

Charter of the Audit Committee of the Board of Directors of Koor Industries Ltd.

As adopted on March 14, 2007

I. Purposes.

A. Overview. The purposes of the Audit Committee (the “Committee”) of the Board of Directors (the “Board”) of Koor Industries Ltd. (the “Company”) are as follows

1. The Committee will oversee on behalf of the Board:
 - (a) the integrity of the Company’s financial statements,
 - (b) the appointment, compensation, qualifications, independence and work of the Company’s Independent Auditors (as defined below),
 - (c) the Company’s compliance with legal and regulatory requirements applicable to the internal controls and reporting of publicly traded companies, and
 - (d) the performance of the Company’s Internal Auditor (as defined below) and internal controls functions.
2. The Committee will evaluate potential or existing deficiencies in the administration of the Company’s business as such matters may be brought to the attention of the Committee by the Internal Auditor, the Independent Auditors or the Whistleblower process (as defined below), by consulting with the Company’s management, and make proposals to the Board regarding ways of correcting such deficiencies.
3. The Committee will resolve whether to approve acts and transactions requiring audit committee approval under applicable sections of the Israeli Companies Law - 1999 (the “Companies Law”), such as related party transactions.
4. The Committee members (individually a “Member” and collectively the “Members”) will review matters referred to them under the “Whistleblower” process of the Company’s Code of Conduct and Ethics.

B. Oversight Function. The Committee’s function is one of oversight, and it relies on the expertise and knowledge of the Company’s management, the Internal Auditor and the Independent Auditor in carrying out its oversight responsibilities. This oversight function shall not relieve the responsibilities of: (1) the Company’s management for preparing financial statements that accurately and fairly present the Company’s financial results and condition in accordance with generally acceptable accounting procedures, (2) the Independent Auditors relating to the audit or review of financial statements or (3) the Company’s management for assuring compliance with laws, regulations and the Company’s policies, procedures and internal

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controls . The Committee's function shall not derogate from the powers of the Board or the powers of the shareholders under the Companies Law or other applicable laws and regulations.

C. Working Relationships. In performing its duties the Committee will maintain effective working relationships with the Board, Company management and the Internal Auditor and the Independent Auditors.

D. Role of Corporate Secretary. The Company's Corporate Secretary (the "Secretary") will administer the minutes, correspondence, distribution of material and action items of the Committee under the direction of the Committee's Chairperson

E. Regulatory Compliance.

1. Applicable Laws and Regulations. This Charter aims at facilitating the Committee in meeting the legal and other responsibilities relating to audit committees prescribed by Israeli, U.S. and other relevant legislation, regulations, rules and instructions as applicable to publicly listed companies. This includes, but is not limited to, the Companies Law, the Israel Securities Law – 1968 (the "Israel Securities Law"), the Israeli Internal Audit Law – 1968, the U.S. Securities Exchange Act of 1934 (the "Exchange Act"), the U.S. Sarbanes-Oxley Act of 2002 ("SOXA"), regulations relating to the above-mentioned laws, The Tel Aviv Stock Exchange Rules and the New York Stock Exchange (the "Rules") (all such laws, regulations, rules and instructions as may be in effect from time to time are hereinafter referred to as the "Applicable Laws and Regulations"). The Company's General Counsel shall update the Committee on relevant developments and changes in the Applicable Laws and Regulations generally.
2. Applicable Accounting and Financial Control Rules. The Company's Chief Financial Officer shall update the Company on developments relating to applicable accounting and financial control rules and regulations, supported by the Independent Auditors as provided below.

II. Committee Composition.

A. At Least Three Qualified Members. There shall be at least three (3) and no more than six (6) Members serving on the Committee, all of whom shall be members of the Board and, who shall comply with the membership and independence requirements of the Applicable Laws and Regulations, including the criteria for independence set forth in Section 10A(m)(3) of the Exchange Act and Rule 10A-3(b)(1) promulgated thereunder by the U.S. Securities and Exchange Commission (the "SEC"). All of the Company's "external directors" as defined under the Companies Law ("External Directors") shall serve as Members of the Committee. Subject to the approval of the Board and the requirements of the Applicable Laws and Regulations, other members of the Board may participate in Committee meetings as observers.

B. Limitation on Relationships. No Member may be an "affiliated person" as defined in the Exchange Act.

C. Compensation. Except as may be permitted under the Applicable Laws and Regulations, no Member shall, other than in his or her capacity as a member of the Committee, the Board or other Board committee, accept any consulting, advisory or other compensatory fee from the Company.

