual transactions, (3) the selection, application and effects of critical accounting policies and estimates applied by the company, (4) issues raised by any “management” or “internal control” letter from the auditors, difficulties encountered in the audit (including any restrictions on the scope of work or access to required information), disagreements with management, or other significant aspects of the audit, and (5) all material arrangements, contingent and other obligations, off-balance sheet transactions, and relationships with any unconsolidated entities or any other persons which may have a material current or future effect on the financial condition or results of the company and are required to be reported under SEC rules.

Review of MD&A: review with appropriate management and auditor representatives the company’s intended disclosures under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” to be included in the company’s annual report on Form 20-F.

Obtain ISB No. 1 Disclosure: receive from the independent auditors a written disclosure and statement of all relationships between the auditors and the company consistent with Independence Standards Board Standard No. 1.

Dialogue with Auditors on Independence: actively discuss with the auditors any disclosed relationships or services that may impact the objectivity or independence of the auditors.

Review of Audit and Non-Audit Fees: obtain from the independent auditors a statement of the audit fees and other categories of fees billed for the last fiscal year which are required to be disclosed in the company’s annual report on Form 20-F , and consider whether the provision of any non-audit services is compatible with maintaining the auditors’ independence.

Recommend Filing of Audited Financial Statements: recommend whether or not the audited financial statements should be included in the company’s Annual Report on Form 20-F for filing with the SEC.

Quarterly Financial Reporting.

In addition to a review of the quarterly financial statements, the committee’s quarterly review will normally include:

Auditors’ Review: the results of the independent auditors ’ review of the quarterly financial statements.

Discussion of Significant Matters with Management: management’s analysis of significant matters which relate to (1) the selection, application and effects of critical accounting policies and estimates applied by the company, (2) accounting changes, judgments or extraordinary items

relating to the financial statements, (3) the status of any new, proposed or alternative accounting or financial reporting requirements or methods, and (4) all material arrangements, contingent and other obligations, off-balance sheet transactions, and relationships with any unconsolidated entities or any other persons which may have a material current or future effect on the financial condition or results of the company and are required to be reported under SEC rules.

MD&A: the company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" to be included in the company's quarterly financial results.

Other Committee Review Functions.

Annual Review of this Charter: The committee will review and reassess the adequacy of this charter annually, and recommend any proposed changes to the board.

Annual Review of Performance: The committee will evaluate its performance as the committee on an annual basis.

Review of Process of Preparing Interim Financial Statements: The committee will review and approve the process for preparing interim, unaudited (quarterly) financial statements.

Internal Controls: The committee shall evaluate whether senior management has established and appropriately reinforced the importance of internal controls and whether recommendations for improved controls are timely implemented by management.

Disclosure Controls and Procedures: The committee will periodically review and discuss with management the company's disclosure controls and procedures as defined in applicable SEC rules, including but not limited to internal controls for financial reporting purposes.

Company Policies: The committee shall ensure that the company's compliance manual, code of conduct and corporate policies are kept-up to date, meet all legal requirements and are accessible to and usable by the entire organization.

Whistleblowing Procedures: The committee shall develop a set of whistle-blowing procedures which will enable employees of the company to express their grievances and/or report irregularities in the company to the proper authorities without any fear of retaliation or prejudice for having so acted

Other Reviews: The committee, as the committee may consider appropriate, may discuss and review with the full board of directors, company management, internal or outside legal counsel, or the independent auditors any other topics relating to the purpose of the committee which may come to the committee's attention, including:

- Earnings Press Releases: press releases announcing earnings, which may be undertaken on a general basis and need not include advance review of each release of financial information or guidance.
- Officer Certification: certifications from the company's chief executive officer and chief financial officer which must accompany or be filed with the company's periodic SEC reports, including any report concerning internal controls required to be made by the signing officers and any significant internal control deficiencies or other

matters which are required to be reported to the committee in connection with the certifications.

