



Israel Aerospace Industries Ltd.

.....
2019 Sustainability Report



*Where Courage
Meets Technology*

Our sustainability

“IAI is a leader in the development, production and export of advanced commercial and military systems, in the air, at sea, on the ground, in space and cyber. As a large Israeli governmental company, IAI operates from a vision of growth and risk management, expressed by extensive investments, in order to ensure business strength alongside sustainable practice in environmental and social aspects, for the benefit of this generation and for the future ones.”

An excerpt from IAI’s sustainability policy

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Link to full policy

<https://www.iai.co.il/about/sustainability>



From the Chairman of the board

102-14 | 102-15

Our long-standing contribution to Israel's defense and economy, alongside our business in international markets, had positioned IAI as a leading Aerospace and Defense Company. Our solid results in 2019 reflect the good performance of the business, following the outset of the company's new 2030 business strategy.

We continue to deliver exceptional solutions in aviation, space, cyber, land, and sea, while promoting inclusive and nurturing work environment, transparent and ethical engagement with our stakeholders, as well as cleaner manufacturing lines, and a more sustainable supply chain.

This year, as part of our 2023 strategic sustainability plan, we have conducted a materiality reassessment, last done in 2016. The elaborate process engaged both internal and external stakeholders, and gave us valuable insights. The results helped us reaffirm our social, environmental and governance (ESG) priorities and create an up-to-date basis for managing our business risks and opportunities in a sustainable way. New material topics, such as talent management, were identified; demonstrating emerging trends in future employability. On the other hand, key issues as business ethics, product responsibility and customer support, and technological innovation maintained their high ranking, representing themes which have always been at the core of IAI. We will continue to expand our stakeholders' dialogue around those 19 material topics, and reflect our progress in our annual reports.

We also continue to collaborate with leading sustainability initiatives, such as the Israeli Ma'ala index for corporate responsibility, and CDP. We also keep reporting our progress in alignment with six of the seventeen UN Sustainable Development Goals (SDGs): Quality education (4), Gender equality (5), decent work and economic growth (8), Industry, innovation and infrastructure (9), Responsible consumption and production (12) and Climate action (13). We find these collaborations important, synergizing our impact with the greater business community efforts.

This report has been prepared according to the GRI standards, and has been reviewed externally for the fourth consecutive time. In addition, as we aim to keep our stakeholders well informed in a timely manner, we are now publishing this report in full in both English and Hebrew, and coinciding with our annual financial statements.

As we publish this report, the global community experiences unprecedented times of turmoil due to the outbreak of the Coronavirus. In almost seven decades, IAI has faced challenges big and small, and come through them all, maintaining the trust of our customers, owners, business partners and the communities in which we operate in. We have enlisted our best creative minds to support Israel's efforts through these times of great need. We believe that with the resolve of our committed and professional employees, our entrepreneurial spirit and accumulated experience, IAI can meet the challenges of the future with rigor and confidence, and continue to be a cornerstone in the resilience of our nation's friends and partners.

A handwritten signature in black ink, appearing to read 'Harel Locker', written in a cursive style.

Harel Locker

Chairman of IAI's Board of Directors



From the CEO

102-14 | 102-15

I am pleased to present our 5th consecutive annual Sustainability Report, detailing our progress in environmental, social, economic and governance matters during 2019, and our progress towards our strategic sustainability goals. This had been a milestone year for IAI, as our new 2030 business strategy and goals were set into motion, and shifted the way we create value for all our stakeholders – customers, employees, the Israeli government, partners, suppliers, the environment, and adjacent communities.

Our new 2030 strategy includes breaking into new markets, boldly improving our operational models and their efficiency, focusing on our business growth drivers, investing in our extraordinary people and maintaining our industry-leading R&D and technological innovation offering. This transformation required a speedy transition time and a significant collective effort made by the entire IAI team, in order to keep meeting all our commitments while we also internalize new processes, strategies and values as an organization. We feel that responsible and transparent decision making is fundamental to such a major change, and therefore we initiated specific dialogues with our employees and other stakeholders, so that concerns and opinions of those directly involved are captured and reflected.

As IAI completes its first year in this exciting journey, there are many reasons to be proud. Economically, we managed to keep our business stable with a net revenue of 90 M\$, while achieving record-high sales, surpassing the 4 Bn\$ mark for the first time. We kept delivering great quality products and services, while embracing new programs of organic and open innovation, to reinforce our inventive culture and shape far-reaching technological solutions for the aerospace and defense industry. We kept buying locally wherever possible, as our nominal local procurement increased to 1.9 Bn\$, emphasizing our positive economic impact influencing beyond the scope of our operations and direct employment.

IAI's sustainability performance is central to our overall new business strategy. This is why we continue to invest in our 2023 strategic

sustainability plan with respect to developing innovative shared-value products and services, managing environmental impacts, improving employment practices and working conditions, implementing responsible supply chain procedures, and refocusing our community outreach. We keep incorporating specific sustainability considerations into our decision-making processes, risk management, performance metrics, and standard reporting. Transparently sharing our performance means also sharing our misses. However, I remain confident that our continuing investments will allow us to meet our 2023 goals as planned. What follows are some highlights from this past year's achievements:

- 8% increase in the number of our female engineers;
- 636 GWh electricity saved since 2007;
- Dramatic reduction of 75 % of in our VOC emissions, following a successful replacement of a process material to an environmentally-friendly, cost-effective alternative;
- Direct greenhouse gas emissions (scope 1) were reduced by 9% compared to 2017, as we have tripled the number of hybrid cars and completed our transition to zero diesel vehicles in IAI's car fleet.

Our commitment to operating responsibly and sustainably is unequivocal. I am very proud of the progress made by IAI in harnessing the expertise, skills and dedication of our people, but remain realistic in understanding that we need to remain adaptable to changing business priorities and market conditions. The current Coronavirus global crisis reflects how, in this era, building a resilient and sustainable foundation of empowered and skilled employees, innovative solutions, collaborative value chains, and engaged communities is indeed the most basic and appropriate course of action.

Nimrod Sheffer

President and Chief Executive Officer

Independent limited assurance report

102-56

Independent Limited assurance Report to the users/ readers of Israel Aerospace Industries Ltd. (IAI) 2019 Sustainability Report.

We were engaged by the management of Israel Aerospace Industries Ltd. to provide limited assurance on the specified parts as mentioned in the table below (further referred to as "Specified parts"), regarding the information presented on IAI 2019 Sustainability Report for the year ended 31 December 2019 (further referred to as "The Report").

IAI's management is responsible for A. the preparation and the presentation of the report in accordance with the GRI Sustainability Reporting Standards: Core option, of the Global Reporting Initiative (GRI) as described in pages 88-99 of the Report, and the information and assertions contained within it B. for determining IAI'S objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues for reporting C. for establishing and maintaining appropriate performance management and internal control systems from which the information is derived, to be free from omissions and material misstatements whether due to fraud or error.

Our responsibility is to provide a limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. That standard requires that we comply with applicable ethical requirements, including independence requirements, and that we plan and perform the engagement to obtain limited assurance about whether the Report is free from material misstatement.

A limited assurance engagement, regarding data and information in the specified parts on the sustainability report, consists of making interviews and inquiries, primarily of persons responsible for the preparation of information presented in the report, and applying analytical and other evidence gathering procedures, as appropriate.

These procedures included:

- Examination of the specified parts in the report, for the purpose

of performing a limited assurance, based on public information sources, knowledge of IAI business and other comparative information of similar organizations.

- Inquiries of management to gain an understanding of IAI processes for determining the material issues for IAI key stakeholder groups.
- Inquiries of management to gain an understanding regarding the specified parts.
- Interviews with senior management and relevant staff at group level and selected business unit level concerning corporate responsibility strategy and policies for specified parts, and the implementation of these across the business.
- Interviews with relevant staff at corporate and business unit level responsible for providing the information in the Report.
- Visits to the IAI's sites on the basis of a risk analysis including the consideration of both quantitative and qualitative criteria regarding the specified parts.
- Visits and communication with the company sites located in Israel and the Company headquarters on the basis of a risk analysis including the consideration of both quantitative and qualitative criteria regarding the specified parts.
- Comparing the information regarding the specified parts presented in the Report to corresponding information in the relevant underlying sources to determine whether all the relevant information contained in such underlying sources has been included in the report. Where relevant, conducting interviews regarding the calculation, aggregation and methods used to collect and report the specified parts in the report.
- Reading the information presented in the Report to determine whether it is in line with our overall knowledge of, and experience with, the corporate responsibility performance of IAI group.

Limited assurance is less than absolute assurance and reasonable

assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the evidence-gathering procedures performed in response to the assessed risks, which vary in nature from and are substantially less in scope than for a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement.

We believe that the procedures we have performed and the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Subject	Pages
IAI's 2019 materiality process	14-17
IAI's stakeholders	18-20
IAI's 2019-2023 sustainability goals	22
IAI's corporate governance	28-31
IAI's ethics	34
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IAI's employees' training and development	60-61
IAI's occupational health and safety ²	64-65
IAI's energy ³	74-78
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IAI's GHGs emissions and climate change	79-81
IAI's waste and effluents	82-83

Conclusion

Based on the limited assurance procedures performed and the evidence we have obtained, described in this report, nothing has come to our attention to indicate that the specified parts as mentioned in the table below, in IAI's 2019 Sustainability Report are not presented, in all material respects, in accordance with the GRI standards and IAI's reporting criteria.

Our limited assurance report is made solely to IAI in accordance with the terms of our engagement. Our work has been undertaken so that we might state to IAI those specified parts we have been engaged to state in this limited assurance report and for no other purpose or in any other context. We do not accept or assume responsibility to anyone other than IAI for our work, for this limited assurance report, or for the conclusions we have reached.

Subject	Pages
IAI's water consumption and efficiency ⁴	83
IAI's air emissions	84-85



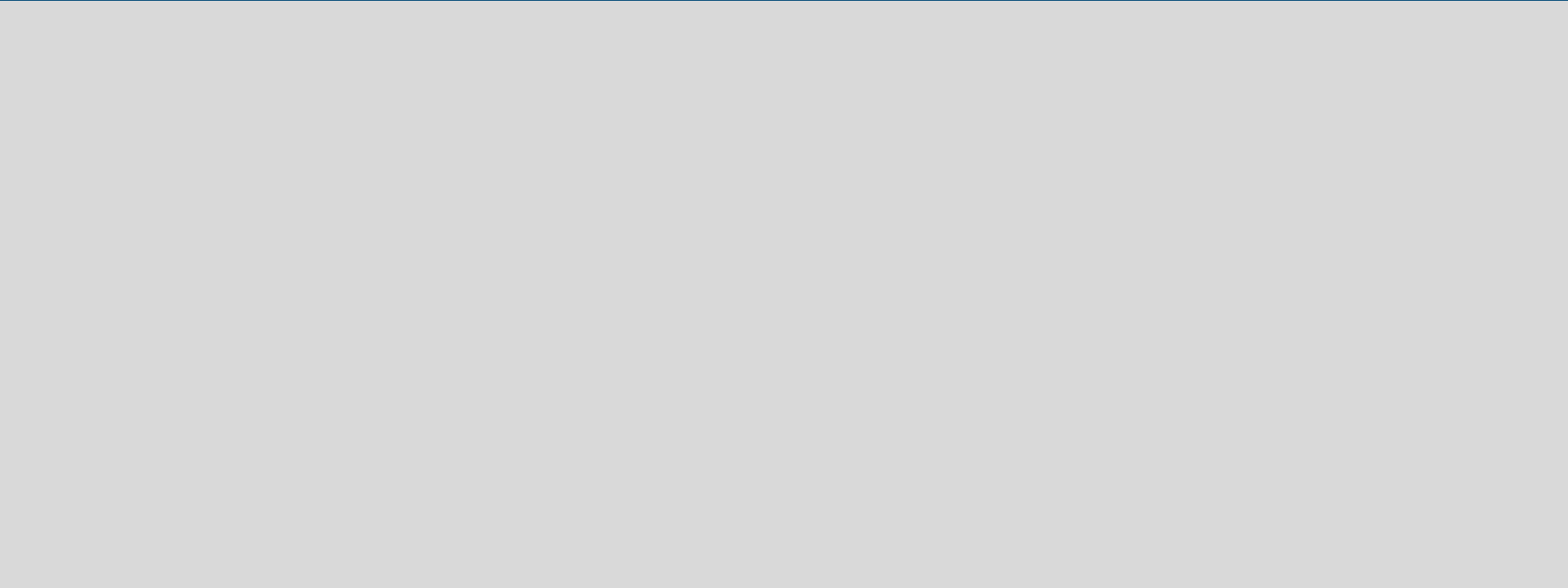
Ziv Haft
 Certified Public Accountants
 Tel Aviv, Israel
 March 29th, 2020

¹ Data regarding the percentage of direct employment of professional contractors' employees was not covered by the assurance.

² Data regarding contractors' accidents was not covered by the assurance.

³ Data regarding the number of hybrid cars was not covered by the assurance.

⁴ Due to data availability limitations, 2 sites were not able to share all required information for the limited independent assurance report. However, please note that the non-included information has very low impact on the report.



STRATEGY

Our vision

IAI spearheads global technology to ensure the future of its employees, partners and the State of Israel. IAI takes the defense, aviation and space industries beyond the boundaries of imagination with extraordinary human capital, advanced technologies and global business strength.

Our values

102-16

Human excellence

IAI's professionals are creative, innovative and the best in what they do. They are our key asset. Integrity, reliability and personal responsibility are their guiding principles.

Business excellence

As a leading international player, we passionately promote our position as a growing, profitable global company that is leader in its field. Placing the customer at the center, we partner with our customers to design and develop systems and solutions and provide the services they need.

Technological excellence

As one of the largest and most innovative defense, aviation and space companies, we continue to design and develop breakthrough solutions that are in the vanguard of technology.

Israel's defense

We uncompromisingly maintain our heritage of technological excellence and innovation for the security of the State of Israel. IAI is a key partner in safeguarding the freedom and security of Israel's citizens, and contributes to the growth of the country's economy.

Responsibility

We are committed to our employees, partners and the community at large, and adhere to the highest standards of social and corporate responsibility, including diversity, sustainability and protection of the environment.

