

**SUMMARY TRANSLATION
OF ANTI-BRIBERY COMPLIANCE MANUAL
OF
ISRAEL AEROSPACE INDUSTRIES LTD. ("IAI")**

Note: This document is a synopsis translation of material elements of IAI's Compliance Manual, adopted in Hebrew by IAI's Board of Directors. The original Hebrew version is the official document.

PURPOSE:

This program consolidates and specifies a compliance program the purpose of which is to incorporate IAI and its subsidiaries into the framework for combating corruption and bribery of foreign officials in international transactions, as follows:

1. To present to IAI's employees the financial, legal and commercial background for establishing this compliance program;
2. To inculcate and implement the principles, rules and directives of this compliance program among IAI's employees, particularly those of whom that have direct exposure to the applicable disciplines and responsibilities described herein, in order to ensure compliance with legal directives and IAI's policies relating to commercial activities;
3. To conform IAI's existing policies to IAI's values with respect to legally compliant business activities, ethical management, professionalism, fairness and equity, with an emphasis on preventing bribery of foreign public officials in international transactions; and
4. To establish systems for training, oversight, reporting and disciplinary procedures relating to engaging, working with and compensating marketing consultants.

INTRODUCTION

IAI is an Israeli government company that engages in commercial activities while complying with the laws of Israel and the laws of the countries in which IAI operates. IAI is committed to conduct its business with integrity, fairly, equitably and professionally, while maintaining the highest standards of administration. IAI believes that compliance with the law, ethical conduct, avoidance of corruption and observing fair and appropriate competition standards are key building blocks towards gaining the trust of our customers, partners, suppliers and employees, and are pivotal to IAI's long term success and survival.

IAI acts to ensure that its managers, employees and representatives, as well as its subsidiaries, will behave in accordance with the law and IAI's policies in every aspect, including those relating to preventing corruption and avoidance of bribery, and that any violation of law and/or IAI's policies in this regard will be cause for material and legal sanction.

The Introduction section continues by describing the OECD, Israel's admission to the OECD in 2010, and the OECD's Convention on Combating Bribery of Foreign Public Officials in International Transactions (the "Convention"). The purpose of the Convention is to fight the phenomenon of bribing foreign public officials in the context of international commercial transactions. The baseline principal of the Convention is the establishment of bribing foreign public officials as a crime carrying penalties commensurate with bribery of local officials. The Convention defines bribery broadly, including offering or promising financial reward or other benefit, whether directly or via a third party, in order to induce a foreign public official either to act or to refrain from acting within the scope of his/her responsibility for the purpose of obtaining or preserving commercial or other advantage in international business transactions.

Israel adopted the Convention in May 2009, and made conforming changes to its Penal Law by expanding the crime of bribery to include expressly the crime of bribing foreign public officials. In February 2010, Israel toughened the penalties for bribery. The maximum sentences are now:

- (a) 7 years' imprisonment;

(b) A fine (calculated as the greater of the following):

1. 1.1 million NIS for an individual, 2.2 million NIS for an entity;
2. Four times the value of the benefit obtained or intended to be obtained by the crime.

It should be noted also that under Section 423 of the Penal Law, if a founder, manager, member or officer of a body corporate enters or causes to be entered a false particular in a document binding a company with the intent to deceive, or if he refrains from entering in it any particular which he should have entered with the intent to deceive, then he is liable to five years imprisonment

In addition to the aforesaid, criminal intent and resulting criminal liability may be established both with regard to a corporation and a person in the course of performing a function on behalf of a corporation (Section 23 Penal Law) according to the doctrines of:

- (i) **"Eyes Wide Shut"** - if a person suspected the nature of his conduct or the possibility that the said circumstances would be caused, then he shall be deemed to have been aware of them, if he failed to clarify the matter;(Section 20 (c) (1) Penal Law).
- (ii) **Joint Perpetrators** - Participants in the commission of an offense are joint perpetrators in the crime, and it is immaterial whether all acts were performed jointly, or some were performed by one person and some by another (Section 29(b) Penal Law).
- (iii) **Acts of an organ-** acts and intentions of an organ (such as a board of directors or management) are deemed the acts and intentions of the company (Section 47 the Company Law -1999).

Bribery offenses under the Penal Law also expose IAI to additional liabilities, under the following Laws:

a. Israel Prohibition On Money Laundering Law-2000

- (1) Bribery offenses under the Penal Law are considered an offense under the Prohibition on Money Laundering Law. Both the corporation and its employees can be prosecuted according to Israel Penal Law.
- (2) According to the Money Laundering Law (Section 3(a)) a person performing a property transaction provided in paragraphs (1) to (3) thereunder (referred to as "prohibited property"), with the object of concealing or disguising its source, the identity of the owners of the rights, the location, movement or disposition with respect to such property, shall be liable to ten years' imprisonment or a fine twenty times greater than the fine specified in section 61(a)(4) of the Penal Law -
 - (1) property originating directly or indirectly in an offense;
 - (2) property used to commit an offense;
 - (3) property enabling the commission of an offense

b. Israel Income Tax Ordinance- [new version] -1961

Fraud- If a person willfully commits one of the offenses specified below with the intent to evade tax or to assist another person to evade tax, then he shall be liable to seven years imprisonment or to the fine said in section 61(a)(4) of the Penal Law and double the amount of income which he concealed, intended to conceal or helped to conceal, or to both penalties:

- (1) he omitted from a return made under the Ordinance any income which must be included in the return;

- (2) he made a false statement or entry in a return under the Ordinance;
- (3) he gave a false answer, verbal or written, to a question asked or to information requested of him in under the Ordinance;
- (4) he prepared or maintained or allowed another to prepare or to maintain false account books or other false records, or he falsified or allowed falsification of account books or records;
- (5) he made use of any fraud, artifice or contrivance or allowed use of them;
- (6) he presented a false document to the person who paid the income, in order to prevent or reduce the deduction of tax at the source. a person who intentionally evading tax or helping another person avoid tax shall be shall liable for seven years imprisonment or fine as stated of 226, 000 NIS (specified in section 61 (a)(4) of the Penal Law) and twice the amount of income that he concealed, intended to conceal or helped to conceal or both (Section 220);

c. The Securities Law-1968

Fraud in connection with securities:

(a) A person who [is convicted of doing] one of the following shall be punishable by imprisonment for a term of five years or to a fine in an amount five times the fine prescribed in section 61(a)(4) of the Penal Law, and if a corporation is so convicted – it will be subject to a fine which is twenty-five times the size of the said fine:

- (1) Induced or attempted to induce a person to purchase or sell securities by way of a statement, promise or projection - written, oral or otherwise - which the person knew or ought to have known to be false or misleading, or by concealing material facts;
- (2) Fraudulently influenced the fluctuation of the price of securities. For the purpose of this paragraph, it will be presumed that anyone acting in The Securities Law, 1968 124 accordance with the provisions of section 56(a) regarding the stabilization of the price of securities has not engaged in an act of fraudulent influencing as stated above.

CONTENTS OF THE COMPLIANCE PROGRAM

The Compliance Program includes directives relating to all aspects of the following activities:

1. Decision process for engagement;
2. Authority and responsibility of various bodies within IAI relating to the engagement process;
3. Due diligence;
4. Reservations and limitations on the process;
5. Form agreements;
6. Monitoring;
7. Training
8. Payment methods

IAI'S POLICIES – PREVENTING CORRUPTION

IAI has a declared policy with regards to preventing corruption, generally, and particularly in respect of international transactions. IAI demands total compliance with applicable laws relating to the prohibition of bribing foreign public officials.

IAI's policy applies to the members of IAI's Board of Directors, officers and employees, as well as Controlled Entities (defined herein).

Furthermore, when appropriate and suitable, relevant requirements that are consistent with IAI's policy will be included in contracts with third parties with whom it engages in business but in which IAI does not hold control. IAI's requirements shall apply to all business activities of such third parties and not only to activities connected to the joint business activities of IAI and the third party.

IAI works to implement its policies in its subsidiaries and to ensure that they operate in full compliance with the provisions of local laws (of the subsidiary), as well as, implementing rules and procedures for preventing bribery of foreign public officials.

IAI, and its employees, managers and consultants are firmly committed to complying with applicable laws, to conduct IAI's business honestly, to comply with international standards of integrity and to manage its business affairs equitably and fairly.

IAI is committed to the implementation and effective enforcement of this compliance program, and will act diligently in the event of suspicion of non-compliance or if defects in implementation are discovered.

Furthermore, in accordance with IAI's policies and procedures, IAI's managers and workers are committed to the highest standards in various areas, including accounting controls and accurate document management, with the purpose of avoiding, directly and indirectly, improper payments or in-kind transactions, gifts or other forms of payment, for the goal of obtaining unfair advantage in the Company's business, including, among others, the following:

- a. Marketing Consultants – In the course of marketing IAI's products and services internationally, the Company engages marketing consultants as needed. IAI diligently ensures that the retention and activation of marketing consultants complies with its policies to prevent corruption. Therefore, IAI conducts thorough, centralized oversight of all aspects of these activities, including early evaluation of candidates considered for marketing consultants, meetings and negotiations with such candidates, etc., under the auspices of its Vice President-Marketing, its Compliance Officer and the Finance Department. Details are set forth in Chapter 5 of the Compliance Program.