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D. Affirmative Determination of Independence. As may be advised from time to time by the Company's General Counsel, the Board shall affirmatively determine, at all times required by the Applicable Laws and Regulations, that the Members meet the applicable independence requirements.

E. Financial Literacy. At the time of appointment, each Member shall be "financially literate", as required by the Applicable Laws and Regulations, as interpreted by the Board in its business judgment. 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 Laws and Regulations.

F. Appointment of 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 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 an 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.

G. Chairperson. The Board shall appoint one of the Members to serve as Committee Chairperson.

III. Selection and Review of Independent Auditors and Their Services.

A. Overall Authority of Audit Committee to Select and Oversee Independent Auditors. Pursuant to the Applicable Laws and Regulations, the Committee in its capacity as a committee of the Board, in addition to and in no way derogating from any required approval of the Board and /or shareholders, shall be directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditors engaged by the Company for purposes of preparing or issuing audit report(s) or related work with respect to the Company (the "Independent Auditors"). The Committee's authority includes, without limitation, resolution of disagreements between management and the Independent Auditors regarding financial reporting.

B. Terms of Audit and Non-Audit Engagements. The Committee shall pre-approve all audit and permitted non-audit services from the Independent Auditors. The Committee also shall pre-approve all audit fees and other terms of engagement of the Independent Auditors. The foregoing approvals are required for any audit and permitted non-audit services, whether performed for the Company or for any of the Company's wholly-owned or majority owned subsidiaries. The Committee may confer with Company management on these matters but may not delegate this approval responsibility to management. In order to permit any required disclosure of the approval of non-audit services in the Company's periodic reports to securities authorities in a timely manner, all approvals of non-audit services on behalf of the Committee will be promptly reported by the Secretary to the Company's Chief Financial Officer as well as the officer of the Company having primary responsibility for such reports filed by the Company.

C. Delegated Pre-approval Authority. Subject to the Applicable Laws and Regulations, the Committee is authorized from time to time to delegate to one of its Members, or to a subcommittee, the authority to grant pre-approval of audit and permitted non-audit services,

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provided that all decisions by that Member to pre-approve any service shall be reported promptly to the full Committee and the Secretary.

D. 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 the Applicable Laws and Regulations: bookkeeping or other services related to the accounting records or financial statements of the Company; financial information systems design and implementation; appraisal services, valuation services, fairness opinions or contribution-in-kind reports; actuarial services; internal audit outsourcing services; management or human resources functions; broker/dealer, investment adviser or investment banking services; legal services; non-permissible expert services unrelated to the audit; or any other service that the U.S. Public Company Accounting Oversight Board, or corresponding Israeli body, determines (by issuing regulations) is impermissible.

E. Annual Quality Control Review.

1. As part of its annual process to review and approve the engagement letter with the Independent Auditors, the Committee will obtain and review a report by the Independent Auditors describing the Independent Auditor firm's internal quality control procedures and any material issues raised by the most recent internal quality-control review or peer review of the Independent Auditor, or by any inquiry or investigation by governmental or professional authorities, within the preceding five (5) years, respecting one or more independent audits carried out by the Independent Auditor, and any steps taken to deal with any such issues.

2. 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 Independent Auditors, including views of Company management and finance department 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. The Committee will report its conclusions on this review to the Board.

F. Independent Auditors' Partner Rotation and Conflicts. As required by the Applicable Laws and Regulations:

1. The audit partner and review partner of the Independent Auditors must be rotated by the Independent Auditors at least every five (5) years, and

2. 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 (1)-year period preceding the date of the initiation of the audit.

G. Policy on Hiring Employees of the Auditor. The Committee shall review and approve any hiring by the Company of employees or former employees of the current or former Independent Auditors of the Company, and the Company and its wholly-owned or majority owned subsidiaries shall not hire any such persons without such Committee approval.

IV. Annual Financial Reporting.

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

A. 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 and the Independent Auditors.

B. Section 10A Report: receive from the Independent Auditors the report, in writing, required under Section 10A of the Exchange Act in connection with the annual audit concerning:

(1) all critical accounting policies and practices used,

(2) 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

(3) other material written communications between the Independent Auditors and Company management, such as any management letter or schedule of unadjusted differences.

C. SAS 61 Review: discuss with the Independent Auditors the audited financial statements and the matters required to be discussed by Statement on Auditing Standards No. 61 as in effect at that time.

D. Review of MD&A: review with appropriate management and Independent 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.