Our business

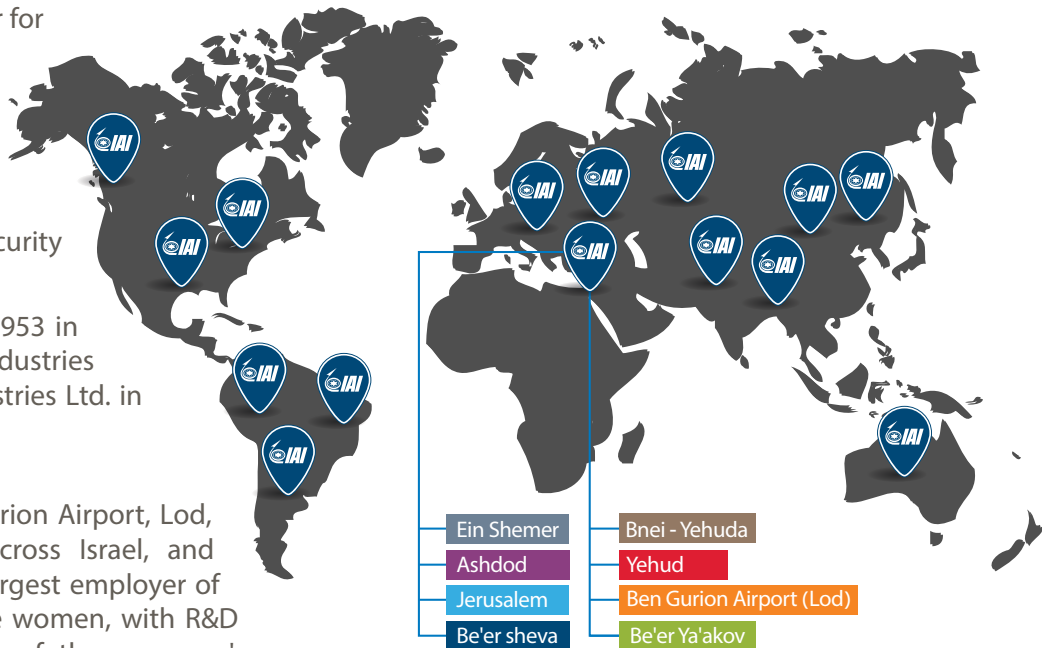
102-1 | 102-3 | 102-4 | 102-5 | 102-6 | 102-7 | 102-45

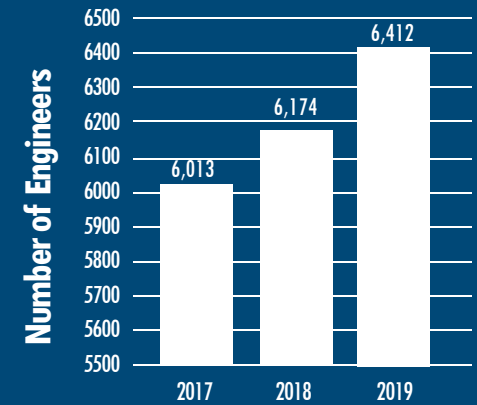
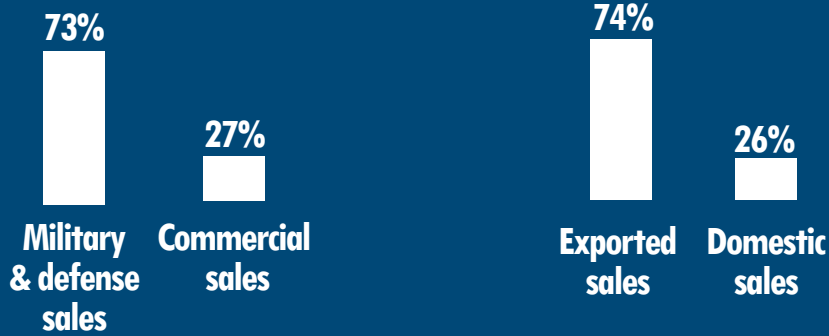
Israel Aerospace Industries (IAI) is a global Aerospace and Defense company, and the largest A&D company in Israel, delivering state-of-the-art technologies and systems in all domains: sea, air, land, space, and cyber for defense and commercial markets.

We have been developing and supplying comprehensive solutions and services for customers around the world for nearly seven decades, allowing them to meet their unique security and commercial objectives.

Established as BEDEK Aviation Ltd in 1953 in Lod, Israel, we became Israel Aircraft Industries Ltd. in 1966 and Israel Aerospace Industries Ltd. in 2007.

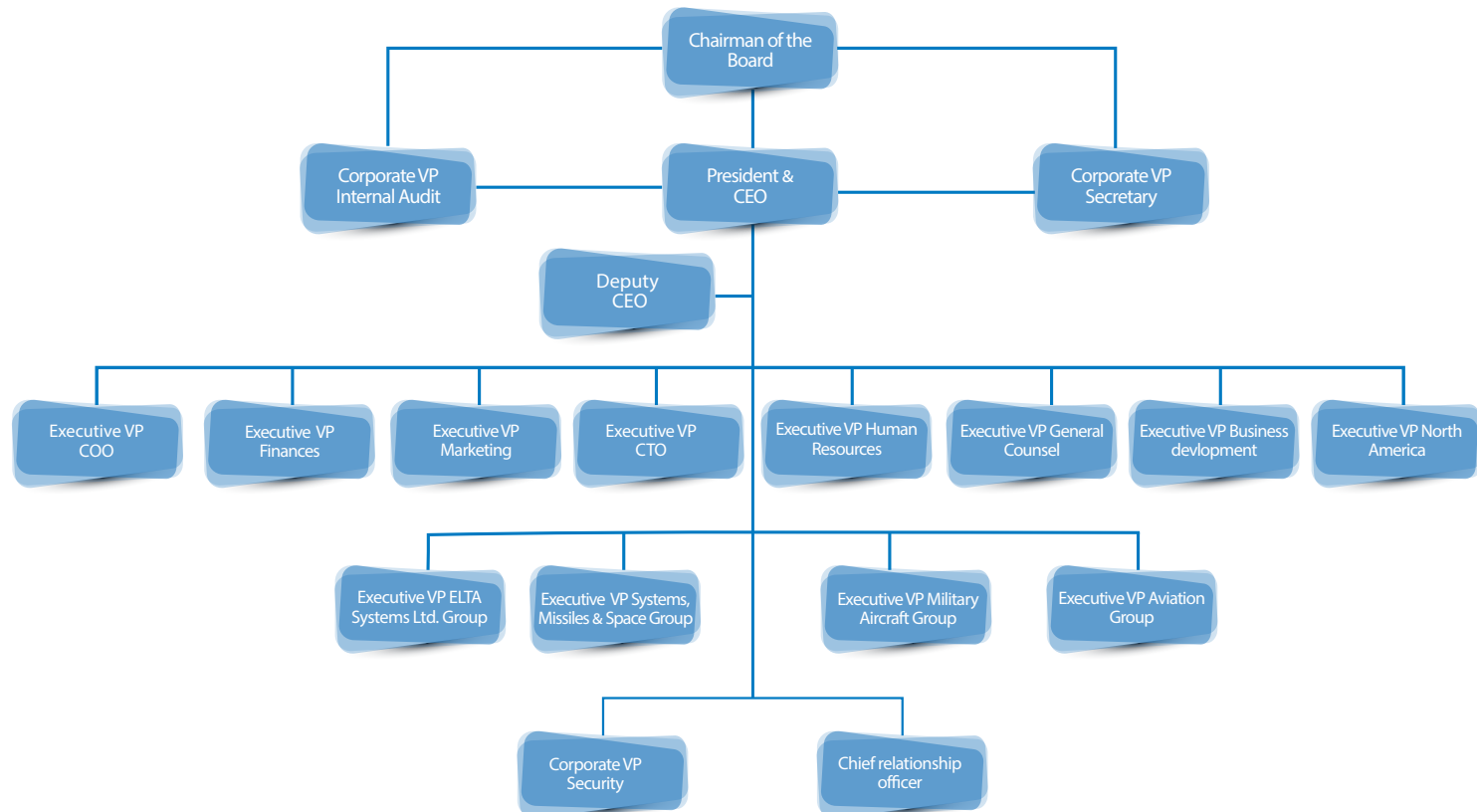
IAI's headquarters is located at Ben-Gurion Airport, Lod, overseeing eight operational sites across Israel, and employing 14,922 workers. IAI is the largest employer of engineers in Israel, 20.5% of which are women, with R&D representing approximately a quarter of the company's annual budget. IAI sustains over 50,000 households nationwide, across all circles of employment.





102-6 | 102-10

On January 1st, 2019, IAI began operations under a new organizational structure. The organizational restructuring united the Commercial Aircraft Group, Bedek Aviation Group, Engineering Group and several other activities under a single Aviation Group. Additional changes occurred at the managerial level, including the merging of the operations and the procurement and logistics into a single organizational unit. In addition, the former Sustainability and Environmental organization was reorganized during 2019, now operating as the Sustainability and Corporate responsibility Directorate, at the company's corporate level.



Managing sustainability

102-11 | 102-26 | 102-29 | 102-32 | 102-33 | 102-34 | 102-44 | 102-46 | 102-47 | Limited assurance

IAI sustainability management is cross organizational and includes all groups, divisions, operations, R&D and subsidiaries. The program starts at the top, with a Board of Directors' Sustainability Committee, overseeing a Senior Management Sustainability Steering Committee, led by the Executive VP of Operations, supervising, in turn, IAI's Sustainability and Corporate responsibility Directorate. The Board Committee is responsible, among other things, for the approval of IAI's annual sustainability reports. Through these authorities, we form manageable, measurable, and consistent working plans, strategically directing the company's progress in sustainability matters. Our sustainability management is directly derived from our sustainability policy, which dictates both the focus of the Senior Management Sustainability Steering Committee and the strategic work of the Sustainability and Corporate responsibility Directorate, as well as the targets & objectives assigned to the various functional units (i.e. the divisions, HR, P&L, and Finance etc.).

Precautionary approach in action

Sustainability and Corporate responsibility Directorate continuously tracks and analyzes sustainability risks to IAI's operations, leads mitigation efforts with group and division managers, and seeks to leverage environmental, social, and

economic opportunities. Major sustainability risks are included in the company's top risks (see page 32) and regularly tracked and reported to the Senior Management Sustainability Steering Committee, and in relevant cases, to the Board of Directors Sustainability Committee, to ensure an appropriate and timely response.

Materiality

In 2019, IAI performed its materiality reassessment, which was last done in 2016. The outcome enabled us to redefine the report contents in alignment with the GRI Sustainability reporting standards of completeness, and refocus our approach to sustainability management and policies, as well as our dialogue with stakeholders. This robust materiality assessment also serves as the basis to our strategic sustainability 2023 roadmap and annual working plans, by reflecting the most material environmental, societal and governance related topics on which IAI has the greatest impact on, from both internal and external perspectives.

For the 2019 assessment, we took a proactive approach, as part of our stakeholders engagement roadmap (see page 20), by



Link to sustainability webpage

<https://www.iai.co.il/about/sustainability>

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engaging internally through employees' surveys in addition to internal documents and procedures, insights from sector peers, international sustainability standards and initiatives, the UN Sustainable Development Goals (SDGs), Aerospace and Defense Sector-specific data, media reviews and more. New and fresh insights were noted from employees' opinion on IAI material topics. Moreover, interviews with external stakeholders, such as governmental authorities, allowed an even deeper understanding of external expectations from our business. IAI topics were ranked by internal and external factors, and then validated and approved by IAI's Senior Management Sustainability Steering Committee.

This reassessment process ensures we keep moving in the most relevant direction, and engage with our stakeholders on important existing and emerging topics.

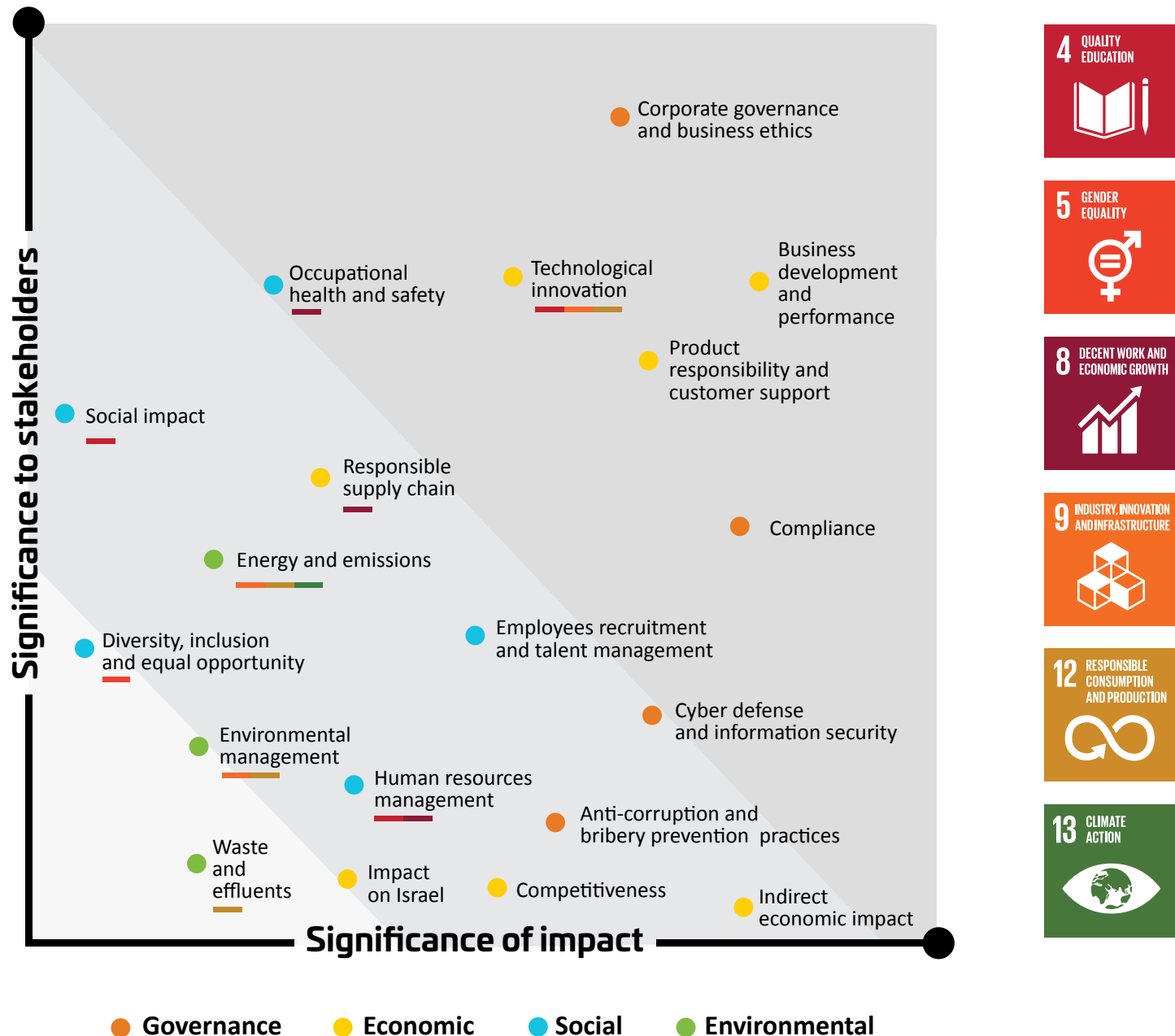
Materiality update process

102-46 | 102-47 | Limited assurance



102-47 | Limited assurance

These are the top material topics identified in the update process. All topics are included and managed in the company's 2023 strategic sustainability plan.