As part of the implementation of IAI's policy with regards to preventing corruption, IAI ensures that the Marketing Consultants are familiar with the Company policy regarding the prevention of bribery and the provisions of the relevant laws, and that the Marketing Consultants undertake to comply with such policies and laws.

In addition, the Marketing Consultants will undertake to participate in training conducted by the Compliance Officer, which takes place from time-to-time, in a manner and at times according to the discretion of the Compliance Officer.

In this framework, the Marketing Consultants are required and undertake not to offer or give, directly or indirectly, any valuables to foreign public officials with the

purpose of obtaining an improper advantage in an international transaction or for expediting or ensuring the execution of a governmental action.

Provisions in this regard are also included in the contracts between the Company and the Marketing Consultants, as well as, in declarations and undertakings of the Marketing Consultants and as part of the training materials.

- b. Token gifts – Providing tokens (product models, pens, paper-weights and the like that bear the IAI logo) to third parties is, on the one hand, a legitimate method to foster positive relations and to publicize IAI's name and products. On the other hand, giving tokens to third parties, especially foreign public officials, could be construed as an attempt to bribe or improperly curry favor. Therefore, IAI carefully oversees the process whereby only authorized IAI personnel may give such tokens to third parties and implements this policy diligently. Details of these policies are set forth in IAI Procedure 421.01.03.
- c. Donations – In order to prevent a situation whereby government companies obtain improper advantage in their businesses, the Israel Government Companies Authority prohibits IAI and its subsidiaries from making donations to third parties for any purpose, with the exception of providing services that do not have material value in accordance with IAI's policies. Accordingly, IAI has adopted Policy 100.01.04, which provides further details on this subject.

All members of IAI's management at the level of BT are required to sign an annual certification (**Exhibit 11** to the Compliance Program) that they have not provided gifts or made donations during the prior year in contravention of IAI's Compliance Program. Said certifications shall be deposited in the office of deputy VP Marketing.

- d. Procurement of Expert Services – IAI has periodic requirement to engage experts to provide specialized services, including with respect to international marketing. The engagement of such experts must comply with this Compliance Program and may occur only when it is needed, i.e., when the services cannot be obtained from IAI's employees and internal resources and when it is not practicable for the Company to hire such expert as an employee. The engagement of such experts shall not create an employer-employee relationship and such experts may not become part of IAI's corporate hierarchy nor may they supervise IAI's employees. Similarly, such experts may not represent IAI to third parties, unless specifically authorized by IAI at the level of Division General Manager or higher and in early coordination with the Vice President – Human Resources or with the Director of Employment. The initial engagement of such experts shall not exceed 24 months and shall be in accordance with standard terms and conditions prepared in coordination with the IAI Legal Department, and may be extended for periods of 12 months each and up to a cumulative period of five years in accordance with the provisions of this Compliance Program. Payment shall be made in accordance with invoices submitted pursuant to such terms and conditions.

Such experts will sign IAI's compliance documentation (compliance certificate and Representations). The Compliance Officer will consider providing training in accordance with the circumstances.

Details of these procedures are set forth in IAI Procedure 523.01.04.

- e. Procurement Representatives – In the course of its business activities, IAI sometimes has the need to purchase in overseas markets unique products (typically some kind of platform) that are integral to a project being sold to an IAI customer. When IAI

is not able to purchase such products directly, the Company may engage a "Procurement Representative" to assist in the transaction. The Procurement Representative is not the manufacturer of the product or an employee of the manufacturer, and is compensated by IAI. As a matter of policy, IAI strives to limit the use of Procurement Representatives solely to situations where needed and in accordance with the procedures set forth in Article 6 of the Compliance Program. In order to ensure that the engagement and activation of Procurement Representatives is done in accordance with the Compliance Program, including signing compliance forms each year, appropriate oversight is conducted by the Corporate Marketing Department (via the Marketing Consultant Department due to its tools and experience in similar oversight of Marketing Consultants), in the Corporate Procurement and Logistics Department, and by the Compliance Officer. Details of these procedures are set forth in IAI Policy 921.01.07.

- f. **Hosting Visitors** - IAI often hosts visitors and guests at and outside of its facilities. Within IAI's facilities, the Company has a Customers' Center that enables presentation of IAI's technical capabilities, business discussions and meal services, all under suitable conditions, without disturbing IAI's operational activities. IAI's policy sets forth the level of internal approvals required for hosting guests, including requiring notification to IAI's CEO and Vice President – Marketing for visitors of varying levels. In order to ensure compliance with IAI's ethical standards, IAI's Marketing Department and Compliance Officer provide suitable oversight of the terms of such visits, with any disputes between the Vice President- Marketing and the Compliance Officer to be resolved by the CEO. Details of IAI's policies regarding entertainment are set forth in Procedure 422.01.03 and 422.01.07.
- g. **Resellers**- In its international marketing efforts – IAI occasionally uses intermediaries that receive permission to act as resellers of IAI's products ("**Resellers**"). In order to ensure that engagement of Resellers complies with the Company's policies and the directives of this Compliance Program, including the preparation and submission by the Reseller of the required compliance, IAI conducts centralized oversight of such engagements via its Marketing Consultant Department and the Compliance Office. Further details are provided in Policy 423.01.02.

OTHER RELEVANT IAI POLICIES

In addition to this Compliance Program, IAI maintains other policies that consolidate other aspects relating to mitigation of corruption and bribery and also establish norms of ethical behavior:

1. Policy 112.01.04 "Internal Controls – Job Description" – This directive establishes the function and significance of the IAI Internal Controls office as an independent and objective department. The Internal Controls office, by definition, operates in accordance with standards for professional audit of internal controls which impose upon it the obligation for examination and repair of the Company's efforts to comply with law, normative management practices, ethical behavior and efficient operations.
2. Policy 100.01.22 "IAI's Commercial Ethical Code" – This directive sets forth IAI's code consistent with the Company's policy, establishes the authorized personnel within IAI for implementation, inculcation and internal controls, and defines the interaction between this directive and IAI's other policies.

3. Policy 116.01.05 "Review Committees" – This directive defines responsibilities and establishes a methodology for making appointments to and mode of operation of Review Committees established to investigate significant issues or events affecting IAI - regardless of whether pertaining to an action of an IAI employee – with respect to which information is lacking and which is not dealt with in other IAI policies.
4. 532.01.03 "Investigating Suspected Unethical Behavior" – This directive establishes the procedure for investigating suspected breach of IAI's ethical code.

CHAPTER 1. DEFINITIONS

1. **Compliance Officer** – Officer-level individual who is appointed by the Company's Board of Directors, reports directly to the CEO and to the Board of Directors, and who has the authorities and responsibilities set forth in this Compliance Program. The Company's Board of Directors has sole authority to terminate the employment of the Compliance Officer and the grounds for such termination must be specified.
2. **Compliance Office** – Group of employees reporting to the Compliance Officer who assist him in performing his job.
3. **Marketing Consultant** – A person, company or entity (excluding a foreign public official as defined in Section 91a of the Penal Law) who supports IAI in marketing IAI's products and services to specified customers and who meets the following criteria:
 - a. Generally present physically in the target territory;
 - b. Acts as intermediary between IAI and the customer but is not authorized to act as IAI's agent;
 - c. Does not purchase the product from IAI and receives compensation, usually a commission, relating to IAI's signing a contract with the customer.
 - d. Receives payment, usually a commission derived from the value of the transaction or a fixed monthly payment or a combination of monthly payment and commission.

In addition, the following will be included in the definition of Marketing Consultant:

An offset consultant or broker, who arranges procurement on behalf of IAI by other companies from local companies in satisfaction of IAI's offset requirements and who assists IAI in obtaining related offset credits from the local authorities.

4. **Responsible Party** - The person identified in the Consulting Agreement as being responsible for carrying out the Marketing Consultant's duties.
5. **Authorized Individuals** – Each IAI employee who has received specific prior written authorization from the VP-Marketing to meet with and activate Marketing Consultants. A condition for receipt of such approval is that the employee shall certify that s/he has read the Compliance Program and commits to behave in accordance therewith. Authorized Individuals are not authorized to negotiate with Marketing Consultants unless they receive specific approval to do so.
6. **Authorized Negotiators** – Each IAI employee who has specific prior written authorization from the VP-Marketing to conduct negotiations with Marketing Consultants relating to the terms of engagement, including the amount of commission,

and to activate them. A condition for receipt of such approval is that the employee shall certify that s/he has read the Compliance Program and commits to behave in accordance therewith. Authorized Negotiators are also Authorized Individuals.

7. **Marketing Office** – IAI's foreign offices established by the Corporate Marketing Department staffed by IAI delegates or other individuals not employed by IAI who have been designated by the Corporate Marketing Department.
8. **Marketing Consultant Department** – the marketing consultant Department within the Corporate Marketing Department.
9. **Commission** – Compensation payable to a Marketing Consultant that is calculated as a percentage of the contract price between IAI and its customer, or a fixed amount, or a combination of both methods.
10. **Extraordinary Commission** - A commission requiring the approval of the Board of Directors.
11. **Management Commission Committee** – A committee appointed by IAI's CEO to advise on the payment of Commissions comprised of the, the deputy CEO as Chairman, the VP-Finance, VP-Marketing, the General Counsel, the VP- Operations, Procurement and Logistics and the Compliance Officer as an observer, Additional members may be added by the CEO.
12. **BT** – IAI's senior management forum, comprised of managers at the level of Division Manager and higher.
13. **Compliance Forms**- the following forms:
 - Compliance Certification
 - Representations, including the Summary of anti-corruption laws applicable in Israel
14. **Controlled Entity**- Any entity in which IAI, directly or indirectly, has a greater than 50% interest, earns over 50% of the profits, or has the right to appoint more than 50% of the seats on the board or other governing body; or any entity in which IAI has any other type of controlling power.