- Reports of Financial Issues: published reports, regulatory or accounting initiatives, or communications from employees, government agencies or others, which raise significant issues concerning company financial statements or accounting policies.
- National Office Issues: any issues concerning the company which the independent auditors have discussed with their national or supervisory office, or accounting adjustments noted or proposed by the auditors but not implemented.
- Other Financial Guidance: financial information and earnings guidance provided to the analysts and the public, and to rating agencies.
- Risk Assessment: management's assessment of the company's exposure to risk and steps management has taken to monitor and control this exposure.
- Compliance Generally: a business conduct and ethics code applicable to all company employees concerning related party transactions, conflicts of interest, ethical conduct, legal and regulatory compliance and other matters appropriate for the code including the status and implementation of a special section thereof designated for the company's senior financial officers.
- Compliance Issues: pending or threatened litigation that has the potential to have a material adverse effect on the company; reports concerning significant subsidiary or foreign operations; or alleged violations of law or corporate conduct codes, including without limitation any reports to the committee from legal counsel engaged by the company concerning any material violation of securities law or breach of fiduciary duty or similar violation by the company or its agents.

Complaints and Anonymous Submissions: The committee shall establish and maintain procedures for (A) the receipt, retention, and treatment of complaints received by the company regarding accounting, internal accounting controls, and auditing matters, and (B) the confidential, anonymous submission by employees of the company of concerns regarding questionable accounting or auditing matters.

Related Party Approvals: As required by the listing standards, the committee shall establish and communicate to the board of directors and the company's management policies to the effect that the company shall not enter into related party transactions unless the transactions are first reviewed and approved by the committee. In no way derogating from the foregoing, the committee shall be responsible for approving transactions in accordance with Sections 255 and 268 to 275 of the Companies Law.

Appointment/ Termination of internal auditor- The committee shall recommend candidates to serve as internal auditor to the board of directors for their appointment. If the termination or suspension of an internal auditor is not mutual, the board of directors may only terminate or suspend the internal auditor from his position after the board of directors has heard the opinion of the committee, and after the internal auditor has been provided with a reasonable opportunity to present his case to each of the board of directors and the committee.

Meetings, Reports and Resources of the Committee.

Quarterly and Other Meetings. The committee will meet at least quarterly. The committee may also hold special meetings or act by unanimous written consent as the committee may decide. Committee meetings will be governed by the quorum and other procedures generally applicable to meetings of the board of directors under the company's Articles of Association, unless otherwise stated by resolution of the board or the committee.

The committee, to the extent required by the listing standards and as it may otherwise determine to be appropriate, will meet in separate executive sessions with the chief financial officer, director of finance, controller or principal accounting officer, internal auditor and representatives of the independent auditors, and may meet with other company employees, agents or representatives invited by the committee.

The internal auditor of the company shall receive notices of the holding of meetings of the committee and shall be entitled to take part in them. The internal auditor may request that the chairman of the committee convene the committee to discuss such matter as he may set out in his request, and the chairman shall convene the committee within a reasonable time from the date of the request, if he sees fit to do so.

A notice of the holding of a meeting of the audit committee at which a matter relating to the audit of financial reports is to be dealt with shall be sent to the independent auditor who may participate in the meeting.

Reports. The committee will report to the board on the matters relating to the committee or its purposes, as required by the listing standards, applicable federal law or SEC rules.

The committee will also report to the board annually the overall results of (1) the annual review of the independent auditors and their independence and (2) the annual review by the committee of its own performance.

Committee Access and Resources. The committee is at all times authorized to have direct, independent access to the independent auditors and to the company's management and internal audit and finance personnel. The committee is authorized to communicate in confidence with any of these individuals.

The committee is authorized to conduct investigations, and to retain, at the expense of the company, independent legal, accounting, or other professional consultants selected by the committee, for any matters relating to the purpose of the committee, without a requirement to seek prior board approval. The company shall provide for adequate funding, as determined by the committee, for payment of compensation to the independent auditors for their audit and review reports, and to advisers engaged by the committee, and for ordinary administrative expenses of the committee that are necessary or appropriate in carrying out its duties.