Our stakeholders

102-40 | 102-42 | 102-43 | 102-44 | Limited assurance

We acknowledge that effective and strong relationships with our internal and external stakeholders informs our business and serve as an opportunity to learn, share, and improve wherever applicable and feasible. We recognize that specific engagement approaches need to be developed and tailored for each of our stakeholders, taking into account the nature of our interactions, the particular material topics at the center of discussions, and the effectiveness of various tools and methodologies available for communication.

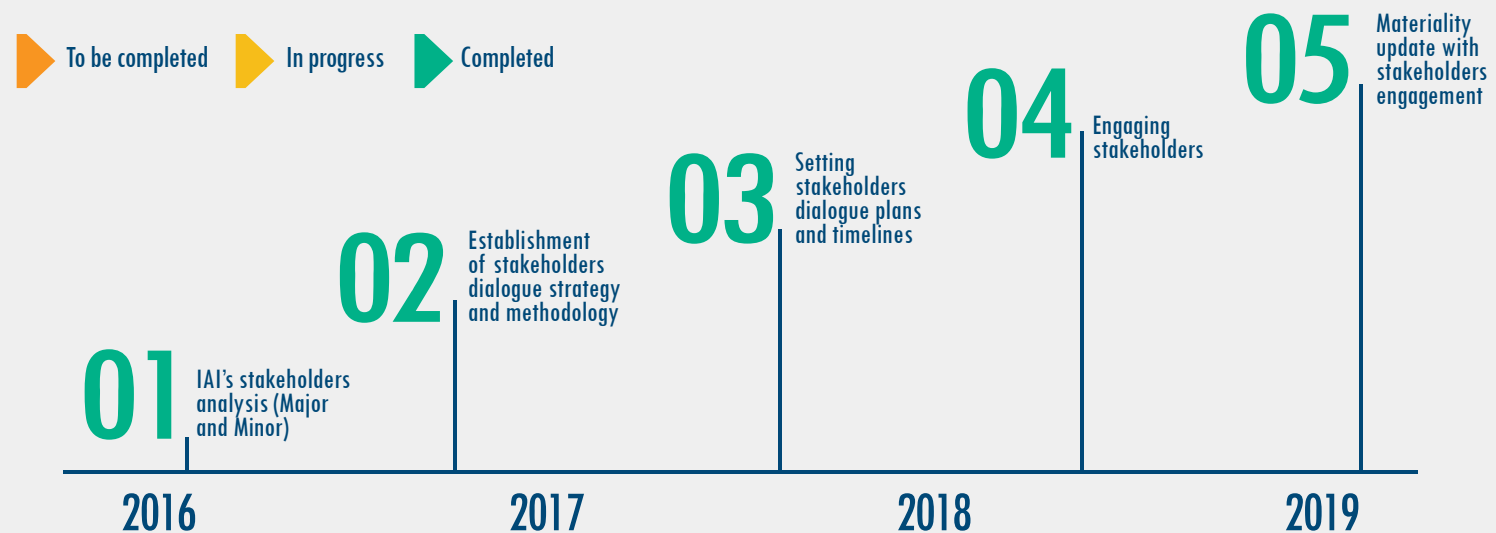
Stakeholders	Internal/ External	Proposed material topics for engagement	Engagement approach (existing and under development)
Israel's government (owners)	External	All materials topic (see page 17)	Annual reports; Meetings
Regulatory authorities (including environmental and social compliance)	External	Corporate governance and business ethics; Compliance; Energy and emissions; Environmental management; Waste and effluents; Diversity, inclusion and equal opportunity; Human Resources management; Occupational health and safety; Cyber defense and information security; Competitiveness	Annual reports; Meetings; Joint seminars, conferences and seminars; Site visits and audits; Professional forums
Employees, employees' families, our retirees	Internal	All materials topic (see page 17)	Intranet system; Internet; Mobile app #weareIAI; Newsletters and emails; Social media posts; Forums and gatherings; Company events; Surveys; Round tables

Stakeholders	Internal/ External	Proposed material topics for engagement	Engagement approach (existing and under development)
Board of directors and senior management	Internal	All material topics (see page 17)	Management reviews; Professional training; Steering committees; Surveys; Round tables
Customers	External	Corporate governance and business ethics; Product responsibility and customer support; Technological innovation; Compliance; Business development and performance; Energy and emissions; Environmental management; Responsible supply chain; Cyber defense and information security; Competitiveness	Annual reports; Trade shows and technical conventions; Audits and site visits; Surveys; Meetings; Joint seminars, conferences and seminars; Social media posts; Internet
Suppliers and contractors	External	Responsible supply chain management; Anti-corruption and bribery prevention practices; Cyber defense and information security	Internet; Meetings; Joint seminars and conferences; Audits; Supplier training; Surveys
Communities	External	Impact on Israel; Social impact; Energy and emissions; Environmental management; Waste and effluents; Indirect economic impact	Internet; Partnerships; Volunteering and local initiative; Meetings; Round tables; Surveys; Social media posts
Local and International partnerships and Industry associations	External	Technological innovation; Environmental management; Social impact; Compliance; Cyber defense and information security	Partnerships; Professional committees and forums; Joint seminars and conferences; Internet
Academy	External	Technological innovation; Impact on Israel	Partnerships; Technical conferences; Internships and higher education training; Joint R&D projects
Civil organizations	External	Corporate governance and business ethics; Impact on Israel; Social impact; Responsible supply chain; Anti-corruption and bribery prevention practices; Energy and emissions; Environmental management; Waste and effluents; Indirect economic impact; Diversity, inclusion and equal opportunity	Surveys; Meetings; Joint seminars, conferences and seminars; Social media posts; Internet; Surveys; Round tables
Future generations	Internal/ External	Impact on Israel	National-level Long-term outlook forums; Future women engineers of tomorrow project
Media	External	All material topics (see page 17)	Press releases; Annual reports; Internet; Social media posts; Site visits

Stakeholders engagement process

102-42 | 102-43 | Limited assurance

In 2019, we completed the 5th step in building our engagement process with the materiality matrix update (see pages 16-17), based on the 2016-2019 timeline. Moving forward, we plan to model a multi-stakeholders project in one of our business groups during 2020, in order to increase the effectiveness of our stakeholder engagement program and lay the foundation for progress in the years ahead.



Strategic alliances and memberships

102-12 | 102-13

IAI is active in various associations, forums and alliances, both local and international, which focus on advancing collaborative efforts and knowledge-sharing around its 19 material topics.

In Israel

As the largest governmental employer in Israel, we take part, and in some cases, lead important efforts to advance both expert-environmental and social-based initiatives and projects. Among our partners are: **The Manufacturers Association of Israel** (professional and environmental groups); **the Standards institute of Israel**; The green directive group at **the Israeli users' association of advanced technologies in High-tech integrated systems (ILTAM)**; **the Israeli Institute of Energy and Environment**; The environmental and sustainability engineering society within the **Association of Engineers, Architects and Graduates in Technological Sciences in Israel (AEAI)**; The forum for corporate responsibility of **the Government Companies Authority**; The forum for corporate responsibility of the **Israel-America Chamber of Commerce**; **MA'ALA association** for corporate social responsibility; The voluntary GHG emissions reporting scheme by the **Israeli Ministry of Environmental Protection**; The socio-economic forum of the **Israeli directorate of business organizations**, and more.

International Aerospace Environmental Group (IAEG)

IAEG is a Trade association formed by major international aerospace and defense companies, focusing on compliance with future laws and regulations regarding health and the environment. The association is advancing mutual efforts to aid the A&D value chain to become more sustainable, to reduce potential risks and driving continual improvements to help companies in making their products more environmentally-friendly. As sole Israeli participants in this association, IAI is involved in various working groups, such as Chemicals disclosure, Environmental qualifications of suppliers, ISO 14001 and EMS implementation and Green House Gases (GHG) sector-specific guidelines.

CDP: Climate change

CDP is an independent not-for-profit organization, gathering information on climate change, water and forests from companies, investors, cities and countries, through a global disclosure system. IAI is reporting its Green House Gases (GHG) emissions inventory to CDP climate since 2017.

2019-2023: Our sustainability roadmap

Limited assurance

In 2019, the company had initiated the implementation of its 2019-2023 sustainability roadmap, that was created based on an extensive number of resources and following a methodological process, to ensure our focus coordinates with important national and international sustainable development roadmaps and initiatives. Following is our progress on the top five strategic objectives tracked by our Sustainability Board Committee and the Senior Management Steering Committee for sustainability:

Category	2019-2023 vision (KPIs and sample actions)	% implementation in 2019 (100% in 2023)	More information (pages)
Environment	<ul style="list-style-type: none"> 10% cross-organizational electricity savings Diversify our electricity consumption to include renewable energy sources 	<ul style="list-style-type: none"> 20% 20% 	74-77
	<ul style="list-style-type: none"> 100% of new strategically-managed suppliers or vendors are evaluated for sustainability performance 	<ul style="list-style-type: none"> 10% 	43-44
Employees and communities	<ul style="list-style-type: none"> 35% women intake of all new employees hiring (core technological professions) 35% women intake of all employees hiring (all professions) 	<ul style="list-style-type: none"> 90% 70% 	62
	<ul style="list-style-type: none"> 5% annual increase in hiring of diverse work populations 	<ul style="list-style-type: none"> 100% 	62
	<ul style="list-style-type: none"> Transitioning from OSHAS 18001 to ISO 45001:2018 10% annual decrease in safety accidents rate 	<ul style="list-style-type: none"> 90% 0% 	64-65

BERESHEET



Our alignment with the UN Sustainable Development Goals (SDGs) 2030



The icon for Sustainable Development Goal 4, Quality Education. It features a red square with the number "4" in white, the text "QUALITY EDUCATION" in white, and a white icon of an open book and a pencil.	<p>Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all</p>	<p>IAI established a vocational school in 1963, in order to realize an educational vision - allowing youth to receive a diploma and gain a profession. The school is part of the national ORT school chain, combining conventional studies with a weekly day of practical employment. The school's training is based on three specializations: Aircraft Mechanics, Electrical and Electronic Systems and Unmanned Aircrafts. In addition, our social impact program focuses on technological education and making STEM learning exciting.</p>	<p>Read more on pages 60-61, 68-69</p>
The icon for Sustainable Development Goal 5, Gender Equality. It features a red square with the number "5" in white, the text "GENDER EQUALITY" in white, and a white icon of a female symbol with an equals sign and a male symbol.	<p>Achieve gender equality and empower all women and girls</p>	<p>IAI is actively promoting a diverse and inclusive workplace with equal opportunities in employment. Our women's advancement program is designed to increase the percentage of women with relations to our total workforce, in core professions (technological expertise) and in senior management roles. In addition, our social impact flagship initiative, the "women engineers of tomorrow", focuses on empowering girls to pursue STEM professions.</p>	<p>Read more on pages 31, 58-59, 62</p>
The icon for Sustainable Development Goal 8, Decent Work and Economic Growth. It features a red square with the number "8" in white, the text "DECENT WORK AND ECONOMIC GROWTH" in white, and a white icon of a bar chart with an upward-pointing arrow.	<p>Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</p>	<p>IAI's employees are the heart of our business, going above and beyond to create value through demonstrable innovative achievements and products. Being one of the largest employers in Israel, we strive to provide secure and long-term job opportunities, while ensuring safe, ethical and empowering working environment. We invest in our employees' professional development and foster diversity and inclusiveness with equal pay and remuneration for work of equal value.</p>	<p>Read more on pages 44, 56-57, 60-61, 64-66</p>

In 2015, the United Nations assembly has launched 17 Sustainable Development Goals (SDGs) with the aim of making sustainability a unifying global agenda for 2030. As a part of the process of formalizing our 2023 sustainability roadmap, a specific assessment was conducted on the relations between the UN SDGs and IAI's sustainability program. These global goals were also taken into account in our 2019 materiality reassessment. Six SDGs were identified as most relevant and material to our business, and continue to be our focus in light of the 2019 materiality assessment results (see page 17). Our 2019 contribution to these SDGs as well as our progress toward specific 2023 goals are highlighted throughout this report.



Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

IAI regularly maintains and upgrades its facilities and infrastructures, and ensures all our operational sites work in accordance with highest standards of quality (ISO 9001:2015, AS9100, and CMMI), environment (ISO 14001:2015), safety (OHSAS 18001 transitioning to ISO 45001:2018) and information security (ISO 27001, ISO/IEC 27032). IAI is dominant in patents applications and registry, and offers innovative solutions in all arenas: space, air, sea, land and cyber.

Read more on pages 50-52, 72-78



Ensure sustainable consumption and production patterns

IAI continually invests in minimizing the environmental footprint of its production lines, and in environmental R&D. We look to expand the implementation of "Design for sustainability" principles in our processes as part of our 2023 sustainability plan, and increase real-time accessibility to our sustainability performance data, for continual improvement of our operational decision-making.

Read more on pages 52-53, 72-73, 82-85



Take urgent action to combat climate change and its impacts

IAI acknowledges the importance of action on climate change and its global effect. We manage a cross-organizational carbon control program, focusing on the reduction of CO₂ and other air emissions, expanding our tracking and reporting capabilities (CDP climate, the voluntary GHG reporting scheme of the Israeli ministry of environmental protection) and actively participating in important sectorial collaborations (IAEG, Clean Sky2). IAI also invests technologically through innovations such as VENUS research nano-satellite project and TAXIBOT.

Read more on pages 52-53, 79-81



INTEGRITY AND ETHICS

Corporate governance

102-18 | 102-22 | 103-1 | 103-2 | 103-3 | Limited assurance

Material topic

IAI's Corporate governance structure

Israel Aerospace Industries Ltd. ("IAI") is a private corporation wholly owned by the State of Israel, (i.e. A Government Company as defined in the Government Companies Law - 1975 (hereafter - "the Government Companies Law")). In 2007 IAI conducted its first public offering of debt and became a reporting corporation. The Government Companies Law stipulates various instructions and corporate governance regulations which are applicable for the Company as a Government Company, including, inter alia, instructions regarding the composition of the Board of Directors and its work, the powers of the Board of Directors, qualifications of the Directors and the process of their appointment, Directors' compensation, and regulations ensuring the accuracy of the financial statements and the Director's Report. Similar and additional corporate governance provisions appear in the Companies Law -1999 (hereinafter - "the Companies Law") and the provisions thereof apply to the Company, subject to the regulations of the Government Companies Law. The Articles of Association of the Company are included in a prospectus published on December 29, 2011 (Document No. 2011-01-379344).

Being a "Reporting Corporation" the Company is also subject to the regulations of the Securities Law - 1968. IAI applies corporate governance principles in accord with its standing as a

global company, active in the defense and international aviation sectors.

The regulatory entity to which IAI is subordinated is the Government Companies Authority (hereafter, the "Authority"). The Company maintains current communications with the Government Companies Authority, inter alia, through a representative of the Authority, present at meetings of the Company's Board of Directors.