CHAPTER 2. AUTHORITY AND RESPONSIBILITY

1. The **Compliance Officer** has the following responsibilities:
 - To act to instill and implement this Compliance Program within the Company.
 - To ensure that due diligence of Marketing Consultants has been performed and to determine, based on the results, the propriety/impropriety of engaging such Marketing Consultants.
 - To ensure the performance of renewed examinations including due diligence of Marketing Consultants, and the signing of the Marketing Consultants on all the required forms, should it be decided to extend the engagement with a Marketing Consultant for more than five consecutive years and / or for any other reason at the Compliance Officer's discretion, including in the case of information that came

to the Company's attention which suggests the need to conduct such an examination

- To review and consider the rate of Commission and any other or additional consideration to be paid to the Marketing Consultants, as well as approve the bank(s) proposed by the Marketing Consultants, and review and approve any unusual terms included in the terms of agreement with Marketing Consultants, if such terms may have any ramifications in respect of compliance.
- To consider the approval of retention of Procurement Representatives, consultants and Resellers.
- To design and establish training programs, together with IAI's Mahut and Maman Divisions, and to ensure its implementation, as set forth in Chapter 3 below.
- As needed from time to time in the Compliance Officer's discretion, to request clarification or information from any level of IAI's employees and management, who must comply with the request.
- To act as an addressee for receiving reports of suspected violations of this Compliance Program, including establishing a Hot Line for receipt of anonymous reports. In this framework, the Compliance Officer will act to provide protection to, and prevent retaliation against an employee who has reported a violation of this Compliance Program.
- Where the Compliance Officer has received a report from a Company employee, or if information has come to his knowledge, regarding a suspicion of the Company's involvement in the offering or the giving of a bribe to a foreign public official, or to a breach of any of the provisions of this program, the Compliance Officer shall conduct a factual investigation of the matter.
- An obligation is imposed on the Company's employees to cooperate with the Compliance Officer and to assist him in this regard to whatever extent is necessary.
- Where the Compliance Officer has found that there is indeed a factual basis for the suspicion, he shall report on this to the Chief Executive Officer and to the legal advisor of the Company, and shall take steps for the canvassing and investigation of the suspicion, in accordance with the instructions of the Chief Executive Officer and in coordination with the legal advisor.
- Subject to the foregoing in this paragraph, if the Compliance Officer identifies a violation or a suspicion of a violation of the provisions of the law or of other regulatory demands in the field of compliance, the Compliance Officer may order the stoppage, suspension or immediate curtailment of the operations connected with the violation / suspected violation, including contractual arrangements, trips abroad, transportation of goods, meetings with customers, marketing consultants and partners, until a thorough investigation of the matter has been carried out and until a decision is made by the Company's Chief Executive Officer in regard to such operations.

- To convey information regarding events of suspected violations reported to the Compliance Officer, to the V.P. Internal Audit and the Deputy V.P. Corporate Security, which shall each act according to procedures within its jurisdiction.
- The Compliance Officer will be responsible for regular reporting in the field of compliance, as follows:
 - The Compliance Officer shall report to the Company's Chief Executive Officer twice a year, and to the Board of Directors once each year, regarding the implementation of the Compliance Program and with respect to violations that have been discovered in the field of compliance. These reports shall, *inter alia*, include:
 - A summary of operations (planning as against execution).
 - Details of recommendations for actions in the future.
- A report on violations that have been discovered during the period, the steps that were taken for dealing with them, and the recommendations of the Compliance Officer in regard to steps that require to be taken in relation to such violations and/or for preventing the recurrence thereof.
- To mete out significant sanctions of employees who have violated this Compliance Program.
- To consult with the IAI Legal Department on all matters pertaining to interpretation of legal directives applicable to this program.
- To consult with any other branch of the Company on matters pertaining to implementation of this Compliance Program, fulfillment of its directives and conformance with its terms.
- To receive reports of any unusual or extraordinary event relating to a Marketing Consultant in order to deliberate and decide whether to take action in order to conform with this Compliance Program.
- The Compliance Officer will be responsible for maintaining regular follow-up and control checks on the implementation of the Compliance Program by the various entities in the Company, including by way of:
 - Performing random examinations, from time to time, on all matters pertaining to adherence to the provisions of the Compliance Program by the Company's employees.
 - Performing of examinations, from time to time, to such extent and on such scale as the Compliance Officer shall decide, with regard to verification and authentication of the data pertaining to the employment of the Company's agents and its consultants.

-Performance of periodic review of the Compliance Program in order to evaluate and improve the effectiveness of the Compliance Program in preventing and detecting bribery, considering developments in the field and evolving international and industry standards.

- To establish, in accordance with his/her discretion, processes for follow-up and monitoring in order to ensure compliance with this program.
- To present to the Board of Directors or the CEO his/her recommendations, from time to time and as needed, for minor or material changes (as applicable and in his/her discretion) required to modify and update this Compliance Program.
- To periodically review the centralization of management of the following documents at the office of the deputy VP Marketing:
 - i. Verification of employee training;
 - ii. Copies of certifications by employees dealing with Marketing Consultants;
 - iii. Verification of extraordinary entertainment expenses;
 - iv. Copies of certifications by BT relating to not making donations and not providing gifts in violation of policy.
 - v. Periodically review the Due diligence documents that are kept at the Marketing Office.

For purposes of fulfilling his function the Compliance Officer will be entitled to inspect any document or record in the Company, and to meet with any entity that is necessary in the circumstances of the matter.

The Compliance Officer shall properly document the actions taken by him in the scope of his function as needed, and under all circumstances shall keep and preserve the documents pertaining to his actions and operations for a period of not less than seven (7) years. The recording of documents that relate to the Company's activities which are relevant to the field of compliance shall also be done in accordance with the aforesaid procedure.

2. **Board of Directors**

- The Board of Directors will meet annually for the purpose of receiving reports and approval of framework rules. The VP-Marketing will present the Company's annual marketing plan to the Board of Directors and report on actual Commission payments in the previous year. At such meeting the Compliance Officer will present the Board of Directors with (a) an annual risk review, (b) details of the training conducted in the past year, (c) details of the relevant publications in the area, (d) details of supervision and control activities and (e) details of procedures that were updated / canceled.
- In addition to the annual meeting, the Board of Directors shall convene from time to time, following request by the CEO to approve extraordinary payment of Commissions, as well as to discuss additional matters brought by the CEO.
- The Board of Directors is authorized, at its discretion and in accordance with the circumstances, to order changes or updates to the Compliance Program, including adding restrictions and limitations regarding the level/rate of the commission. The

foregoing does not diminish or derogate from the authority of the Board of Directors to discuss and decide on any matter relating to compliance or to the Compliance Program, including with regard to the abovementioned matters.

3. The **CEO** has the following responsibilities:
 - To grant preliminary approval for an Extraordinary Commission.
 - To approve engagement of a Marketing Consultant and to sign the agreement with it (jointly with the VP-Finance).
4. **Authorized Individuals** have the following responsibilities:
 - To conduct due diligence of Marketing Consultant candidates and upon extension of validity and/or renewal of existing contracts with Marketing Consultants to confirm the candidates signature on the Compliance Forms, in accordance with Chapter 5.
 - Authority to confirm a signature of a Marketing Consultant candidate or a Marketing Consultant on forms requiring signature (upon renewal/extension of a contract), where said signature was signed in his presence, as an alternative to confirmation by attorney/notary.
 - Authority to propose customers and products to a Marketing Consultant within its responsibility (based on prior instructions received from the appropriate authorities in the applicable division and the Corporate Marketing Department), but not to negotiate the terms of engagement and Commissions.
 - Following engagement of a Marketing Consultant, the responsibility to direct it how to proceed on matters within its domain/region, all via or with the knowledge of the applicable Marketing Office.
5. **Authorized Negotiators** have the following responsibilities:
 - To propose to a Marketing Consultant, and to negotiate with it, the terms of engagement and Commission with respect to customers and products in his/her domain (based on prior instructions received from the appropriate authorities in the applicable division and the Corporate Marketing Department), but the final agreement shall be done only via a signed contract in accordance with this Compliance Program.
 - To direct the Marketing Consultant how to proceed on matters within its domain/region, all via or with the knowledge of the applicable Marketing Office.
6. The IAI **Legal Department** is responsible for the following:
 - To draft the standard contract terms with Marketing Consultants. Clauses of such standard contract relating to compliance issues are set forth in **Exhibit 1**.
 - To formulate additions, changes or updates to contracts with Marketing Consultants.
 - To draft updates of and modifications to this Compliance Program.