E. Obtain ISB No. 1 Disclosure: receive from the Independent Auditors a written disclosure and statement of all relationships between the Independent Auditors and the Company consistent with Independence Standards Board Standard No. 1.

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

G. 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 Independent Auditors' independence.

H. Recommend Filing of Audited Financial Statements: recommend to the Board whether or not the audited financial statements should be included in the Company's immediate reports and/or Annual Report on Form 20-F for filing with the SEC.

V. Quarterly Financial Reporting.

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

A. Auditors' Review: the results of the Independent Auditors' review of the quarterly financial statements.

B. Discussion of Significant Matters with Management: discuss with the Independent Auditors management's analysis of significant matters which relate to the quarterly statement and are required by SAS No. 100 as in effect at that time.

C. Management Report: the Company's disclosures under "Management's Report" to be included in the Company's quarterly financial results.

VI. Annual Committee Review Function.

The Committee will review and reassess annually its compliance with the requirements of this Charter as well as the adequacy of this Charter and recommend any proposed changes to the Board.

VII. Periodic Committee Review Functions

The Committee, as it may find appropriate from time to time, will discuss and review with the full Board, Company management, internal or outside legal counsel, the Internal Auditor and/or the Independent Auditors any other financial, regulatory, reporting and oversight topics relating to the purposes of the Committee which may come to the Committee's attention, such as: (1) financial statement preparation process, (2) internal controls including required officers certifications relating to internal controls, (3) disclosure controls, (4) earnings press releases and financial guidance releases, (5) reports of significant financial issues and Independent Auditors' National Office issues that effect the Company's financial statements, (6) approval of related party transactions and (7) corporate and legal compliance issues.

VIII. Whistleblower Process.

A. Nature of the Process. The Committee will approve a Whistleblower process proposed by the Company that will enable employees of the Company to express their grievances regarding unethical, illegal or improper business or accounting matters and/or report irregularities in the Company relating to these matters to the proper authorities without any fear of retaliation or prejudice for having so acted.

B. Hearing Complaints. As part of this process each Member of the Committee will be available to hear complaints of employees.

IX. Internal Auditor Activities

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A. Appointment, Compensation and Budget of Internal Auditor. The Committee will recommend to the Board the appointment of an internal auditor (the “Internal Auditor”) proposed by the Company who meets the requirements established under the Applicable Laws and Regulations. The Committee will approve the compensation and/or annual budget proposed by the Company for the Internal Auditor function.

B. Internal Audit Plan. The Committee, in coordination with Company management, will approve the annual and long-range Internal Audit Plan, and any modifications to that Plan, that may be proposed by the Internal Auditor. The Committee will also provide general guidance to the internal audit activities conducted at the major subsidiaries of the Company.

C. Internal Auditor Reports. The Internal Auditor will submit his or her reports to the Committee and to Company management. Following receipt of any requested comments from Company management, the Committee will discuss these reports at Committee meetings and propose comments to the Internal Auditor and to Company management. The Committee will report to the Board regarding Internal Auditor reports and activities.

D. Participation of Internal Auditor in Committee Meetings. The Internal Auditor shall receive notices of the holding of Committee meetings and shall be entitled to take part in those parts of Committee meetings relating to internal audit activities and other matters as may be determined by the Committee Chairperson. The Internal Auditor may request that the Committee Chairperson convene the Committee to discuss such matters as the Internal Auditor may set out in his or her request, and, if the Chairperson sees fit to do so, the Chairperson shall convene the Committee within a reasonable period following the request.

X. Meetings, Reports and Resources of the Committee.

A. 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 under the Company’s Articles of Association, unless otherwise stated by resolution of the Board or the Committee.

B. Executive Sessions. The Committee, to the extent required by the Applicable Laws and Regulations or as the Committee may otherwise determine to be appropriate, will meet in separate executive sessions with the Company’s Chief Financial Officer, 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.

C. Reports. Consistent with the Applicable Laws and Regulations, the Committee will report to the Board on the matters relating to the Committee or its purposes. The Committee will also report to the Board annually the overall results of the annual review of the Independent Auditors and their independence and (2) the annual review by the Committee of this Charter.

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D. Committee Access. The Committee is at all times authorized to have direct, independent access to the Independent Auditors, the Internal Auditor and the Company's management, finance and legal personnel. The Committee is authorized to communicate in confidence with any of these individuals.

E. Committee Resources. The Committee is authorized to conduct investigations, and to retain, at the expense of the Company, independent legal, accounting or other professional consultants as may be 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 for payment to other advisers that may be engaged by the Committee.

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