Company secretary

IAI's Company Secretary is responsible for the ongoing communication and coordination between the Company's Board of Directors and the Company's Management. Inter alia, the Company Secretary is entrusted with the management, coordination, and documentation of Board Meetings, and is also responsible for the reception, training and interfaces in between new directors and the Company. The Company Secretary is also responsible for the communication between the Company and the Authority as well as for reporting to the Securities Authority.

IAI's internal auditor

IAI's internal auditor manages the internal audit unit in accordance with the Israeli law. The internal auditor reports to the Board of Directors and its audit committee.

Limited assurance

Management of the internal enforcement plan with respect to the securities Law

The Company maintains an internal enforcement plan with respect to the Securities Law, in order to respond to possible exposure cases relating to potential breaches of the Securities Laws that could arise in relation to the Company's activities, its business environment, its organizational structure, and relevant legal framework. The Board of Directors has appointed the Company's VP General Counsel as responsible for internal enforcement of these matters for the Company.

The Company's board of directors and its committees

The Company's Board of Directors is responsible for outlining the Company's policy and for supervising its management activities. The Company's management is in charge of implementing these policies in practice and for reporting to the Board of Directors.

In 2019, the following Board of Directors' committees were active: (I) Financial Statements Committee, (II) Audit Committee, (III) Remuneration Committee, (IV) Investments, and Business

Development Committee, (V) Sustainability, Corporate Governance and Diversity Committee, (VI) Risk Management Committee.

The Company's Sustainability Committee was established in 2012, currently the Sustainability, Corporate Governance, and Diversity Committee. The committee's responsibilities regarding sustainability and corporate governance are: corporate responsibility; corporate governance; sustainable development; an internal enforcement of the securities laws.

Members of the Board of Directors of the IAI are appointed by the Minister of Defense and the Minister of Finance in consultation with the Committee for the Examination of Appointments of the Government Companies Authority. Candidates for directorship in Government Companies are chosen from a pool of Directors identified by the Government Companies Authority as part of the "Directors Team" project launched in 2017. The candidacy and qualification of the Directors are verified by the Committee for the Examination of Appointments as detailed in the Government Companies Law.

	2019	2018	2017
No. of general assembly board meetings	20	18	17
No. of board committee meetings	38	45	45
No. of board sustainability committee meetings*	4	4	4

* Out of the total number of board committee meetings

Limited assurance

Board of directors activities

In 2019, IAI's Board of Directors held a total of 58 meetings.

The Board of directors and approval of the company's financial statements

The Company's Board of Directors is entrusted with the overall control of the Company and approval of its financial statements. The Company established a Board Committee for the Examination of Financial Statements and Investments (hereinafter - "the committee"), in accordance with the Companies Regulations (instructions and conditions for the process of approval of the financial statements) - 2010 ("Financial Statements Approval Regulations"). The Committee discusses the Company's financial statements alongside developments in the company's business activities, and makes appropriate recommendations to the Board of Directors, relating to such financial statements. The Board of Directors discusses the committee's recommendations and ultimately chooses whether to accept and approve the Company's financial statements, or to seek further information, commentary, and/or revisions prior to providing such approval.

Limitations and supervision over the company

With respect to the restrictions and supervision over the Company - see Section 23 of the Fourth Chapter of the Financial Statement of the Company (in Hebrew) for 2019, pages 108-112.

Senior management reward policy

IAI has a clear policy in place for rewarding senior management, based on the following:

- Long-term company growth policy;
- Benefits based on the company's risk management policy;
- The company's size and nature;
- Components relating to the specific function and his/her contribution to meeting the company's long-term goals.

Board composition and tenure

405-1 | Limited assurance

Accounting and financial expertise

In accordance with Section 92 (a) (12) of the Companies Law, the Board of Directors of the Company has determined, in its meeting of May 27, 2015, that the minimum number of Directors with Accounting and Financial Expertise required by the Company, is one (1).

Independent directors

According to Sections 219c and 239 of the Companies Law, at least two external directors are required to serve in a "Debenture Company." Members of the Board of Directors sign a declaration verifying non-conflict of interests, and also undertake vis-a-vis the Authority, to refrain from conflicts of interest between their activities in the Company and their activities in other spheres.



Board of directors' diversity

three out of nine of our board members in 2019 were women.

Board members' diversity is achieved through coordination with the relevant regulatory functions.

	2019	2018	2017
No. Women members of the board	3	6	5
No. Men members of the board	6	4	3
No. Independent directors	3	2	4
No. members representing a minority*	1	1	0
No. members in the sustainability committee	3	4	4

* From the Druze community.

Sustainable risk management

According to a circular of the Government Companies Authority dated June 11, 2009, a government company is required to establish an organized process of risk management, and to establish control mechanisms. Within this framework, the Board of Directors has a duty to supervise the establishment of a risk management processes. IAI has established and implemented such processes and updates these from time to time.

In 2019, IAI reassessed the key risk list that was established in 2018, as an outcome of an extensive process of cross organizational Enterprise Risk Management Assessment. The process was based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) enterprise methodology, taking into consideration IAI's vision, strategic objectives, and values. The process was in line with the Government Companies Authority instructions and IAI's senior management was deeply involved in the process, which was directly overseen by the Board of Directors. In addition, the process took into consideration the changing regulatory environment and Israel's sustainable Development Guide to Governmental Companies - 2013.

Furthermore, to emphasize the importance IAI's management sees in the area of risk management, a new approach was set in 2019; this was characterized by establishing a strong bond between the risk management methodology and IAI's corporate

strategy. For this, we appointed a Head of Risk Management and Corporate Strategy, which manages these two significant subjects and is in charge of maintaining the adequacy between them.

26 different risk classes, including governance and environmental risks, were prioritized in the annual key risks assessment process of 2019. The management has appointed the Deputy CEO to serve as Chief Risk Officer, directly reporting to IAI's CEO and Board of Directors' Risk Committee on risk identification and mitigation plans. Furthermore, IAI's annual internal auditing plans take into account prioritized risks throughout the company.

The risk assessments were taken into account for IAI's 2023 sustainability strategy plan, which now serve as the basis for the annual work plans of the Sustainability and Corporate responsibility directorate at IAI, and closely monitored by the Senior Management Sustainability Steering Committee.

Project-level risk management

A specific mechanism is also set under IAI's project management methodology, to ensure the identification and mitigation of all risks, including environmental risks. Direct risk management responsibility in our projects rests with project managers, and during a project evaluation phase, a project risk manager is

assigned to map, track, and maintain a risk list, including its classification (based on severity and probability). Designated teams are established to mitigate and control identified risks, and an external official from the company is assigned to monitor the outcomes of such efforts. Risk identification and classifications continue throughout the entire project term, and recorded in an online tool available on IAI's INTRANET.

Crisis management and business continuity

IAI has embedded clear procedures and work instructions to ensure continuous operations and projects in the event of potential, unexpected and severe incident occurrences, such as earthquakes, cyber or terror attacks, or major fires. By defining and establishing effective response procedures during an incident, utilizing trained emergency response teams from within the company, and employing rehabilitation strategies and crisis management methodologies when necessary, IAI ensures the survival and continuous functioning of its core critical processes in: human resources, supply chain, facilities, organizational key members, materials management, technology development, communications, information and Records and Security.

Cyber defense and information security

Material topic

IAI's IT and computing systems division, MAMAN, was one of the first defense industries in Israel to be certified by the Standard Institute of Israel (SII) to the ISO/IEC 27032 standard in 2016. The certification was awarded following the demonstration of cutting-edge abilities of IAI's cyber defense center and processes, including a unique operational methodology, advance cyber forensics capabilities, enhanced cyber detection and real-time status capabilities, as well as an effective combination of ISO 27032 and ISO 27001 (Cybersecurity standards).

MAMAN's cyber activities provide end-to-end information and cyber security coverage to IAI's computing & network infrastructure. The cyber activities include advanced cyber security operation center which monitor and react to cyber threats and investigate complex cyber threats. MAMAN stands in the front-line with the most advanced international standards regarding Cyber Incident Response (IR) plans, Cyber Security Operational procedure & Cyber Forensics capabilities.

Business ethics

102-16 | 103-1 | 103-2 | 103-3 | 205-2 | Limited assurance

Material topic

Our code of ethics

IAI is committed to creating a work environment that relies on open communication and supports employees in reporting potential violations. IAI's Code of Ethics (hereafter, the "Code") is the sum of regulations, principles, and procedures by which we define appropriate and acceptable behavior. The Code dictates a high standard of conduct by measures of integrity, fairness, and morality, and is regularly reviewed to ensure its relevancy and applicability.

The code covers the following topics: Marketing and Sales; Quality, Sustainability, Environment, Safety, and Occupational Health; Employment and working relationships; Customers, partners, suppliers, and owners; Conflict of Interest and illegal benefits; Protection of assets, privacy, information security, and confidentiality; OECD compliance program.

IAI expects its managers and employees on all levels to comply with the code on a daily basis. This expectation is communicated and practiced through training, company procedures, work instructions, and supervision. The Code is available on IAI's public website, and its training materials are available through the company's INTRANET.

Concerns can be raised safely through a designated Human Resources personnel or direct managers, particularly in cases that are not defined in the Code, or are not clear-cut under the

law. In 2020, we plan to review and expand our business ethics program, as one of the company's strategic processes.

Employees' ethics training

All new employees sign the Code upon commitment of employment. A refresher course is then conducted once every two years, and is mandatory for all employees. The training covers various topics from the Code, and demonstrates real-life dilemmas faced by IAI employees over the years. **92% of our employees** completed the web-based Code of Ethics training in 2019, as part of the 2018-2019 cycle of refreshers.

The 2017 non-ethical claims case

During 2017, an investigation was launched by the Israeli police against the company on suspicions regarding several employees in the company (including a senior officer) which consist of alleged illegal acts. The company maintains that the investigation will not have a material impact on IAI's operations or business.

Internal compliance, anti-corruption and bribery prevention practices

Material topic

IAI manages its business activities in compliance with the applicable laws of the State of Israel and of other countries in which it operates, and is committed to running its business with integrity, fairness, reliability, and professionalism. IAI has integrated and implemented a compliance program, led by the company's compliance officer, which was appointed by the Board of directors and reports directly to the CEO. The comprehensive Anti- bribery compliance program reflects Israel's adherence to the OECD's convention on Combating Bribery of Foreign Public Officials in International Transactions, and IAI's values (see page 11), and is reviewed and updated from time to time.

Training of employees that manage foreign relationships on behalf of IAI

About 800 employees are trained annually on anti-corruption via e-learning and 500 additional employees in frontal classes. All trainees are managers with relationships with foreign customers, such as marketing, contracts, financial and more.

Prohibition on financial contributions and donations

IAI is prohibited by the Government Companies Authority, as a governmental company, from gathering any financial contributions or donations in all circumstances, public or otherwise.

IAI had established an internal procedure to ensure this requirement is met, and all senior managers are required to review and approve the procedure on an annual basis.

Reported cases to IAI's hotline	2019	2018	2017
Code of ethics and integrity	9	15*	16

* Data re-stated for 2018, due to reallocation of a reported case to a different category.



Link to code of ethics
<https://www.iai.co.il/about/code-of-ethics>



Link to corruption prevention program
<https://www.iai.co.il/about/compliance>

VALUE CREATION

Business development

102-6 | 102-7 | 103-1 | 103-2 | 103-3 | 201-1

Material topic

The goal of IAI's Business Development Organization is to identify and develop new business areas and markets, where IAI can achieve a relative advantage. In addition, the organization is responsible for forming a business growth strategy, maximizing IAI's sustained competitiveness and position as a dominant leader in its core businesses.

The major instruments used to carry business development into effect are: establishment of joint ventures creating added value through business synergy; acquiring required technologies for continual development; offering business support for innovative programs; converting military technologies to civilian applications; setting up technological hubs and gaining finances through venture capital funds.

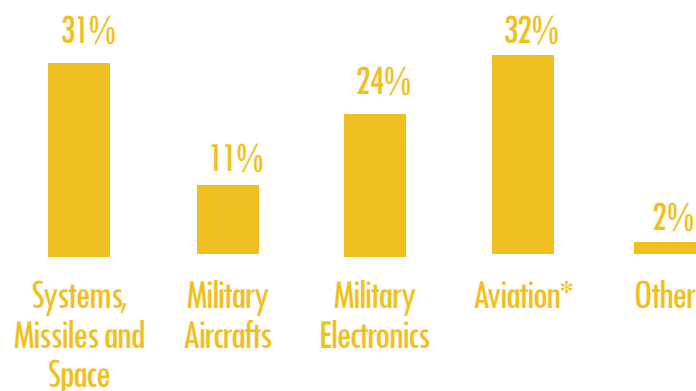
IAI was ranked **44 out of 100 companies** in the international A&D sector 2019 index by Defense News.

Competitiveness

Material topic

Most markets in which IAI operates are characterized by intense competition, both from local and international companies. Locally, we see further restrictions in contract requirements by both customers and authorities.

Globally, a growing competition is noted against regional companies, due to, but not limited to, mergers between large international organizations, and preferences of governments favoring domestic defense contractors, which is usually also backed up by binding laws and regulations. In 2019, IAI has formulated a strategic growth strategy, including various initiatives and actions that will support our position in existing markets and allow growth in our market share.



2019 revenues by operating segments

* Includes the revenues of the Commercial aircrafts and Aircrafts maintenance activities, formerly reported separately.

Products and services

102-2 | 102-6

Defense

Air

IAI provides a wide range of solutions and services for aerial defense, from special mission aircraft and advanced unmanned aerial systems (UAS), to precision guided munitions, multi-layered missile defense, upgrades for military aircraft and helicopters, and sophisticated C4I, ISTAR and navigation systems.

Naval

Leveraging decades of experience developing and supplying state-of-the-art technology to the defense sector, IAI's comprehensive naval solutions for coastal or offshore applications range from maritime radars and electro-optical payloads, to security systems and unmanned aerial systems. Enhancing your defense, attack, intelligence and communications capabilities for your naval crews and operations.

Land

IAI develops advanced land defense systems for state-of-the-art battle management, on-the-move broadband communications, and precision targeting and navigation. We also offer a wide range of combat support systems - from guided missiles to obstacle breaching, counter-mine to counter-IED. These

solutions are enhanced by our cutting-edge developments in robotics, which integrates modular robotic building blocks for autonomous navigation, sensor fusion, and terrestrial & SATCOM communications throughout our product lines.

Space

IAI, the National Space House of Israel, is acting as a one-stop-shop for cost-effective small to medium size satellites. With nearly 40 years of experience in space technologies, IAI focuses on space systems for national security, scientific/research and commercial applications. These include: Observation satellites with different types of payloads (EO and SAR), a moon lander and Nano-satellites, Communication satellites, Space platforms, Ground Control Stations, Mission and Applications Centers and a full range of space sub-systems. IAI also offers the Shavit launcher, enabling the launch of mid-size satellites into LEO orbits. IAI has proven records in conducting a full space project cycle - from definition-of-mission, through design, manufacturing, integration and testing, to launch and in-orbit delivery.