- To issue legal opinions with respect to all matters relating to the engagement of Marketing Consultants, as needed.
7. The **Marketing Consultant Department** has the following responsibilities:
- To centralize all requests for appointment of Marketing Consultants
 - To ensure signature by each Marketing Consultant on all the forms and undertakings required by this Compliance Manual, including signature of the Representations form.
 - To ensure that the applicable Authorized Individuals completed due diligence:
 - on Marketing Consultant candidates –in accordance with the forms completed by the Authorized Individual;
 - to a Marketing Consultant – at any time, as requested by the Compliance Officer.
 - to ensure that; adjacent to the signing of a contract with Marketing Consultants and at the anniversary of a contract and when renewing/extending a contract or an appendix to a contract or the extension of the contents of a contract, the applicant / Marketing Consultant signs on the Compliance Forms.
 - To issue contracts with Marketing Consultants based on the format approved by the Legal Department.
 - To negotiate the contract terms (other than Commissions) with Marketing Consultant candidates in coordination with the Authorized Negotiator and with the support of the Legal Department and the Corporate Finance Department (as needed).
 - To maintain contact, as needed, with the designated authorities in the MOD relating to Marketing Consultants.
 - To issue notices to the business units of pending expiration of contract term with Marketing Consultants.
 - To compile for the VP-Marketing (and for IAI management, as needed) information required for the appointment of a Marketing Consultant or renewal/termination/expansion/reduction of its contract.
 - To maintain a current repository of contracts with Marketing Consultants and to issue reports regarding Marketing Consultants solely as requested by authorized persons (Compliance Officer, Marketing Directors and BT) within their domain.
 - To advise IAI's divisions and management regarding the appointment of Marketing Consultants.
 - To issue reports, as requested, to the CEO and to the Board of Directors.
 - The chief of the Marketing Consultant Department acts as secretary of the Management Commissions Committee, with the following duties:

- i. Receive requests for approval of Commissions, and administration of follow-up.
- ii. Ongoing administration of the Management Commissions Committee (agenda, notice of meetings, dissemination of materials for meetings if required, minutes) and implementation of decisions.
- iii. Preparation of meeting minutes;
- iv. Dissemination to the CEO or Board of Directors, as applicable, of requests to appoint Marketing Consultants and to approve Commissions, with the recommendation of the Management Commissions Committee.

8. The **Vice President – Marketing** has the following responsibilities:

- To recommend to the Management Commissions Committee the engagement of new Marketing Consultants and the terms of engagement, and changes to existing terms of engagement.
- To approve the extension or expansion of agreements with Marketing Consultants without increasing Commissions approved within the past 5 years by the Management Commissions Committee.
- To direct at any time, the termination of any agreement with a Marketing Consultant.
- To issue Letters of Appointment in accordance with signed agreements.
- In exceptional cases only, as specified herein, to issue letters of intent to appoint a Marketing Consultant in coordination with the Legal Department.
- The VP-Marketing is responsible to submit to the Board of Directors, following their request, a report of approved Commissions containing the following information:
 - i. Product
 - ii. Territory and customer/s
 - iii. Particulars of the Marketing Consultant
 - iv. Amount of approved Commission (in percentages)

A copy of said report shall be submitted to the Minister of Defense.

9. Each **Corporate Marketing Desk** is responsible to:

- To compile information regarding the activities of Marketing Consultants and Marketing Consultant candidates within its region and to make recommendations to the Marketing Consultant Department regarding the engagement of new Marketing Consultants or replacement of existing ones, in coordination with the Marketing Office and the IAI business unit.
- To direct the activities of Marketing Consultants in its region in cooperation with the Marketing Office and the business unit, and to establish priorities.

- With respect to existing agreements, to notify applicable business units (including Corporate) and to implement set offs on payments to Marketing Consultants per Chapter 7.
 - To facilitate receipt of and disseminate information, tenders and commercial notices and marketing materials to Marketing Consultants in its region, in cooperation with the Marketing Office.
 - To receive and distribute, as appropriate, reports submitted by Marketing Consultants, as well as, reports on meetings and conversations with Marketing Consultants.
 - To update Marketing Consultants on IAI's new technologies and products and, as required, to initiate meetings and seminars for the staff of Marketing Offices and Marketing Consultants.
 - Initiate applications for the appointment of, or extension of an agreement with, a Marketing Consultants
 - The VP-Planning and Control will, from time to time monitor the activities of the Corporate Marketing Desks, including by means of surprise inspections.
10. The **head of each Marketing Office** has the following responsibilities:
- To collect information on Marketing Consultants and to provide same to the applicable Corporate Marketing Desk and IAI business units and, as needed, also to relevant members of IAI's management.
 - To identify Marketing Consultant candidates and to recommend to the VP-Marketing with respect to engagement, as well as termination/extension of existing agreements.
 - To submit reports, as needed, of meetings with Marketing Consultants to the applicable Corporate Marketing Desk and IAI business unit.
11. Each **Marketing Director** of IAI's divisions is responsible to:
- Provide information, brochures, etc. to Marketing Consultants.
 - To direct his/her division's marketing activities.
12. **Departments in Corporate Finance** – The Accounts Receivable and Customer Accounts Department or the Department of Accounts Payable and Cash Management in the Corporate Finance Department (each within his/her domain per Chapter 7) is responsible for the following:
- To effect payments to the Marketing Consultant pursuant to its agreement.
 - To prepare reports of payments to Marketing Consultants as requested by authorized personnel.
 - Report to the Compliance Officer any changes, additions or updates regarding the payment to Marketing Consultants, including the location of payment.

CHAPTER 3. TRAINING

1. The Company will take steps to inform employees, including management, marketing personnel, and corporate entities dealing with compliance matters, including the Legal Department, finance, and procurement personnel, and, as appropriate, agents or Marketing Consultants acting on behalf of the Company, of the norms required by the Compliance Program, inter alia, by way of live, in-person training sessions, inter-active presentations, personal training and guidance and in any other way it sees fit.

Training under this Compliance Program will be carried out under the responsibility of the Compliance Officer.

The training and instruction sessions will be held with the aim of explaining the Company's policy and procedures in the field of compliance, as described below.

The Compliance Officer shall ensure that live, in-person training and instruction be given at least once per annum with regard to the field of compliance, to the following sectors of the Company:

- The Company's senior management.
 - The senior officers in the marketing division (including the person in charge of agents in the Company, desk chiefs, and other employees in accordance with the decision of the Vice-President Marketing).
 - The Company's agents, as well as marketing consultants abroad, in accordance with a decision of the Compliance Officer.
 - Employees of the legal advisor's department.
 - Finance and internal audit who have responsibility for compliance function.
 - The marketing managers in the business divisions at the Company.
 - In addition, training and instruction sessions shall be held for employees of the Company who are not included in the foregoing, but whose duties may result in them coming into contact with foreign public officials (at such frequency as shall be determined by the Compliance Officer). The list of participants, the extent, and frequency of the training and instruction sessions for the aforesaid will be decided by the Compliance Officer in the course of taking cognizance of the nature of the aforesaid employees' contact with and exposure to foreign public officials.
2. The Compliance Officer's team will participate in conferences in Israel and abroad in order to be informed of developments in this field.
 3. The Compliance Officer shall conduct, from time to time, and at his/her discretion, training for the Marketing Consultants and Resellers in Israel and abroad, and shall guide and update managers and marketing personnel of IAI foreign subsidiaries on matters of compliance.

4. The Compliance Officer shall issue, from time to time and at his/her discretion, notices, briefings and updates on matters relating to the implementation of the Compliance Program.
5. The Compliance Officer shall be authorized to impose restrictions on managers and employees who do not complete the training regarding their contact with Marketing Consultants.
6. The Compliance Office will monitor the implementation of the aforesaid training of the respective audiences. The Compliance Officer is authorized to impose limitations of contact with Marketing Consultants upon those employees who have not undergone required training.

CHAPTER 4. GENERAL DIRECTIVES RELATED TO MARKETING CONSULTANTS

1. The identity of IAI's Marketing Consultants, the products they market and the countries in which they operate are valuable trade secrets and, therefore, information relating to such activities is treated as commercially classified. Furthermore, directives issued by IAI's Security Office apply to such activities.
2. In light of the foregoing, any person involved in these activities shall refrain from providing information to any unauthorized person or entity. Only Authorized Individuals and Authorized Negotiators may engage in activities relating to Marketing Consultants. Each person engaged in marketing activities will sign a certification that includes a summary of IAI's policies and guidelines on these matters. The signed forms of the Authorized Individuals and Authorized Negotiators will be kept at the offices of the Marketing Consultant Department.
3. When meeting with Marketing Consultants, the Authorized Individuals shall take into consideration the security and commercial classification of the transaction and act as follows:
 - a. Prior to meeting a new Marketing Consultant, the Authorized Individual will provide to the head of that applicable Corporate Marketing Desk (and, in his/her absence, to the VP-Marketing) a document specifying with whom s/he intends to meet and their capabilities, and whom they represent. The subject of Commissions shall not be discussed at this meeting, unless expressly authorized in writing and only if the person is an Authorized Negotiator.
 - b. At least 2 IAI employees shall be present at all negotiation meetings with a Marketing Consultant, whether in Israel or abroad (including telephonic negotiations), one of whom shall be an Authorized Negotiator and the other an Authorized Individual or another employee in accordance with the decision of the VP-Marketing.
 - c. Negotiations with a candidate for Marketing Consultant shall commence only following receipt of guidelines and red-lines from the Vice President - Marketing or Deputy Vice-President as determined by the Vice-President for Marketing from time-to-time.
4. No foreign public official or employee of any actual or potential customer may be appointed as a Marketing Consultant.
5. Whenever there is a potential for conflicts of interest, the Chairperson of the Management Commissions Committee shall provide the approval of the Compliance Officer, prior to the committee issuing its recommendation.
6. No person who has other business with or is a supplier to IAI may be appointed as a Marketing Consultant without the approval of the Management Commissions Committee.
7. The appointment of Marketing Consultants in IAI's foreign subsidiaries will be done by such subsidiary's compliance officer and subject to the final approval of the Compliance Officer.
8. A. As part of the Due Diligence procedures that IAI conducts in examining the establishment and/or investment in joint ventures/enterprises, including

companies, partnerships and other corporate vehicles, IAI will verify and ensure that the third parties with whom it intends to set up a joint venture/enterprises are acting in accordance with the laws applicable in Israel and in any other relevant country regarding the prohibition of bribery of foreign public officials.