Link to defense products and services
<https://www.iai.co.il/defense>

Commercial

Aviation

IAI designs and manufactures business jets for nearly 45 years, the latest being the super midsize intercontinental range G280. IAI also designs, develops, and manufactures primary composite and non-composite aero structure assemblies for major aerospace OEMs, as well as landing gear, servo control and actuator systems.

IAI is also a known global leader in aircraft passenger-to-cargo conversions, providing an expert, one-stop-shop for large passenger and cargo aircraft, with full maintenance, repair, and overhaul (MRO) of aircraft, engines, and components. IAI's MRO processes are approved by 18 Aviation Authorities from around the world.

General applications

IAI offers a range of other commercial developments, such as the SeeFar, an innovative train driver-assistance system providing real-time railway obstacle detection and early warning, and a comprehensive UAS commercial solution for Precision Agriculture, Oil & Gas and First Response.

Cyber and Homeland security

Cyber

Cyber is a strategic sector for IAI. ELTA's Cyber business unit is IAI's center of excellence for Cyber Solutions, addressing "national grade" challenges faced by nation states, critical infrastructures, law enforcement, and defense forces. The Cyber business unit has developed unique solutions for Cyber defense, protection, monitoring, prediction, identification, intelligence and accessibility. Solutions include national-grade Cyber Early Warning centers, Cybersecurity for mission-critical systems, aviation and maritime cyber security, cyber intelligence, cellular search and rescue system, and critical cyber protection solutions. These advanced capabilities are possible due to the unique technologies developed by the Cyber business unit's R&D and excellence centers in Israel, Singapore and Switzerland.

IAI leads the Israeli Cyber Companies Consortium (IC3), which offers end-to-end solutions for national cyber centers and comprises Israel's foremost cyber companies; and the Israeli Aviation Cyber Companies Consortium (IAC3), offering cybersecurity solutions for the commercial aviation eco-system. Both consortiums were established under the auspices of Israel's Ministry of Economy and Trade's consortium program.

102-2 | 102-6

Homeland security

With a wide range of tailored operational solutions, combining vast experience with an extensive array of state-of-the-art technologies, IAI's comprehensive, turnkey systems enable customers to swiftly and accurately detect, locate and target threats to public security, 24 hours a day, even in adverse weather and low visibility conditions.



Link to Commercial products and services
<https://www.iai.co.il/commercial>



Link to Cyber & HLS products and services
<https://www.iai.co.il/cyber-hls>

Financial performance

102-5 | 102-7 | 103-1 | 103-2 | 103-3 | 201-1 | 201-4 | Limited assurance

Material topic

IAI is a “wholly owned Governmental Company”, with Israel's government holding 100% of its shares, as stipulated in the Israeli Governmental Companies Law - 1975. The Company's debentures were issued and listed for trade on the Tel-Aviv Stock Exchange effective May 2007, whereas the Company's shares are not listed for trade. The company's Board of Directors oversees the execution of its policy by the Senior Management; IAI President and Chief Executive Officer and Vice presidents.

The company's financial statements have been prepared in conformity with IFRS, and fully comply with the Israeli Securities Regulations and the Israeli Government Companies Law - 1975.

On December 31, 2019, IAI held a backlog of orders amounting to 13.4 billion US Dollars that equals to 3.35 years of activity.

The total company equity stands at 922 million US Dollars and the total company debt stands at 4,893 million US Dollars.



Link to financial statements
<https://www.iai.co.il/iai-publishes-its-annual-financial-statements-2019>

Financial item	2019 (Million US \$)	2018 (Million US \$)	2017 (Million US \$)
Net Sales	4,108	3,682	3,520
Tax Income	0	0	0
Total economic value produced (income):	4,108	3,682	3,520
Operating costs (including salaries and benefits)	3,987	3,670	3,399
Finance Expenses	12	49	29
Tax Expenses	23	15	8
Dividends	10	0	5
Total economic value distributed:	4,032	3,734	3,441
Total economic value gained*	76	-52	79
Net income	90	-44	81
Government support: R&D grant by the Chief Scientist in the Ministry of Economy	10	6	5

* Calculated as the total value produced less total value distributed.

Responsible supply chain

102-9 | 103-1 | 103-2 | 103-3

Material topic

The Aerospace and Defense industry has a highly complex and dynamic network of suppliers, requiring effective management of costs, quality and delivery timelines. The constant flow of materials, data, and money presents many opportunities for sustainable thinking. A&D Original Equipment Manufacturers (OEMs) play a critical role in setting the expectations and leading the suppliers and subcontractors in following humane practices, implementing economic values and achieving environmental excellence.

IAI is a unique player in the A&D supply chain, since it serves as the OEM for some of its products and as a Tier 1, 2 and 3 supplier for others. As such, IAI is exposed to an intricate network of relationships and has varying degrees of impact on the sustainability practices of its suppliers. Regardless of IAI's position in a certain product's supply chain, we believe that raising the bar translates into higher standards for all those who engage in business with us.

As an OEM, IAI is working only with TIER 1 suppliers that are certified by our company. These suppliers are obligated to hold valid and current permits, authorizations, and standard certifications relevant to their business. In addition, IAI is investigating their economic stability prior to engagement and continues to track their financial performance throughout the entire business relationship. We are now moving to implement these same requirements vis-a-vis our TIER 2 suppliers.

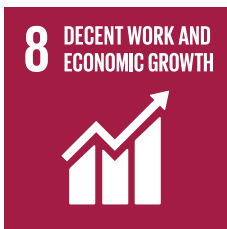
Suppliers certification process

Both the supplier certification process and the continuous quality assurance procedures are set and supported by IAI's Quality Assurance Organization. These include, inter alia:

- A Central system for supplier quality assurance management, designed to assure that the quality of the products supplied meets IAI requirements, and includes the implementation of any follow-up requests. Our goal is for all our suppliers to embrace the same standards and commitments that IAI has set for itself as a supplier to other OEMs.
- An online Suppliers' web portal (IAI SupplierNET), containing all the data and information required by suppliers that engage in business with IAI. Through this portal, the suppliers report on any use of sub-contractors and TIER 2 suppliers, thus enabling higher levels of supply chain transparency and control.
- Keeping our Israeli supply base up-to-date through different initiatives regarding requirement changes, supplier delivery schedule, accounting and billing through e-sources. This significantly minimizes the use of paper, and makes the transfer process more efficient and much shorter.



Link to IAI SupplierNET
<https://www.iai.co.il/suppliers>



Sustainable practices in our supply chain

IAI's Procurement and Logistics (P&L) Organization practices structured processes and mechanisms that ensure ethics, governance, social and environmental considerations are continuously exercised for decision-making. Our 2023 strategic sustainability plan focuses on widening this important impact.

Economic

Expanding and adding to our over-arching framework agreements, in both operations and project management, to take advantage of our economics of scale and yield higher rates of savings. Savings are further achieved by maximizing the standardization across the company for purchases of items such as furniture, cell phones, printing etc.

Environmental

Setting annual savings, inventory values and circulation targets for raw materials, utilities and resource procurement through the use of database system and blocking the option for purchasing items marked as superfluous. At the end of 2018, some of our divisions moved their inventory management to our new centralized logistic center, designed to support

industry 4.0 readiness, while decreasing storage areas and excess inventory. In addition, automation of processes and traceability are enhanced, replacing out-of-date manual operations. All divisions are expected to complete their move to the new logistics center by 2021.

Social

Supporting local suppliers ("Buying blue-and-white"), small businesses, and suppliers from rural areas as a strategy, to augment their capabilities and share in the global A&D industry.

Ethics and governance

P&L employees training includes code of ethics, organizational culture as well as interpersonal communications, with special emphasis on interactions with suppliers for the mutual development of quality products and maintaining long-term, fair and honorable partnerships.

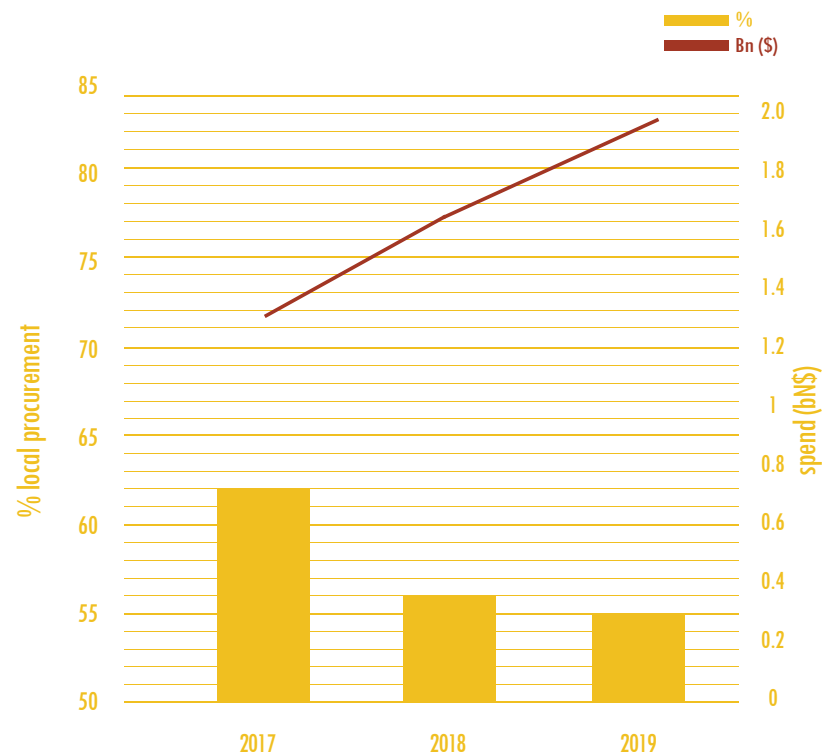
Local procurement (impact on Israel, indirect economic impact)

Material topic

As a government owned company, IAI contributes to the development of Israel's economy in general, and pays particular attention to purchasing locally ("Blue-and-White").

The majorities of our suppliers overseas are engaged based on economic grounds, expertise, and requests of our customers or by the terms of reciprocal trade (offset obligations). Through these same relationships, IAI has also obligated its foreign suppliers to further expand their procurement from Israeli sources, a requirement covered by the Israeli Mandatory Tender regulations - 2007, in full partnership with The Industrial Cooperation Authority at the Ministry of Economy and Industry.

In 2019, we have spent **55% of our total annual procurement**, buying from Israeli suppliers. Our overall blue-and-white purchases percentage decreased due to offset obligations, but our nominal local procurement continued to rise, compared to earlier years.



Product responsibility and customer support

103-1 | 103-2 | 103-3 | 417-1

Material topic

Customer support

The quest for continuous improvement lies at the basis of IAI's business core. In 2019, a new strategy for customer support was created, to allow a leap forward in customer care and support. The strategy included the appointment of a Head of Customer support administration and a Deputy VP of Projects and customer support. This aligns with the AS9100D 'Quality Management Systems - Requirements for Aviation, Space and Defense Organizations' certification requirements, an updated version held by all of IAI's manufacturing divisions.

In addition, a new customer support scheme and working plan were established, that includes:

- Development of a new strategic multi-year roadmap and methodology
- Setting business goals for top quality customer support performance
- Defining customer support and quality management key indicators

Furthermore, IAI sees customer support as one of its most important focus areas for the upcoming years. This new approach will enable the best communication with our customers, develop a post-delivery support, and achieve high customer satisfaction for all our products and services.

Quality management at IAI

IAI perceives the quality, safety, and reliability of its products as leading values, serving as the basis of our customer satisfaction and leveraging our growth. Managers and employees alike are committed to a culture of business excellence, which allows us to deliver high quality products and services, adhering to our customers' requirements and expectations, while complying with all laws, regulations, and applicable standards.

We drive continual improvement through:

- Operating a Quality Management System to ensure consistent and continual compliance
- Focusing on customer satisfaction
- Setting measurable quality objectives and targets throughout the company groups and divisions
- Training and developing our managers and employees and cultivating their personal and business skills
- Encouraging processes for incident reporting, investigation and cross-organizational learning
- Integrating our suppliers as partners in order to meet our quality goals
- Investing in the implementation of advanced tools and methods that contribute to our products' level of quality, safety, and reliability.

- Joining in mutual efforts as members of professional societies and associations that lead the industry to quality improvements.

As a part of this commitment, all IAI's manufacturing groups and divisions own a valid AS9100 certification issued by the Standard Institute of Israel (SII). All other IAI's supporting divisions hold an ISO 9001 certification.

The significant organizational changes which occurred in 2019 (see page 13) resulted with IAI now being the largest organization in Israel holding an AS9100 certification by its groups and divisions. In practice, this move resulted in a significant improvement of efficiency in our quality management processes. Another essential process we undertook during 2019 was a cross-organizational focus on reducing the COPQ (Costs of Poor Quality). This was managed on a CEO level, and included goal setting for IAI's divisions and setting strict controls in place.

Environmental management system ISO 14001

All IAI's divisions hold a valid ISO 14001 certification issued by the Standards institution of Israel (SII). For more details, please refer to the environmental management section in this report (see pages 72-73).

Safety management system OSHAS 18001/ISO 45001

Most of IAI's divisions hold a valid ISO 45001 certification, and issued by the Standards institute of Israel (SII). The remaining

divisions are expected to complete their transition in 2020. For more details, please refer to the safety management section in this report (see pages 64-65).

CMMI-DEV

The CMMI-DEV, developed at Carnegie-Melon University, consists of a structured collection of best practices in process areas such as Project management, Engineering, Organizational process areas and Support areas (e.g. Quality Assurance and Configuration Management). Since 2002, IAI has implemented a continuous process improvement effort based on the Capability Maturity Model integration for Development (CMMI-DEV). IAI's divisions which have implemented CMMI-DEV based process improvement efforts undergo formal and informal periodic CMMI appraisals, to ensure that their development processes are implemented properly, meet the CMMI model expectations, and to come up with new improvement opportunities.



INNOVATION

Technological innovation

103-1 | 103-2 | 103-3

9 INDUSTRY, INNOVATION
AND INFRASTRUCTURE



Material topic

Technological innovation is at the foundation of IAI's culture, promoting our success. We invest substantial resources in the research and development of advanced and prospective technologies, leading to cutting-edge solutions for

both military and civilian markets. IAI's CTO's team and the divisions' business units guide these efforts toward supporting the forefront of the company's strategy.

As a company guided by principles of progress and creativity, we support and lead a set of initiatives and activities that promote and encourage innovation, both internally and externally, creating significant innovation-driven value for IAI and our partners.

IAI is equipped with the most advanced research and development software tools, material laboratories, multiple wind tunnels, ground test facilities and flight test facilities. These strong capabilities enable significant progress from low Technology Readiness Levels (Low TRLs) to high TRLs.

Innovation in IAI is implemented in two complementary approaches - organic innovation and open innovation.