- B. In agreements between IAI and third parties for the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporations, the Legal Department will include terms and conditions stating that IAI is meticulous in implementing the provisions of the law prohibiting bribery of foreign public employees and that third parties, i.e., IAI's counterparties under such agreements must ensure that their activities comply with the provisions of the applicable laws.
9. The Legal Department will act to add a clause to the Company's Standard Terms and Conditions for Procurement, which stipulates the obligation of the supplier/subcontractor to comply with the provisions of the law prohibiting bribery of foreign public officials.
10. An IAI employee that becomes aware of any suspicion or concern that any third party with whom the Company conducts business (including a Marketing Consultant, a Reseller, a partner in a joint venture/enterprise or a subcontractor) is not complying with the provisions of the law prohibiting bribery of foreign public officials shall immediately report such suspicion or concern to the Compliance Officer who will examine the facts of the matter and provide instructions, if necessary, of any steps required to be taken in the matter.

CHAPTER 5. PROCESS FOR ENGAGING MARKETING CONSULTANT

1. Evaluation of Need

- a. The determination of a need to engage a Marketing Consultant on a new matter requires prior written approval of the VP-Marketing.
- b. No contact, meeting or negotiation may occur with any Marketing Consultant candidate prior to receipt of such approval in the form attached as **Exhibit 12**.
- c. The decision of the VP-Marketing shall be implemented within the boundaries of his/her approval including maximum amount of Commission.

2. Due Diligence

- a. The Authorized Individual who proposes engagement of a Marketing Consultant will check its suitability for IAI's purposes (after receipt of the VP-Marketing's authorization as set forth in section 1 above), as follows:
 - i. Business status and reputation in the applicable domain
 - ii. Other companies represented by the candidate which may create conflicts of interest
 - iii. As part of the examination process, the following forms will be filled:

(1) By the Authorized Individual: Due Diligence form (**Exhibit 5**)

- (2) By the Marketing Consultant candidate: Consultant Application form including, Applicant's Questionnaire for Sales Representation (**Exhibit 2**)
- (3) Compliance Forms.
- (4) Request for Consultant Security Check form (**Exhibit 6**)

The results of the due diligence investigation shall be conveyed to the chief of the Marketing Consultants Department and the Compliance Office. The Compliance Officer will evaluate the results and determine the propriety of engaging the candidate.

Following the examination, the Compliance Officer may decide on one of the following actions:

- Disqualification of the candidate - in such event the Company will cease all contact with the candidate.
- Determination of conditions or restrictions for engagement with the candidate, including in the case of a Red Flag. In such event, the Company will ensure that all conditions and restrictions are met by the Marketing Consultant prior to continuing any negotiations.
- Initial approval to continue negotiations with the candidate, in such event the Company will negotiate with the candidate to determine the Commission and the other financial terms as detailed herein.

Exhibit 13 of the Compliance Program lists the findings that constitute a "Red Flag". Insofar as the examination process reveals the existence of a Red Flag in relation to the candidate, the Company through which the candidate operates, or in relation to any of such Company's employees, managers or representatives, the Compliance Officer shall examine such findings carefully in the framework of the examination and the approval of such candidate.

- b. With respect to defense exports – Marketing Consultants that are Israeli citizens, Israeli residents and/or an Israeli licensed/registered corporation, are required to be registered and/or obtain a license from the MOD (AP"i) as provided by law and/or directives issued by the MOD.

In the event of any proposed change in the terms of engagement (including contract terms) the documents will be resubmitted to the Compliance Officer for approval of the proposed changes.

3. Negotiation

- a. An Authorized Negotiator who meets a candidate prior to approval of its engagement by IAI may not provide any written documents to the candidate. The Authorized Negotiation will inform the candidate that the sole purpose of such meeting is to obtain information and to discuss interest, with no commitment by IAI.
- b. The VP-Marketing may use his/her discretion in exceptional circumstances only to issue a letter of intent to appoint a candidate as Marketing Consulting in the form coordinated with IAI's Legal Department. Notwithstanding the foregoing, the VP-Marketing shall not issue a letter of intent prior to completion of due diligence and

receipt of the Compliance Officer's determination. No person may issue a letter of intent on behalf of IAI without the prior written approval of the VP-Marketing.

- c. The Corporate Marketing Desk shall contact the head of the relevant Marketing Office and coordinate the meeting and the negotiations with the Marketing Consultants, with him/her.

if it turns out that in a certain country, there is an existing Marketing Consultant, the Marketing Consultant Department will inform the Authorized Negotiator of such fact and provide all the information existing about this Marketing Consultant and the terms of engagement with him/her, in order to assist the Authorized Negotiator with the decision of whether to contract with the candidate and under what terms.

- d. The Authorized Negotiator will discuss with the candidate the following commercial issues regarding its engagement:
 - i. Obtaining the Marketing Consultant's agreement to the following particulars: A clear definition of the products to be promoted by the Marketing Consultant, the compensation it shall receive, the region of activity, the potential customers, the beginning and ending dates of the contract term and other unusual conditions, if any.
 - ii. The Authorized Negotiator will clarify that these terms are conditioned upon preparation of a written Consulting Agreement and that IAI has no obligation until such agreement is signed by IAI's authorized signatories and following completion of IAI's internal process as prescribed by this Compliance Program.
 - iii. The negotiations shall be conducted in strict compliance with this program and within the Commissions parameters directed by the CEO.
- e. The negotiations will be conducted by the Authorized Negotiator; the guidelines for the rate of Commission will be set by VP-Marketing or Deputy Vice-President for Marketing as determined by the Vice President for Marketing from time to time for each individual deal.
- f. The Authorized Negotiator will endeavor to minimize the compensation as much as possible.
- g. The Commission rate will be submitted to the Compliance Officer for approval as part of the Marketing and Consulting form, as detailed herein.
- h. The Authorized Signatory may not conclude negotiation on any issue in contravention of this Compliance Program without the prior authorization of the Compliance Officer and the Management Commissions Committee.
- i. An additional IAI employee who is an Authorized Individual shall be present at all negotiations with the Marketing Consultant, whether in Israel or abroad (including telephonic negotiations). If the meeting occurs in a country that has a Marketing Office, then an IAI delegate of such Marketing Office shall be the additional participant, instead of the Authorized Individual as required above. Meetings other than negotiations shall be conducted in the presence of an Authorized Individual or Authorized Signatory.

- j. Any deviation from the foregoing requires prior written approval of the VP-Marketing.
- k. The Authorized Individual shall inform his/her superiors and the Corporate Marketing Desk of all matters that arose in any meeting with the candidate and file any related documents.

4. Handling Application to Appoint Marketing Consultant

- a. Following due diligence and the Compliance Officer's determination to approve per Section 2 and receipt of written notice from the VP-Marketing stating that the due diligence results allow for engaging the candidate, the Authorized Negotiator will complete the "Request to Approve Appointment of Marketing Consultant Form" set forth in **Exhibit 9** (a "Request"), and shall indicate in such form:
 - i. In the case of multiple Marketing Consultants for a particular transaction – the names of the other Marketing Consultants and the Commission rate of each of them.
 - ii. Any other extraordinary terms regarding the appointment of the Marketing Consultants.
- b. The Authorized Negotiator shall obtain the signature on said Request form of the Marketing Manager and General Manager of the applicable IAI division, and of the applicable Group General Manager, and convey same with all attachments to the Marketing Consultants Department.
- c. The Legal Department will update the Compliance Officer and the Marketing Consultants Department with respect to the names of Marketing Consultants engaged in legal disputes with IAI. Written consent of IAI's General Counsel is required prior to engaging any Marketing Consultant involved in a legal dispute with IAI.
- d. Upon receipt of the Request form, the Marketing Consultants Department will act as follows:
 - i. Submit the signed form as detailed above, including the rate of Commission and the documents accompanying the signature and the final approval of The Compliance Officer.
 - ii. Attach to the documents, the approval of the Company's Security Department, as required under the then current security procedures applicable in the Company, regarding Israeli and non-Israeli candidates.
- e. In order to complete the approvals process, the Marketing Consultants Department will send to the Compliance Officer and to the VP Marketing each Request form that has been signed by the Corporate Marketing Desk.

5. Approval of Management Commissions Committee

- a. Every request to appoint a new Marketing Consultant, to increase Commissions, to add a line of products to an agreement with a Marketing Consultant or to expand its category of customers (commercial, military or para-military) shall be submitted for approval of the Management Commissions Committee following approval of

the VP-Marketing and the Compliance Officer. Approval of the VP-Marketing constitutes a recommendation to the Management Commissions Committee.

- b. Each approval by the Management Commissions Committee shall require renewal after 5 years have lapsed since the original approval. Such renewal shall take place after all steps have been taken to re-appoint the Marketing Consultant.
- c. The Management Commissions Committee will consider all Requests that have been signed by the applicable Group General Manager. If the VP-Marketing objects to the Request, he/she shall present the basis for such objection to the committee and, in such case, the Group General Manager shall also be invited. If the matter is not resolved by the committee, it shall be brought to the CEO.
- d. The VP-Marketing has the right, subject to the Compliance Officer's approval, to extend the engagement by an additional year (at a time) and up to five years in aggregate, from the date of the original approval of the Commission Committee, and based upon the circumstances, the VP-Marketing may extend the engagement for up to two years with the approval of the Compliance Officer, provided, however, that the cumulative extensions may not exceed in total a period of five consecutive years and provided there is no change in Commission (other than a reduction in the rate of the Commission). Furthermore, VP-Marketing has the right to expand the content of a contract with Marketing Consultants for the addition of a product from the same line (as included in the appendices of the contract) with a Marketing Consultant or in relation to another customer from the same country in relation to the products (included in the appendices to the contract).

Such extension is subject to the signing of each of the Marketing Consultants on the Compliance Forms, and further subject to the advance approval of the Compliance Officer.

- e. Subject to the stated in Section 5(d) above, any requested change with respect to a matter previously approved by the Management Commissions Committee shall be re-submitted.
- f. Any request for the Management Commissions Committee to approve a Commission shall be made by the secretary thereof (chief of the Marketing Consultant Department) in a Commission Approval form.
- g. In determining whether to approve a Commission, the Management Commissions Committee shall consider the following factors:
 - i. The country to where the products/services will be exported and the standard range of Commissions there.
 - ii. The type of equipment to be exported
 - iii. The experience and contribution of the Marketing Consultant to the transaction
 - iv. Extraordinary factors, such as financing or payment of a retainer fee.
- h. In determining whether to approve a Commission for a particular transaction or a framework agreement, the Management Commissions Committee shall operate in accordance with the Board of Directors general framework guidelines, as sett from time to time.

- i. Whenever the Management Commissions Committee approves an Extraordinary Commission, the decision will be submitted for the approval of the Board of Directors.
- j. If the Management Commissions Committee is requested to approve payment of a Commission in a framework Consulting Agreement, the Management Commissions Committee shall ensure that the amount of Commissions conforms to the framework Consulting Agreement.

6. Preparation of Consulting Agreement

- a. Following approval of the Management Commissions Committee, the chief of the Marketing Consultant Department will issue a conforming Consulting Agreement to the Authorized Negotiator or the relevant marketing manager for comments.
- b. The Consulting Agreement will note that IAI has no obligations to continue to engage the Marketing Consultant or other liability towards it following expiration of its term, unless otherwise expressly stated in the Consulting Agreement and subject to the approval of the Compliance Officer prior to the signing of the Consulting Agreement by the VP of Marketing and the CFO.
- c. The Marketing Consultant Department, using its discretion and as required, shall approach the Legal Department to approve changes in the Consulting Agreement.
- d. If the change pertains to compliance issues, the Marketing Consultant Director shall forward said draft to the Compliance Officer for his review of the pending engagement. Thereafter, the Marketing Consultant Director shall ensure signature of the Marketing Consultant on the Consulting Agreement. The Marketing Consultant Department will negotiate any needed issues with the Marketing Consultant pending its signature.
- e. The negotiations with the Marketing Consultant will be predicated on the form Consulting Agreement established by the IAI General Counsel.
- f. The Consulting Agreement will establish payment terms and Commission rates as well as, the place of payment. If it has been determined that no Commission will be paid in respect of any particular portion of customer payments, this shall be specifically defined in the Consulting Agreement. In exceptional circumstances, the Consulting Agreement will also include provisions relating to options/follow-on orders by customers.
- g. The term of the engagement of a Marketing Consultant will be one year, unless, following analysis of risks in the relevant country, the Vice President-Marketing and Compliance Officer have agreed on a longer term not to exceed two years.
- h. The agreement will also include provisions for early termination by one of the parties.
- i. If the Commission rate declines if the amount of the customer transaction increases, that shall be specified in the Consulting Agreement.
- j. Compliance Officer's advance approval is required for any change to the Consulting Agreement that has implications on or in connection to compliance.

7. Approval of Contract and Signature

- a. Following signature of the Consulting Agreement by the Marketing Consultant, the Marketing Consultant Department will seek signature by IAI's authorized signatories as specified in Chapter 2 and in IAI's signature authority policies, 121.01.01, in the following sequence:
 - i. The VP-Finance will sign the Request and the Consulting Agreement
 - ii. The CEO will sign the Request and then the Consulting Agreement
 - iii. In a Consulting Agreement relating to an IAI subsidiary, the CEO and VP-Finance of such subsidiary will first sign prior to signature IAI's authorized signatories.
- b. Consulting Agreements, letters of appointment and other documents signed by the VP-Marketing may not be removed or transmitted outside of IAI (whether signed or not), without the prior written approval of the VP-Marketing.
- c. Any request for change /update /addition in the Consulting Agreement shall be submitted to the Head of the Marketing Consultant Department. The application will be accompanied by a document explaining the reasons for the change / update / addition. The Marketing Consultant Department will forward the application to the Compliance Officer, who will examine the need to obtain the approval of other departments/organizations in the Company, including the Vice President of Marketing. If the Compliance Officer approval is granted, all documentation with the Marketing Consultant will be updated accordingly. In addition to the aforesaid, the Corporate Group Manager, Head of Corporate Marketing Desk, CFO and CEO shall also sign the application, in accordance with the provisions of this Compliance Manual.
- c. If a Marketing Consultant, whose engagement has been checked and approved in accordance with the above procedures and his/her Consulting Agreement with IAI was executed, requests to receive a letter of appointment, the Marketing Consultant Department will refer to the VP-Marketing for his/her approval and signature.
- d. Any request to approve/appoint/change contract terms/termination of Marketing Consultant shall be made to the VP-Marketing exclusively by the Marketing Consultant Department.
- e. Any Consulting Agreement with a Marketing Consultant on behalf of a subsidiary, including IAI North America Inc. will be signed by the subsidiary's authorized signatories only after IAI's CEO has signed the applicable Request and after the Compliance Officer's advance approval for the engagement with the Marketing Consultant and upon receiving the approval of the Management Commissions Committee. If IAI will countersign the Consulting Agreement (as in the case of Elta Systems Ltd.), then after receiving the approval of the Management Commissions Committee, the subsidiary's authorized signatories will sign the Agreement before signature by IAI's CEO and CFO.
- f. A request to extend a Consulting Agreement with a Marketing Consultant will be submitted for the approval of the VP-Marketing which may extend the Consulting Agreement subject to the Compliance Officer's approval for a one-year period each time, up to four consecutive extensions (altogether no more than five years of continuous engagement with the Marketing Consultant), and based upon the

circumstances, the VP- Marketing may extend the engagement for up to two years with the approval of the Compliance Officer, provided, however, that the cumulative extensions may not exceed in total a period of five consecutive years. In the event that it is decided to extend a Consulting Agreement with a Marketing Consultant for more than five consecutive years, then prior to bringing the matter to the approval of the Fee Committee, the Compliance Officer will again perform a due diligence examination that includes the signing of the Marketing Consultant on all the required compliance forms.

- g. In addition, the Marketing Consultant will be subject to repeat examinations at all times, including a due diligence examination at the discretion of the Compliance Officer, inter alia, in the case of information that came to the Company's attention.

8. Activation

- a. The relevant Authorized Individual/unit Marketing Manager will direct the Marketing Consultant and provide assistance to it by means of the applicable marketing office or with its knowledge and also with the knowledge of the relevant regional marketing director.
- b. If a Marketing Consultant's area of operation includes a Marketing Office, then the Consulting Agreement will contain provisions relating to their interaction in accordance with the following guidelines:
 - i. The Marketing Consultant will coordinate its activities with the Marketing Office and obtain its assistance with respect to marketing, proposals, professional information and customer service in coordination with the relevant personnel at IAI.
 - ii. The Marketing Office will monitor the customer's performance of its contracts, including payments to IAI, with the assistance of the Marketing Consultant.
 - iii. The Marketing Consultant and Marketing Office shall have no business relations of any kind, and the Marketing Office will not make any payments on behalf of the Marketing Consultant to any person or entity.
 - iv. The Marketing Consultant shall provide written activity reports upon the prior written request of the VP-Marketing.
 - v. The Authorized Individual will update the Marketing Consultant at regular intervals regarding marketing policies relating to the products included in the Marketing Consultant's domain and with respect to product demonstrations by IAI within the region.

9. Support Materials

- a. The Marketing Consultant shall use only promotional material that has been coordinated with IAI.
- b. The Authorized Individual will provide to the Marketing Consultant marketing material and brochures relating to IAI or the products within the Marketing Consultant's domain.

CHAPTER 6. ENGAGING A DISTRIBUTOR/ PURCHASING REPRESENTATIVE

Appointment of Purchasing Representative

1. The engagement of a purchasing representative is a highly unusual event and, therefore, requires extraordinary permits, oversight and monitoring.
2. A purchasing representative is an individual or entity engaged by IAI solely in those circumstances where IAI is not able to purchase a unique good abroad (usually a platform) that is critical to a project using IAI's internal resources.
3. A purchasing representative is not the supplier of the product, nor is s/he employed by the supplier or acting on its behalf. It is compensated by IAI. The engagement is solely for the particular item, and the process of the engagement is substantially the same as the process for engaging a Marketing Consultant with respect to the organizations in IAI involved.
4. The purchasing representative will certify in writing that it has no conflicts of interest, including that it is not being compensated, directly or indirectly, by the supplier.