Organic innovation

IAI has an active and vibrant entrepreneurial innovation

community. We hold monthly innovation management committee meetings and a quarterly innovation forum, where we discuss topics at the forefront of technology in today's markets. Together with partners from the Israeli military and high-tech industry, we have established a course for managers and innovation leaders, kicked off for the first time mid-2019. In addition, our Take-off day hackathon is a renowned annual event, during which IAI customers are invited to watch how internal teams develop and conceptualize brilliant solutions to their operational needs.

Open innovation

IAI is a significant player in the global innovation ecosystem: The Company's business divisions are extensively engaged with startups, and we continue to support, develop and nurture local and international industry, in order to maintain our position as spearhead technologies-based solutions provider.

In Israel, IAI takes an active part in the iHLS startup accelerator and global innovation platform, SOSA, as well as in the Tel Aviv Startup Challenge 2019. IAI international collaborations are vast, as IAI is a corporate partner in the international accelerator Starburst - the only one in the world to specialize in the fields of European aerospace and defense. In addition, IAI in the US is a member of the New Space consortium of the Techstars and Starburst space accelerator, along with the US Air Force, NASA, Lockheed-Martin, MAXAR and SAIC.



Link to IAI innovation
<https://www.iai.co.il/innovation>

IAI's new international innovation center

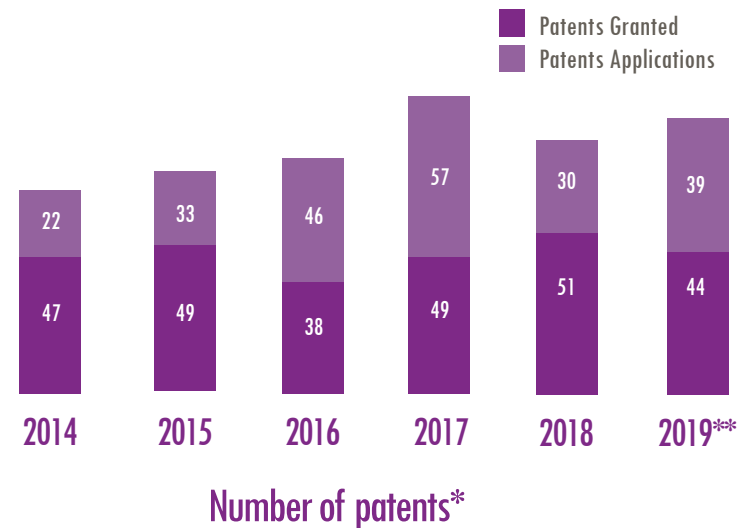
IAI inaugurated its innovation center in the heart of the startup ecosystem of Israel, in collaboration with the international Starburst Accelerator, which specializes in aerospace. IAI's Innovation Center acts as an accelerator, speeding up the development of advanced technologies-based ventures. It employs open innovation methodologies to encourage technological diversity and in-house entrepreneurship alongside collaboration with potential partners. IAI has invited its employees to submit innovative technology-based proposals for accelerated development of advanced pre-seed endeavors. Six teams were selected for the first cycle, focusing on developing AI-based solutions for aerospace, radar, robotics and autonomy technologies with the aid of Starburst network. Mentoring is provided by skilled professionals from IAI, as well as external experts.

Patents

Patents are considered an important asset and an indicator of innovation. A company's Research and Development process is highly expensive and risky, thus requiring a realization of the full economic value of the inventions. One way to achieve this is by patent registration, as defined by the patent laws in Israel and worldwide. By defending our ideas, we are encouraging further innovations and creative paths to take form, supporting the continual advancement and expansion of our knowledge base and intellectual property and ensuring freedom of action

in dealing with technologies developed by our company.

IAI is conducting a strategic process of application and registry of patents, both locally and globally. A cross-organizational company procedure is dictating the steps for executing an effective invention and patent application, including the appointment of management personnel to accompany the employee's team during the idea development, as well as a rewards system based on successful inventions that were accepted for patent registry.



* From the 2018 annual report of Israel's patents office (latest report available in March 2020).

** Internal data only.

Environmental R&D

201-2

9 INDUSTRY, INNOVATION
AND INFRASTRUCTURE



Design for Sustainability (DFS)

Design for sustainability methodology supports design and manufacturing perspectives which consider the whole environmental life cycle of a product or service, and integrates both environmental risk management and opportunity leveraging from the earliest stage of definition. Adopting DFS practices allow the developed products and services to become more flexible in a tightening regulatory atmosphere, reducing short-term and long-term risks throughout the life cycle, and systematically contribute to overall cost reductions.

12 RESPONSIBLE
CONSUMPTION
AND PRODUCTION



13 CLIMATE
ACTION



The expansion of our innovative DFS program is part of our 2023 strategic sustainability plan, in order to allow full integration with our engineering best practices.

Clean sky 2

In recent years, IAI has been a significant participant in the European Horizon 2020 Joint Undertaking Clean Sky (Associate Partner in the Eco-Design ITD), Clean Sky 2 (Core Partner in the Airframe ITD, Coordinating the OPTICOMS and ecoTECH projects) and SESAR (participating in AIRPASS, SAFEDRONE and AW-DRONES projects).

CLEAN SKY is a joint undertaking of the European Commission and the European Aeronautics industry, as part of the HORIZON 2020 research and innovation program. It is considered the most ambitious aeronautical R&D program ever launched in Europe, aiming to develop feasible technologies for reducing CO₂ emissions and noise levels produced by aircrafts technology today.

IAI has played a key role in CLEAN SKY 1 as an associate partner in the ECO-DESIGN platform. Specifically, IAI addressed the selection, development, and demonstration of promising materials and technologies, with the potential to reduce overall aircraft weight (10-20%), cost, energy consumption, emissions of noxious effluents, hazardous materials elimination, and recycling. The environmental impacts were assessed through advanced life cycle analysis.

IAI now leads the ecoTECH innovative eco-friendly airframe consortium under the framework of CLEAN SKY 2, and alongside partners from Germany, Spain, Greece, and the Netherlands, it

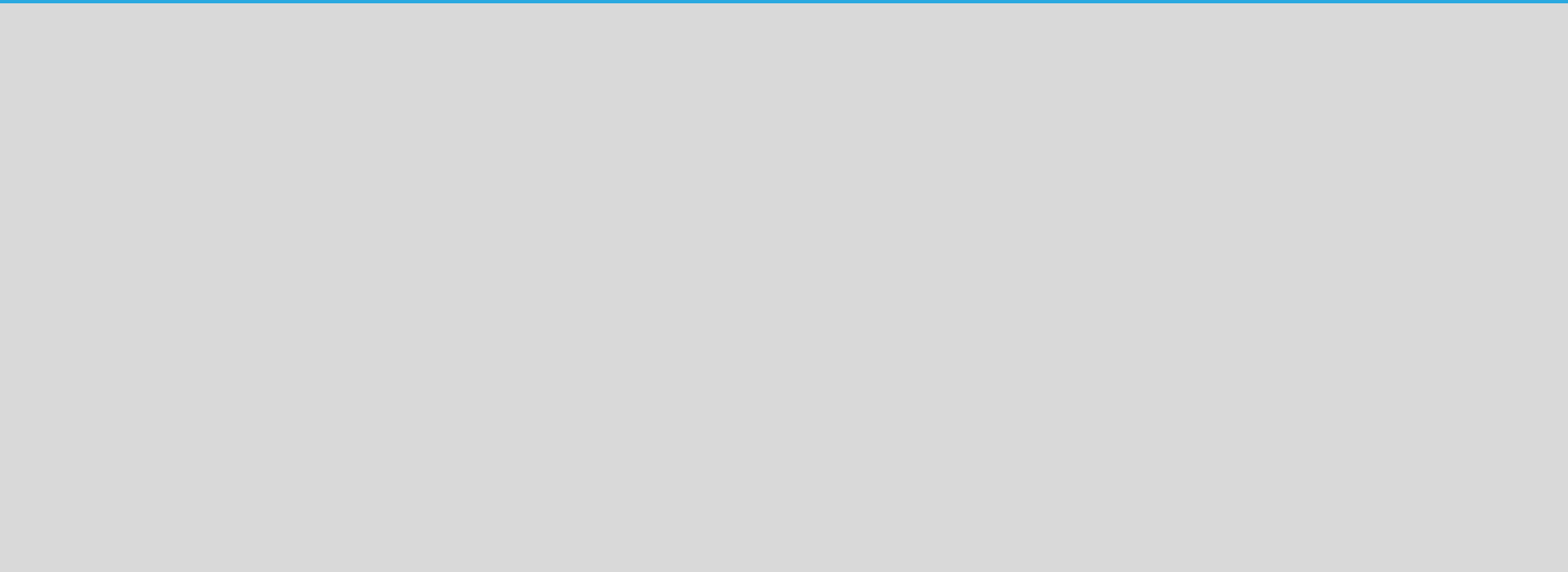
201-2

develops a set of new technologies (materials, manufacturing processes and methods, recycling operations, etc.) to reduce the environmental footprints of aircraft production from a global life-cycle perspective, while using life cycle assessment methodologies. In the final stage of the project, key enabling technologies will be used to manufacture four demos (Thermoplastics, Thermoset, Metallic, and Biomaterial) to verify the novel technologies.

Expected accumulating results from EcoTECH airframe:

50%+ reduction in:

1. Manufacturing effluents
2. Manufacturing waste
3. Green House Gases (GHG) emissions



EMPLOYEES AND COMMUNITIES

Human Resources management: Empowering our employees

102-8 | 103-1 | 103-2 | 103-3

8 DECENT WORK AND
ECONOMIC GROWTH



Material topic

IAI is proud to have an exceptional team of employees, whose enthusiasm and professionalism promote our business value through demonstrable innovative achievements and outstanding products.

Our “can do” spirit lies at the basis of all our invaluable relationships - employees, retirees, customers, contractors, suppliers, and the communities we live and operate in.

In 2019, IAI ranked **8th "best place to work" in Israel's BDICode INDEX**, reflecting our long term commitment to foster a great work environment; from in-house service facilities such as large catering halls, banking, employee transportation, gyms and synagogues, through health care offered by our 24/7 occupational health clinics and social workers, to processes and training programs to advance active listening and enhance internal communications.

Strategic focus is placed upon the advancement of women through all echelons of the organization, by setting specific goals for women overall intake and their promotion to senior management roles. Further, we seek to create a diverse and inclusive workplace by setting goals for intake of underrepresented populations: Ultra-orthodox Jewish community, Druze community, Ethiopian-origin and employees with disabilities (see page 22).

We continue to provide extensive training and personal development programs, scholarships, position transfers, innovation hubs and general wellbeing activities, and smooth retirement through tailored processes designed to accompany the employee during outplacement or pension.

We maintain and continue to focus our community outreach and engagement as an invaluable part of our social responsibility strategy, and continue to support local communities through multiple social initiatives. Our commitment to Israel's society, both through our products and our people, is indeed the source of our true value.

In 2019, a comprehensive internal organizational survey was conducted in order to evaluate IAI's readiness for the new dynamics and ever-changing employment world, and to get a better understanding of our workers' needs. The survey's results led to the implementation of some new business strategies, such as:

- Addressing the emphasized importance of work-life balance
- Continuous improvement of employees benefits and the physical work environment
- Developing a new payroll offering, tailored to the employees and their requirements

102-8 | 202-2 | Limited assurance

IAI is the largest governmental employer in Israel in 2019, with 14,922 employees, including permanent and temporary employees, as well as contracted employees, students and apprentices. The proportion of senior management hired from the local community is 100%.

	Total			Women			Men		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Number of Employees	14,922	14,917	14,857	3,299	3,275	3,156	11,623	11,642	11,701
Number of Managers*	66	58	58	10	8	7	56	50	51

* This includes vice presidents and direct managers reporting to the CEO.



Link to IAI hiring (in Hebrew)
<https://www.iai.co.il/heb/jobs>

Diversity, inclusion and equal opportunity

102-8 | 103-1 | 103-2 | 103-3 | 405-1 | Limited assurance



Material topic

IAI continues to promote equal opportunities in employment and seeks to increase the number of underrepresented populations in our workforce, including Israelis of Ethiopian origins, as well as members of the Druze community, Ultra-orthodox Jewish community, and people with disabilities. In addition, IAI has no age limit, and regularly welcomes employees over 45, such as IDF retirees.

IAI is striving to change the traditional management composition that typically characterizes A&D and technology companies worldwide, by gradually expanding the number of women in its Senior Management roles. This requires long-term investment in training and advancing skilled women from junior management roles, as well as actively identifying and resolving any organizational barriers impeding this change.

In 2019, IAI'S proportion of **women as a percentage of the total workforce increased to 22.1%** from 20.6% in 2015. The percentage of **women in senior management roles increased to 15%**, and the **total number of female engineers increased by 8%** from 2018.

IAI conducted numerous activities during 2019, supporting the promotion of women in engineering and managerial roles:

- Three cycles of training for Women's Leadership and Career Development were conducted, accompanied by a media

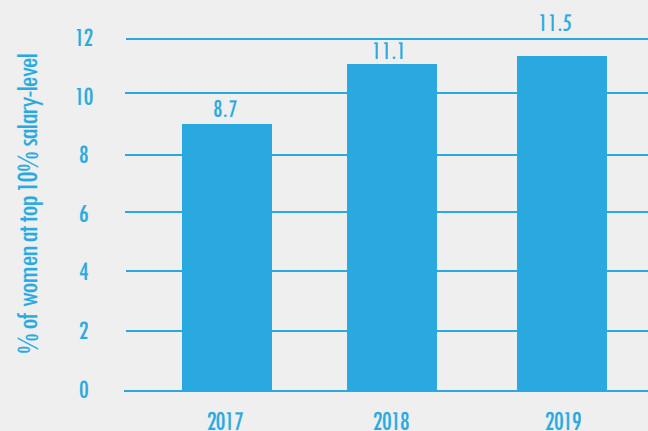
campaign designed for women in recruitment processes.

- A comprehensive organizational survey was done to identify barriers to the promotion of women to management roles. Round table discussions with the women in our board of directors regarding women recruitment, potential barriers for promotion, and other relevant issues.
- During international women's day, we held special events in all our sites titled 'groundbreaking women'; several remarkable women were invited to make inspirational presentations, including the Dean of the Bio-Technology Faculty at the Technion and the founder of "Innovation Africa" foundation.

A slight increase was noted in employees with permanent disabilities in the company, from 2.5% in 2017 to 2.7% in 2019. In 2019, we took great efforts to increase our recruitment rates from the Druze community, among people with disabilities, as well as from ultra-orthodox Jewish community. These included:

- Operating a dedicated shuttle service, which support the long-distance commute of Druze community employees residing mostly in the northern parts of Israel;
- Hosting specific recruitment fairs for employees with disabilities and for the Ultra-orthodox Jewish community;
- Collaborations with multi-sectorial institutions and ministries;
- Conducting a diversity and inclusion benchmark in partnership with other Israeli companies, to gain a better perspective in the recruitment from the Ultra-orthodox Jewish community.

102-8 | 405-1 | Limited assurance



		% Total		
		2019	2018	2017
Employees	From Ethiopian origins	1.7	1.5	1.6
	From the Druze community	0.1	0.1	0.1
	Ultra-orthodox Jewish community	2.5	2.7	2.5
	Age < 30 years	13.5	12.5	11.7
	Age 31-50 years	50.7	48.9	51.6
	Age > 51 years	35.8	38.6	36.7
	With disabilities*	2.7	2.6	2.5
Managers	Age < 30 years	0	0	0
	Age 31-50 years	32	21	27.6
	Age > 51 years	68	79	72.4
	With disabilities	4.5	8.6	8.6

*The number of employees with disabilities as percentage of total employees refers to employees with permanent disability. Respectively, a change was also made for 2018 data, which reflected employees with both permanent and temporary disability.

Employees development and benefits

404-1 | 404-2 | Limited assurance

4 QUALITY EDUCATION



Professional training and certification

IAI invests extensively in training its employees and establishing a long-term development plan for their continual individual evolution within the organization. In 2019, **the average number of training hours per employee was 35**, normalized per total number of IAI's employees (see page 57).

8 DECENT WORK AND ECONOMIC GROWTH



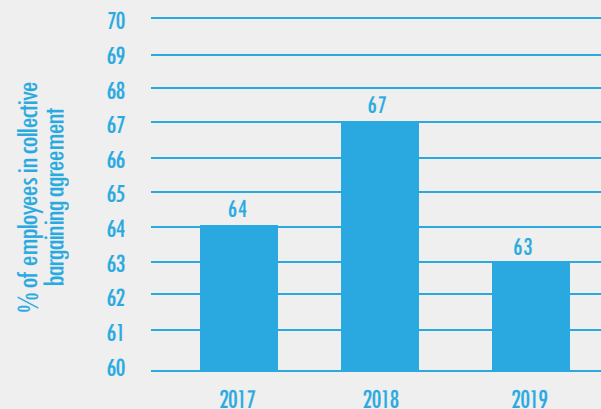
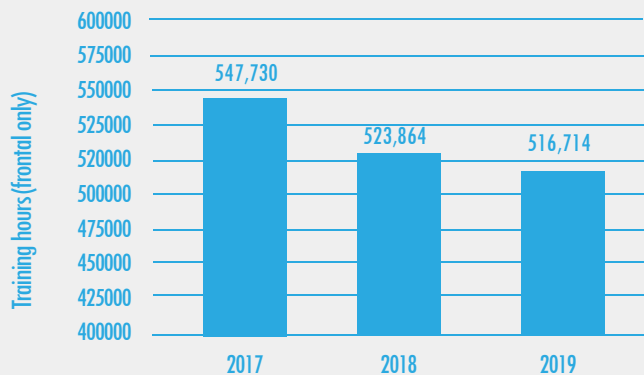
One of our operational divisions is MHT, which, among other responsibilities, is our powerhouse for training both in-house

and external trainees in numerous general and expert-specific courses. It offers technical, aviation, and management training for employees at different levels of knowledge and experience, serving as a meaningful tool to help employees in their career development at the IAI, as directed by our Human Resources organization. Training is available as frontal and online courses, and is utilizing IAI's INTRANET for tracking completion of both mandatory and elective requirements. We conduct academic studies towards practical engineering and Bachelors level degrees within our facilities, and support collaborations with authorized academic colleges and universities in Israel for the accreditation of Master's and Doctorate level degrees for our employees.

Our training programs are designed to support:

- New employee orientation (including safety, occupational health and ethics)
- Professional and managerial level training to advance employees through roles from the bottom-up
- Annual Refreshers on mandatory topics
- Regulatory-required training
- New technologies instructions
- IAI's future managers training
- Career change classes
- Retirement readiness
- Enrichment courses
- Academic bachelor's, master's and doctorate degrees

Training within IAI continues to be evaluated by a training effectiveness system. The evaluation of training effectiveness is supported by the certifications which IAI holds, including: ISO9001:2015, AS9100, and CMMI (see pages 46-47).



102-41 | 201-3 | Limited assurance

Sustainability-related training

IAI employees regularly participate in various online courses (web-based training), focusing on ethics, environment and social issues, such as: sustainability, cyber and information security, internal use of information, traffic safety, energy savings, safety and ergonomics and the code of ethics. **76% of our employees** participated in sustainability-related training in 2019.

Employees benefit plans

IAI's employee benefit plans and pensions are reported in the 2019 financial statement (hebrew), Note 3 section (m), pages 34-35.

Medical care and coverage

IAI operates internal clinics for occupational health and immediate medical care at its sites, available to all employees. In addition, each permanent employee owns an extensive medical insurance and has an option to insure his family members at discount premiums.

Furthermore, all employees are entitled to a once-a-year medical checkup, for early detection of various illnesses and their prevention.

Working mothers

In addition to complying with all legal requirements (such as a paid, daily 1-hour off for breastfeeding), special attention is bestowed on working mothers returning from their maternity leave:

- Designated working schedules for working mothers
- Designated transportations for mothers of children up to 8 years old, facilitating early pick-up from daycare and schools
- IAI is sharing in daycare costs for employees with young children.

Collective bargaining

At IAI, our employees exercise their rights of freedom of association and collective bargaining. In 2019, **63% of our permanent employees** were covered by collective bargaining agreements.

Employees recruitment and talent management

103-1 | 103-2 | 103-3 | 401-1 | Limited assurance

Material topic

New employees

In 2019, IAI has welcomed a total of 1,306 employees. Approximately 98% of all professional contractors that were employed for 9 months in 2019, and were granted good performance reviews, became direct company employees.

IAI regards its relationship with Israel's academic institutions as imperative, and conducts hiring events in cooperation with universities and colleges throughout Israel year-round, including tours, presentation days and more.

Specific hiring events are conducted by IAI's Human Resources department for underrepresented populations, aspiring for greater diversity.

	% Women			% Men		
	2019	2018	2017	2019	2018	2017
% of New Employees	26	31	28	74	69	72

Talent management and career development

The new and exciting era of employability requires companies to rethink and redesign their employee recruitment, development and retention processes. In 2019 we developed a new and innovative system for our employees' career development.

	new employees		
	2019	2018	2017
% Employees from Ethiopian origins	2.5	1.1	2.2
% Employees from the Druze community	0.3	0.1	0
% Employees with disabilities	0.6	1.0	0.3
No. Employees age < 30 years	703	764	687
No. Employees age 31-50 years	493	469	369
No. Employees age > 51 years	110	92	95

The new system allows our employees to take charge of their own development, and provides them with tools to address potential barriers in their path. This new system is expected to be fully implemented during 2020.

Performance evaluation

A new tool was introduced in 2019, supporting the employee performance evaluation process by directly linking it to IAI's new business goals and employees' personal strengths. Through this, we aim to focus and empower our employees and increase their motivation in supporting the achievement of IAI's overarching goals.

401-1

Employees mobility within the organization

IAI offers a wide range of roles and professional positions. This abundance of opportunities allows employees to pursue internal transfers as part of their career evolution. As of 2019, our mobility procedures had changed. In order to promote transparency in the process, the employees that seek to change positions within IAI are required to inform their direct managers. The purpose of this step is to allow all employees to reflect their ambitions and increase the managers' involvement and support of the employee's career path.

Retiring from IAI

IAI has an extensive program for its retirees covering both early- and age-based retirement, aimed to ensure a smooth transition to their new life phase, including: A 4-day retreat for retirees and their spouses, covering lectures and workshops around the impact of retirement on family life. Top management representatives join some of the sessions for Q&A. This program was attended by 99% of our retiring employees in 2019. In addition, a retiree club is in place, where they can access specific guidance, as well as continue enjoying activities such as tours, travels, and courses. A periodic newsletter is also issued to all retirees, keeping them up-to-date with all the company's latest news and stories. These are also available through IAI's app.

Project OUTSIGHT

In 2019, IAI took an active part in project OUTSIGHT, an initiative

led by the corporate responsibility forum in the Israel-America Chamber of Commerce.

OUTSIGHT's vision is to enhance the readiness of the Israeli society to the new and changing future of the world of employment, thus strengthening the Israeli economy, increasing market productivity while reducing social gaps. Project Oversight represented a multidisciplinary collaboration between leading corporations from different sectors (electronics, high-tech, pharma, chemicals, aerospace etc.). 80 employees from these corporations, as well as representatives from public and academic sectors, teamed up to tackle the challenges of future employability.

The participants divided into multidisciplinary design and planning groups, each focusing on different potential solutions, moving from brainstorming and academic research of the challenges to a workable initiative for presentation. Fifteen of IAI's employees were selected for participation as team members, while three others acted as team mentors. IAI's CTO also serves as a member in Project OUTSIGHT Steering committee.

The final and exciting nine initiatives varied from creating an integrated, more suitable educational preparation for the future employment demands, to the creation of a software, aimed to validate relevant soft skills, in order to track and improve the employees set of skills throughout their professional life. The project continues to support some of the initiatives toward implementation by the participating corporations, governmental ministries and civil organizations.

Occupational health and safety

103-1 | 103-2 | 103-3 | 403-1 | 403-4 | Limited assurance

8 DECENT WORK AND ECONOMIC GROWTH



Material topic

Occupational health and safety management at IAI

IAI's Safety, Health and Environmental issues are operationally managed at all levels in a matrix of responsibility and reporting organization, and overseen by a Senior Management Steering Committee.

Expert Safety, Health and Environment committees were formed to establish specific guidance and training requirements for issues identified as major aspects. These include: establishing safety procedures and work instructions, compliance with laws and regulations, environmental management, hazardous materials, contractors safety, aviation safety, explosives safety, noise, electromagnetic radiation, ionizing and laser radiation, elevation tools, electricity and electrical tools, construction safety, ergonomics, personal safety equipment, accessibility, event safety, maintenance safety, microwave products development safety, catering and food safety, cleaning safety, chip processing safety, production route card and handling of general hazards.

An increase was noted in accidents rate in some of our divisions during 2019. This data is under internal review, and may be restated in future reports, as we continue our efforts to reduce

accidents rate in all of our operations.

Transitioning from OSHAS 18001 to ISO 45001

All IAI's operational divisions own valid business licenses and **most have completed their transition from OSHAS 18001 to ISO 45001 certificates**. These include: ELTA systems Group, Military aircraft Group, and the Commercial aircraft and LAHAV divisions within the Aviation Group. The rest of the divisions are expected to finalize their transition during 2020. The company enlisted with an online service for safety and environmental laws and regulation updates, and all divisions maintain annual safety and environmental programs based on ISO guidelines. The Safety Management System (SMS) is operated for continuous improvements, with periodic surveys and management reviews.

The divisions' safety committees comprise of 50% management and 50% employee representatives from the employees' organization. Safety and occupational health issues are handled on an annual basis as part of the company's safety plan, and derived from the joint collective agreements between management and the employees' organization.

Contractors and suppliers health and safety

IAI includes Occupational Health and Safety practices clauses in all contracts.

	2019**	2018*	2017*
No. of contractors' accidents	11	12	10
No. of contractors' absence days	529	not reported	not reported

403-2 | Limited assurance

* Data is based on insurance claims only

** Data is based on safety system cutoff analysis from February 2020

Group	No. Accidents*			No. Absence days*		
	2019	2018	2017	2019	2018	2017
BEDEK aviation (valid until 2017)	NA	NA	59***	NA	NA	2,173***
Aviation	56	42	NA	1483	1473	NA
ELTA systems Ltd.	13	19	14	332	435	269
Engineering and Development	NA	NA	1***	NA	NA	2***
Systems, Missiles and Space	19	13	16	493	329	297
Commercial Aircraft	5	3	4	266	19	179
Military Aircraft	10	9	5	296	345	174
Supporting units**	2	7	2	47	235	23
Management	2	2	2	18	74	76
Total	107	95	146	2935	2910	3,193
Total per 1000 Direct Employees	7.2	6.4	6.9	197	195	219

* The data represented in this table is based on a cutoff analysis from February 2020. Some of the data appearing in earlier reports may be restated due to safety system update with late-reporting of events, as the Israeli law allows 5-year intervals for accident reporting.

** Industrial Services, MAMAN (IT services), and MHT.

*** BEDEK and Engineering and Development are reported under Aviation from 2018 onwards.

There were no work-related fatalities at IAI during 2019.

Traffic safety

IAI's operational areas are extensive, with an intensive presence of a variety of vehicles - from freight trucks and aircraft towing vehicles to private cars, all the way down to forklifts, small scooters, and bicycles. IAI also operates a car fleet for short employee travels between its sites and a leasing car fleet for employees. A designated Traffic Safety Organization manages all transportation requirements, ensuring adherence to traffic laws and regulations, performing traffic accident investigations, and follow up on traffic accidents and speeding incidents, and continually improves IAI's transportation systems.

Both Industrial services division and MALAM division hold a valid Israeli standard certification ISO 9301, relating to traffic safety and quality.

	2019	2018	2017
Number of Traffic accidents	26	16	28
Number of pedestrian injured	1	2	6

All reported accidents occurred within IAI's operational areas. The number of accidents is a combination of accidents with/without insurance activation, all internally investigated.

The major activities and improvements in 2019 included:

- During traffic safety month we conducted approximately 15 cross-company meetups, focusing on distractions occurring while driving. In addition, a car flip-over simulator was utilized to illustrate the importance of wearing seatbelts.
- The subject of traffic safety was promoted by IAI's CEO in an internal blog post communicating the organizations' activities in the field.
- A traffic safety enforcement unit was introduced in Ben Gurion Airport campus to enforce traffic violations, and administer traffic tickets.
- 51% fewer violations were noted in TRAFFILOG, an INTRANET based system used to document and record speed limits exceeding, compared to 2018 performance.
- 26% fewer reports were submitted through "NOHAL 6", a system documenting violations reported anonymously, of IAI's vehicles traveling outside our campuses, compared to 2018.

Despite the various measures and efforts invested, an increase in traffic accidents was noted compared to 2018. This increase was also noted in Israel on a national level, with 10% increase in traffic accidents nationwide, due to three main contributing factors: infrastructure quality, vehicles' level of safety and human errors. Accordingly, we have updated our work plans for 2020 to overturn this trend.

Social impact

103-1 | 103-2 | 103-3 | 413-1



Material topic

IAI remains committed to communities located in the vicinity of our operations, as well as to the Israeli society as a whole. The invaluable sense of giving and positively influencing the lives of those who seek a change in their life circumstances is motivating many of our employees to continually reach out. 5% of the company employees are long-term volunteers.

In 2019, **a total of 9,400 volunteering hours was recorded, engaging 2,300 participants from the community in a variety of initiatives.** In 2019, a decrease in employees' volunteering hours was noted. This was mainly due to our refocus process, toward a new community engagement strategy (see below), and the organizational restructuring of the new Aviation Group. In addition, about 4,900 food packages were donated to families in need by our employees, in the Jewish holidays (Rosh Hashanah and Passover).