Appointment of Reseller

1. The appointment of a Reseller is an exceptional procedure which is not done in the ordinary course of business, and therefore the event of the appointment of a Reseller requires approvals, supervision and control that deviate from the ordinary procedure.
2. A Reseller is a person or body that is authorized to sell products and services of the Company and thus serves as an intermediate factor in sales to the customer.
3. The contract with a Reseller is usually a result of customer requirements which, for security, political and other reasons, is not willing or unable to purchase products and services directly from IAI.
4. An employee or anyone acting on behalf of IAI shall not be involved in the consideration received by the Reseller from the customer and should not be present in the negotiations between the Reseller and the customer regarding the financial aspects of the transaction between them
5. The appointment of a Reseller is subject to the advance approval of the VP-Marketing. If such approval is obtained, the candidate Reseller shall complete the required compliance documentation and the relevant Group General Manager will add an explanation of the added value in such appointment and/or other relevant special circumstances that require such appointment. The Compliance Officer shall examine such request and if he decides to approve such appointment the Compliance Officer shall forward it to the Management Commissions Committee for final decision in the matter.
6. The instructions for the appointment of a Reseller are detailed in IAI Policy 400.01.02.
7. The signing of a sales contract with the Reseller will be made by the authorized signatories of the Company on a back-to-back basis of the contract between the Reseller and the customer in accordance with the Company's procedures regarding the sale of products and services (Procedure 121.01.01).

CHAPTER 7. JOINT VENTURES / ENTERPRISES, BROKERS, SUPPLIERS, LOBBYISTS, AND OTHER PARTNERS

1. IAI has a declared policy regarding the prevention of corruption in general, and in international transactions, in particular, and a strict requirement to comply with the provisions of the law regarding the prohibition of bribery of foreign public officials. IAI's policy applies also in its engagements with third parties for the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporate vehicles as well as suppliers and subcontractors.
2. Third parties with whom IAI engages in business must ensure and verify that their activities comply with the provisions of the applicable laws for their entire business activities, and not only to activities connected to the joint business activities of IAI and the third party.
3. As part of the Due Diligence procedures that IAI conducts in examining the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporate vehicles, IAI will verify and ensure that the third parties with whom it intends to set up a joint venture/enterprises are acting in accordance with the laws applicable in Israel and in any other relevant country regarding the prohibition of bribery of foreign public officials.
4. In agreements between IAI and third parties for the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporations, the Legal Department will include terms and conditions stating that IAI is meticulous in implementing the provisions of the law prohibiting bribery of foreign public employees and that third parties, i.e., IAI's counterparties under such agreements must ensure that their activities comply with the provisions of the applicable laws.
5. An IAI employee that becomes aware of any suspicion or concern regarding any third party with whom the Company conducts business (including a Marketing Consultant, a Reseller, a partner in a joint venture/enterprise or a subcontractor) of not complying with the provisions of the law prohibiting bribery of foreign public officials shall immediately report such suspicion or concern to the Compliance Officer who will examine the facts of the matter and provide instructions, if necessary, of any steps required to be taken in the matter.

CHAPTER 8. REGISTRATION, OVERSIGHT AND PAYMENT

1. In the course of its regular activities, the Marketing Consultant Department will:
 - a. Administer a central library of Consulting Agreements and the relating appointment/approvals file; A Consulting Agreements or a copy of a signed Consulting Agreements must not be taken out of IAI premises except with the advance written approval of the General Counsel and in coordination with the Compliance Officer.
 - b. Administer a mechanized central system for registration and oversight of Marketing Consultants and for issuance of alerts to the relevant divisions regarding pending expiration dates. This system will enable the relevant units to monitor the status of approvals to retain a Marketing Consultant.
 - c. Centralize directives of the CEO, VP-Marketing and other applicable directives relating to the conditions for engaging Marketing Consultants, authorized Commissions and terms of payment, and bring these to the attention of the applicable marketing personnel.
 - d. Maintain a current list of Marketing Consultants.
2. Reports shall be distributed within IAI to authorized recipients regarding payments to Marketing Consultants.
 - a. The relevant unit in Corporate Finance will produce (as required) reports regarding payments to Marketing Consultants.
 - b. The Finance Department in the relevant division will produce reports regarding customer contracts and the impact on Commissions due.
3. The payment reports shall be distributed to the CEO, the VP-Marketing, the VP-Finance, Group General Managers, Division General Managers, Group Finance Directors, Division Finance Directors, heads of the Corporate Marketing Desks, the Compliance Officer and the Marketing Consultant Department.
4. Payment of Commissions shall be effected by bank transfer to an account of the Marketing Consultant, at the intervals, amounts and by the method specified in the applicable Consulting Agreement, upon receipt of invoice and subject to the requirements of this Chapter.
5. **Commissions Payable Pro Rata against Customer Receipts**
 - a. Department of Accounts Receivable and Accounts Payable will make the payment to the Marketing Consultants at each stage via the "Payment of Commissions to Marketing Consultants" system (hereinafter, the "**System**").
 - b. Approval of payment instructions will be done in the system in stages automatically and execution of each stage will be conditioned upon execution of the previous stage until reaching the status allowing for payment in fact.
 - c. Any early payment, other than in the circumstances specified in Section 6.e. below, requires the advance written approval of the Compliance Officer and Management Commissions Committee as well as a suitable revision of the relevant contract.

6. General Provisions

- a. Payment of Commissions will be made pro rata against customer receipts other than the payments specified in Chapter 8.
- b. Payment of Commissions to a Marketing Consultant will be made in accordance with the signed contract in effect with the Marketing Consulting or in accordance with any revision of such contract prepared and signed in accordance with the rules of this Program.
- c. If the Marketing Consultant participates in the financing in consideration for a special payment, then such payment shall be considered as an addition to the Marketing Consultant's Commission for the transaction. A contract requiring payment to a Marketing Consultant of special payment in connection with such a financing arrangement requires the advance approval of the Compliance Officer and Management Commissions Committee and the signatures of the CEO and VP-Finance. If the Marketing Consultant's Commission, including the special payment in connection with such a financing arrangement, is an Extraordinary Commission, then approval as an Extraordinary Commission is required, in accordance with Section 5 of Chapter 5 above.
- d. Payment of a Commission will be carried-out only after receipt of the customer receipts at the Company and following deduction of withholding tax as applicable under law. Transfer to benefit of the bank account in accordance with the written instructions of the Marketing Consultant will be considered payment. A Marketing Consultant receiving payment in New Israeli Shekels as a resident of the State of Israel is required to present an original tax invoice.
- e. When a contract fixes that payment of a Commission must be made within a certain period of time following payment by customer to which the Commission is related, the Commission will be paid only toward the end of such period of time, unless the approval of the Deputy VP Finance – Financing and Treasury is obtained for an earlier payment after consultant with the relevant Division. In all cases such earlier payment would be subject to the Marketing Consultant's absolute right to the Commission for such customer receipts, and it would also be subject to the advance approval of the Compliance Officer.
- f. Transfer to the benefit of a bank account as aforesaid will be done only where the beneficiary is the Marketing Consultant with which the contract was signed and where the name matches the name of the Marketing Consultant in the contract. In unique circumstances payment of a Commission may be made to a different account pursuant to the instructions of the Marketing Consultant provided that the instruction was verified by the Marketing Consultant Department and approved in writing by the Compliance Officer.
- g. The VP-Finance shall set rules and regulations for supervision of the manner of execution of payments, including random checks.
- h. The Marketing Consultants Department will take part in, such random tests to be conducted from time-to-time at the Company's divisions regarding payment of Commissions.

7. Initiating Payment Instructions

- a. Following signature on a customer transaction for which there was a Marketing Consultant the relevant unit will do the following:
 - i. The project manager or contract manager will input into the System the data of the contract with the Marketing Consultant via the "Create Marketing Consultant Contract" screen.
 - ii. Finance director will:
 1. Verify that the inputted data matches the Marketing Consultant Contract.

2. Verify via the "Creation of Supplier (Financial Management)" that the Marketing Consultant appears in the file "Creation of Supplier (Financial Management)" in which appear the bank account details of the Marketing Consultant. If the Marketing Consultant does not appear then he/she shall act as specified in Paragraph b. below.
- b. If the Marketing Consultant does not appear in the file "Creation of Supplier (Financial Management)" in the System, payment will not be able to be made to the Marketing Consultant. In such a case, and to allow payment, the finance director will request from Accounts Receivable and Customer Accounts Department the opening of a record for the Marketing Consultant in the aforesaid file and for this purpose will transfer to him/her the name of the Marketing Consultant and the bank account details.
 - c. Where a payment is received for a transaction in which a Commission is payable to a Marketing Consultant, the authorized person in the unit will initiate opening of a payment file for purposes of execution of the payment, will prepare the payment instructions and will transfer the approval to the unit's finance director.
 - d. Payment file will be opened in accordance with the details of the Marketing Consultant appearing in the Marketing Consultant's contract as follows:
 - i. The file will be opened on the screen "File List" for each Marketing Consultant in the same transaction and it will accrue all of the payments to the Marketing Consultant related to the same Marketing Consultant and the same transaction, and will verify that the total payments in aggregate do not exceed the sum due to the Marketing Consultant in accordance with the contract and per the data inputted into the System.
 - ii. The effective dates (term) of the contract with the Marketing Consultant will be indicated above the date of the relevant transaction.
 - iii. The System will show in the payment file the reductions/withholdings required at the time of execution of the payment of the Commission including withholding tax at source and elements of the price not subject to the Commission, and thereafter the net sum of the payment will be determined – after the withholdings/reductions.
 - iv. Calculation of the Commission and the aforesaid reductions/withholdings will be in accordance with the payments which IAI received from the customer and in accordance with the contractual terms with the Marketing Consultant who is entitled to a Commission for the same transaction.
 - e. The finance director in the unit, after approval of the payment instruction, will do the following:
 - i. As needed will transfer in writing to the Accounts Receivable and Customer Accounts Department additional details that cannot be inputted into the System, and this will be done before execution of the payment in fact.
 - ii. Check and verify that all of the data and calculations appearing in the System in respect of the payment instruction to the Marketing Consultant are right and that they are in accordance with the Marketing Consultant's contract.
 - iii. Confirm in the System that the sum to be paid to the Marketing Consultant is paid according to the Marketing Consultant's contract and that all of the necessary reductions/withholdings were made.
 - f. The Accounts Receivable and Customer Accounts Department will do the following:
 - i. Verify that payment of the Commission will be carried out only after receipt of the relevant payment from the customer and receipt of an invoice from the Marketing Consultant.
 - ii. Verify that the payment will be carried out in fact in accordance with the beneficiary and account details appearing in the Marketing Consultant file in the System or in accordance with the updated account details provided in a signed writing by the Marketing Consultant or such a writing signed by

another, subject to receipt of approval of the updated details by the Marketing Consultants Department and approval of the Compliance Officer in respect of the bank account.

- iii. Verify the data required for the payment (other than the calculation made by the System and the Division); receipt of the relevant invoice from the Marketing Consultant (if such is required from this Marketing Consultant), VAT payments, and withholding tax at source under applicable law.
- g. Accounts Receivable and Customer Accounts Department is authorized to approve Marketing Consultant payment instructions or to reject them and to return them to the finance director of the unit for purposes of correction/completion of the details.
- h. Any rejection of the payment instruction will automatically cause the approval process to stop and return of the payment instruction to the previous stage. In order to continue with the process, the payment instruction must be corrected as required, approved again by the finance director of the unit and transferred to the Accounts Receivable and Customer Accounts Department.

8. Payments to Marketing Consultants Not Due to Receipt of Customer Payment

- a. Payments to Marketing Consultants other than due to receipt of a customer payment will be made only after the approval of the Compliance Officer and as the Management Commission Committee expressly approved and as determined in the Marketing Consultant's contract.
- b. Types of payments not due to receipt of customer payment are specified here below:
 - i. Payment of an advance payment against payments of consideration due to the Marketing Consultant in the future (early payment):
 - 1. An advance payment shall be made only if expressly agreed in the Marketing Consultant's contract and also only following receipt of all of the approvals required therefor in the relevant unit and in the corporate headquarters in accordance with the approval authorities detailed in this Program, including the Compliance Officer. In such a contract, the manner for setting off such advance payments from the other payments under the same contract or some other method of setting off.
 - 2. An advance payment to a Marketing Consultant against future payments of consideration due to the Marketing Consultant or any advance payment, prior to receipt by the Company of a customer payment for the transaction or before signature of a contract for such a transaction – must be carried-out via the Accounts Receivable and Customer Accounts Department within the VP-Finance's department and only after receipt of the Marketing Consultant's invoice for such advance payment.
 - 3. Payment to a Marketing Consultant at a rate higher than the rate of payment due to the Marketing Consultant at the time (and only if the payment to the Marketing Consultant does not exceed the payment received by the Company from the customer) will be carried out via the Accounts Receivable and Customer Accounts Department.
 - 4. The VP-Finance/Deputy VP – Financing and Treasury will determine for each case in accordance with circumstances if it is necessary to obtain suitable security from the Marketing Consultant prior to payment of an advance payment against payments of consideration to be due in the future.
 - ii. Retainer
 - 1. A retainer will be paid periodically and not be conditioned on signature on a customer contract.

2. Payment of the consideration to the Marketing Consultant in such a case will be carried-out via the Department of Accounts Payable and Cash Management. The Management Commission Committee's approval shall serve as Procurement Committee approval of invoices and execution of payments. On the basis of a Management Commission Committee's approval, a purchase order may be issued and an invoice approved as customary in respect of supplier payments including verification of the right to such payment which is under the responsibility of the relevant departments/ organizations in the specific unit.
 3. A commitment to pay a retainer in addition to payment of a Commission or as offset from the payment of a Commission, requires the advance written approval of the Compliance Officer as part of the application procedure.
- iii. Payment of Commission to Marketing Consultant on the basis of customer payment in the form of Promissory Notes ("hereinafter – "Notes"). Where IAI receives Notes from a customer in order to secure credit granted to the customer by IAI under their contract, a Commission will be paid to the Marketing Consultant for payment made via Note(s) as follows:
1. Where IAI exercises such a Note(s) on the maturity date(s) specified therein, IAI will pay the Marketing Consultant the Commission due to the Marketing Consultant only after exercise in fact of the Note.
 2. Where IAI sells the Notes without recourse it will pay the Marketing Consultant the agreed percent of the sum provided it does not exceed the consideration received in fact for the sale of the Notes, while to the extent possible, the Marketing Consultant's Commission will be subject to discounting at the same rate as the Note. If it is agreed with the Marketing Consultant that the Commission will be paid on the maturity date(s) of the Note, then the Commission will be paid at the agreed rate, at the time of the maturity dates appearing in the Note, and it will be calculated based upon the face value of the Note.
 3. Where IAI receives a loan from a bank which is secured by deposit of the Notes or for purposes of collection on a date prior to the Note's maturity date, the Commission may be paid to the Marketing Consultant but subject to the discounting of the financing costs, interest and other related costs agreed between IAI and the Marketing Consultant. Such early payment to a Marketing Consultant will only be made against receipt from the Marketing Consultant of a bank guarantee or other suitable collateral as determined by the VP-Finance/Deputy VP – Financing and Treasury. Where it is agreed with the Marketing Consultant that the Commission will be paid on the Note's original maturity date(s) then it will be paid at the original rate regardless of the receipt of the loan secured by the Note.
 4. Where IAI decides to pay a Marketing Consultant by delivery to the Marketing Consultant of Notes received from the customer, the Authorized Negotiator will ensure receipt of the advance approval of the VP-Finance prior to coming to such an agreement with the Marketing Consultant in respect of payment by such method. Payment of the Marketing Consultant by way of delivery of Note(s) constitutes a

payment of the consideration due to the Marketing Consultant, and therefore, such payment will be subject to the contract with the Marketing Consultant that was signed by IAI's CEO and VP-Finance. Prior to agreement of such a payment method with the Marketing Consultant, the Deputy VP-Financing and Treasury will verify whether there are limitations in respect of release/delivery of the Notes, whether in the transaction under which they were received or otherwise (for example, release from lien/trust, banking regulations or others) and will act in accordance therewith.

5. The discount rate applicable to the Note will be determined by the Deputy VP-Financing and Treasury prior to delivery to the Marketing Consultant.
6. The possibility of collection by IAI of the Note(s) delivered to the Marketing Consultant will also be checked.
7. For accounting purposes, the delivery of the Note(s) to the Marketing Consultant will be recorded in accordance with customary accounting practices/principles.
8. Payment of the Commission in such cases will be made in accordance with this Chapter.

CHAPTER 9 EXPIRATION/EXTENSION OF CONTRACT WITH MARKETING CONSULTANT

- 1) Approximately 60 days prior to the expiration date of a contract with a Marketing Consultant the Marketing Consultant's Department will notify the marketing managers of the relevant divisions thereof by way of an "Extension of Marketing Consultant Contract" form.
- 2) The division's marketing manager, upon receipt of the form, will specify therein whether there is an intent to extend the contract or to terminate it, will transfer the form for the approval of the division and group managers as well as the Group Finance Director and thereafter – to the Marketing Consultants Department, and this should be done before the expiration of the contract and as early as possible.
 - a) The Marketing Consultants Department will transfer the form for comment to the director of the Corporate Marketing Desk for the region, and afterwards transfer it to the VP-Marketing for approval. The Marketing Consultants Department will act as follows:
 - b) In case a contract is to be extended, a suitable contract shall be prepared as well as signed Compliance Forms by the Marketing Consultant to be submitted for the approval of the Compliance Officer and VP-Marketing and it will be distributed in the same manner as specified in the rules for a new contract.
 - c) In case of non-extension, an 'expiration of contract' letter shall be prepared in coordination with the Director of the relevant regional Corporate Marketing Desk and with the relevant Authorized Negotiator and the letter will be submitted to the Marketing Consultant; however, the VP-Marketing may instruct a different course of action (in coordination with the Legal Department). To the extent a copy of such letter should be submitted to the relevant customer, the General Counsel's advance approval must be obtained.
- 3) The coverage of an existing contract may be expanded to cover additional products/divisions or additional customers through the appendices to the contract, by way of the process specified in this Program.