Our new social impact strategy

As part of our 2023 vision, IAI has launched a new and extensive process in the course of 2019, to enhance our community engagement activities and their measurement, in order to focus our efforts while maximizing our social impact.

As part of this process, IAI's social leaders' forum was established, and our current company community engagement goals and measuring

methods were reviewed in depth, and included realignment with IAI's business goals and strategies. The process demonstrated that employees' empowerment and a desire for strong relationships with neighboring communities were top drivers for community engagement in all our operational facilities. As a result, new initial goals were identified for measurement and further development, specifically on inspiring young boys and girls to pursue STEM learning, emphasizing gender equality in STEM professions, as well as the coupling of innovation and sustainability.

Ort IAI

In 1963, IAI established a vocational school in Lod, in order to realize an educational vision - allowing youth to receive a diploma and gain a profession. The school is part of the national ORT school chain spread throughout Israel. This unique model combines conventional studies with a weekly day of practical employment at the IAI's Hi-Tech production facilities. Out of thousands graduates to date, about a third of alumni have returned to IAI as employees, and about a third developed careers in other aerospace-related companies.

The school's training is based on three specializations: Aircraft Mechanics, Electrical and Electronic Systems and Unmanned Aircrafts. These fields of expertise enable the students to smoothly integrate in the Israeli Air force.

IAI fully supports the operational and educational aspects of the school, from arranging daily transportations and catering, to giving

frontal lectures, tours and practical lessons in various divisions, as well as assisting students through English and Mathematics private lessons. The students are also being compensated for their weekly employment, including all social benefits.

Women engineers of tomorrow

The “Women Engineers of Tomorrow” project was launched towards the end of 2015, to address a pressing national need to develop and expand Israel’s workforce with STEM (Science, Technology, Engineering and Mathematics) skills. One way to reach this goal is to increase the number of female students studying and working in these fields, starting from high school.

In 2019, the 5th cycle of high school students participating in the project was initiated. In each cycle, 100 outstanding high school girls who chose technology and sciences as their major are selected and offered a unique experience designed to encourage them to prefer STEM skills (Science, Technology, Engineering, and Mathematics) as their future careers.

The 100 students are divided into 10 teams, mentored by women engineers and business experts from various divisions at IAI. Each team is presented with a specific challenge and work for three months on devising a solution, while also attending facility tours and panels with professional and inspiring technology experts from IAI and Israel at large.

In this cycle, feasible technological solutions were offered, including: a monitoring system for driving patterns identification

and investigation, aerial arming capabilities for jet fighters, collision prevention for drones delivering packages, flooding alert and prevention system, non-GPS aerial navigation, construction accident prevention system, smart city parking and safe driving under bad weather conditions.

At the end of the project, the prototypes and business ideas were presented to the students' families, to employees and management of IAI, as well as to notable Israeli economic leaders.

Space education program

Space division employees engage in various space-specific initiatives, including: lectures on space and satellite technology in dozens of schools throughout Israel, pupil tours in the integration and testing site of our satellites, led by our space engineers, assembling nano-satellites, as school projects and joint activities with universities and the Israeli ministry of education, including the development of teaching programs on space.

Additional initiatives

IAI’s divisions' employees are engaged year-round in many additional programs, such as **Ramon Spacelab** for middle school children, and **Feedel**, programs for students from Ethiopian origins. We also lead initiatives for those with special needs, such as a joint project with Grutarally, assembling a racing vehicle for a boy with special needs, and hosting an art exhibition by the son of an IAI's employee, who is autistic.





ENVIRONMENT

Environmental management

103-1 | 103-2 | 103-3 | 307-1

Material topic

9 INDUSTRY, INNOVATION
AND INFRASTRUCTURE



12 RESPONSIBLE
CONSUMPTION
AND PRODUCTION



Environmental management and practices at IAI were first initiated in the mid 1980's, mainly toward increased employee safety and improved handling of hazardous materials and waste. Today, with all of our manufacturing divisions certified to ISO 14001:2015 standard as a basic practice, IAI is continually monitoring its environmental impact and strives for effective energy, air, water, effluents, and waste management, while cooperating in confronting the challenges faced locally and globally by the A&D industry, such as climate change.

Aviation allows human beings to fulfill one of the basic human rights as defined by the UN - the freedom of movement and accessibility. These are required so other rights can be met - establishing relationships, fair trade, competitiveness, equal opportunities, safety, etc. These social benefits need to be safeguarded and enhanced, when developing new solutions.

Current aircraft technologies generate environmental costs by relying exclusively on fossil fuels, a non-renewable energy source with a geopolitical sensitivity and significant emissions of air

pollutants and greenhouse gases. The manufacturing, operation, maintenance, and scrapping of aircraft present considerable environmental footprints. In addition, global material scarcity is a growing concern for continuous manufacturing, alongside tighter regulations, causing numerous raw materials to be phased-out by the industry.

IAI continues to join forces within the A&D value chain in improving the overall sector's sustainability performance. From developing new solutions for aircraft as part of the European Union Horizon 2020 program (see pages 52-53), to participating in setting the industry guidelines and solutions developed by IAEG (see page 21).

Compliance

Material topic

IAI's sustainability program is founded on our uncompromising commitment to comply with all laws and regulations applicable to our operations and businesses. With a multitude of processes, transactions and company activities, we are required to adhere to numerous legal requirements on a daily basis. Specifically, for our environmental, occupational health and safety requirements, we have installed an online system in order to ensure effective controls and compliance with their most up-to-date versions. The online system allows us to

103-1 | 103-2 | 103-3 | 307-1

receive timely updates of current and future legal requirements, so that we can implement readiness plans in advance. In the event that non-compliances are identified, senior management is informed and corrective actions are taken. Furthermore, and whenever appropriate, the event or issue is reported to our Board of Directors and/or external auditors and, if the relevant criteria are met, is disclosed to the public. To the best of our knowledge, and up until the date of issuance of this report, no sanctions, fines, or letters of violations were submitted to IAI regarding our 2019 environmental performance.

Environmental risk management

The Company's Board of Directors and the our senior management are committed to a sustainable development and to an organizational culture which fosters corporate responsibility. As part of its commitment to sustainable development and in compliance with the instructions of the Government Companies Authority in this matter, the Company's management holds discussions in relation to the planning and implementation of such matters. In addition, management reports specifically on these items are directed to the Sustainability Committee of the Board of Directors. With respect to environmental risks and the management of such risks, (including statutory regulations related to decision making) see Section 22 of the Fourth Chapter of the financial statement of the Company (in Hebrew) for 2019, pages 104-105.

Soil surveys

Based on the requirement of the Government Unit for Licensing Security Enterprises, in 2011, IAI conducted Phase I historic surveys, which included collecting relevant information regarding potential areas of environmental concern from past use in the company's real estate properties in all its sites.

A detailed multi-annual plan for additional surveys was delivered and authorized by the relevant authorities for additional site investigations, which are prioritized, based on the extent of operations in each site. A Phase II Environmental Site Assessment was conducted during 2016-2017 in the Production Technologies Division of the Aviation Group. The site assessment included soil, soil vapor, and groundwater sampling. Volatile chlorinated organic compounds were measured at the former location of a tetrachloroethylene (PCE) degreaser at the site. The Israeli Water Authority approved a rehabilitation plan for this area.

Energy management

103-1 | 103-2 | 103-3 | 302-1 | 302-4 | Limited assurance

9 INDUSTRY, INNOVATION
AND INFRASTRUCTURE



12 RESPONSIBLE
CONSUMPTION
AND PRODUCTION



Material topic

All manufacturing industries consume energy for operation and growth. Globally, countries are looking for ways to increase the renewable energy share in their total energy consumption, as opposed to consumption of the dwindling quantities of non-renewable energy sources, responsible for air pollution and climate change. We feel that acting on energy consumption for both offices and industrial activities on our sites, and raising efficiency rates wherever possible are urgent commitments, and we strive to get all

our infrastructures (electricity, fuels, and natural gas) to operate in optimal conditions, maximum economic efficiency, and eco-friendliness.

Each IAI division and some of the supporting units employ an Energy Officer, responsible for energy management, including data collection and reporting. Division managers conduct programs of energy efficiency, including replacement of inefficient HVAC, lighting and manufacturing processes. The divisions also train Energy Trustees for monitoring and following up on designated facilities, promoting employees' awareness

and ensuring preventive maintenance, as well as reporting on the facility's performance to the division energy officer.

In 2019, 82% of our employees have completed a designated e-learning course on energy savings, and additional training on energy supply and consumption was delivered to key employees, including energy officers, and energy trustees. The following divisions hold a valid certification of ISO 50001 standard for energy management in operations: MALAT, Industrial services unit, and the Missiles and Space group.

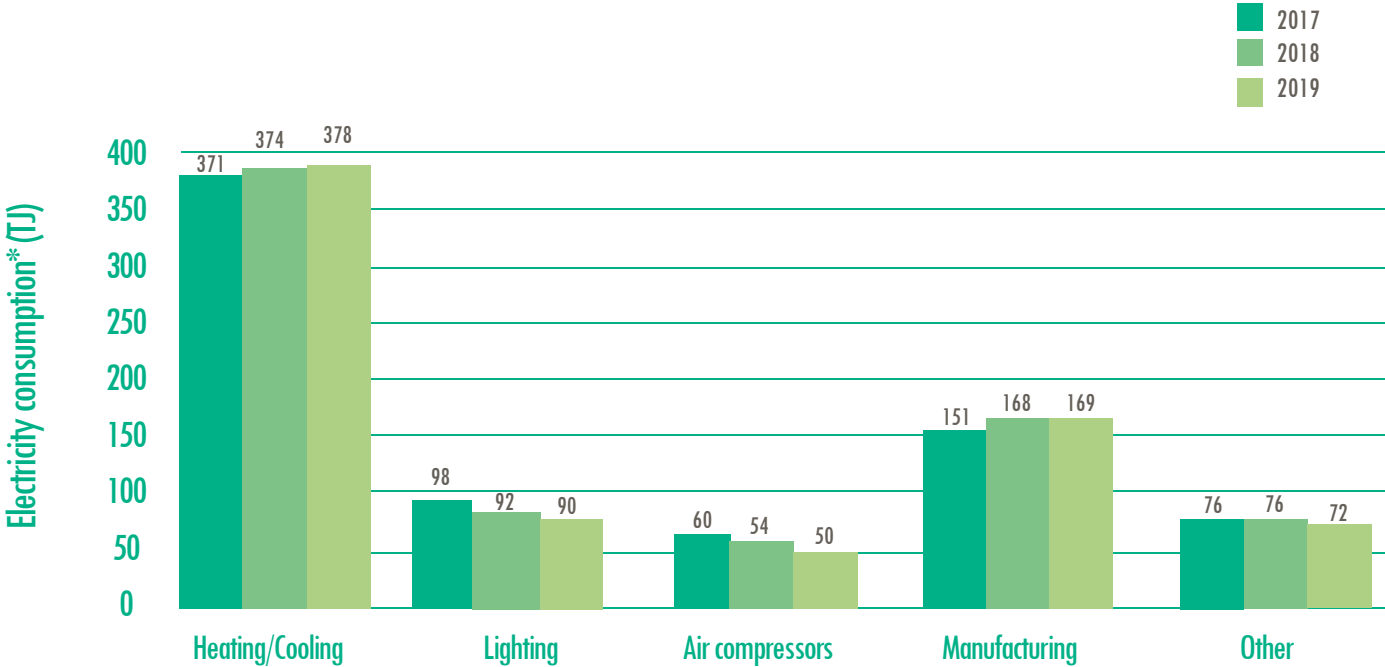
Electricity consumption

100% of IAI's electricity consumption is based on a private supplier, which produces electricity based on Natural gas.

As of 2007, IAI established a continuous working plan to implement cross-organizational efficiency and saving measures. Since 2007, **636 GWh were saved in relation to the "business as usual" scenario**. The savings were achieved alongside a rise in total electricity consumption in 2019, due to new buildings being populated and a general increase in production operations.

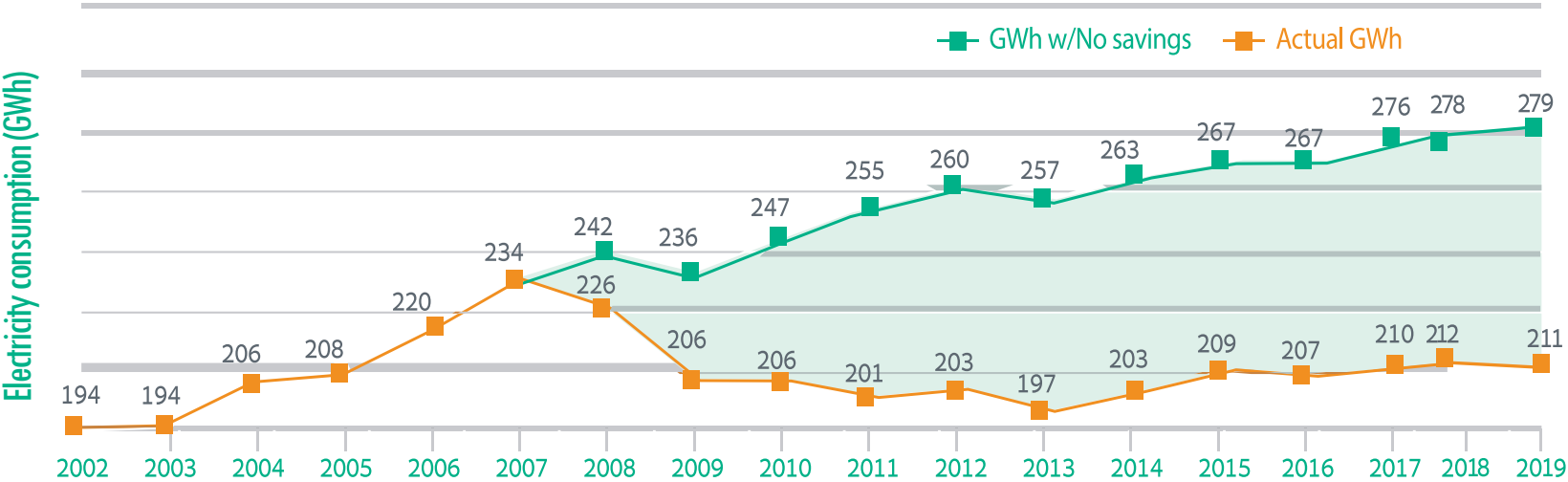
The total electricity consumed in 2019 was 760,644 GJ. In 2019 IAI did not sell any energy (electricity, cooling/heating or steam).

302-1 | 302-4 | Limited assurance



* Source used for data unit conversions: the 2006 guide of the intergovernmental panel on climate change (IPCC)

302-1 | 302-4 | Limited assurance

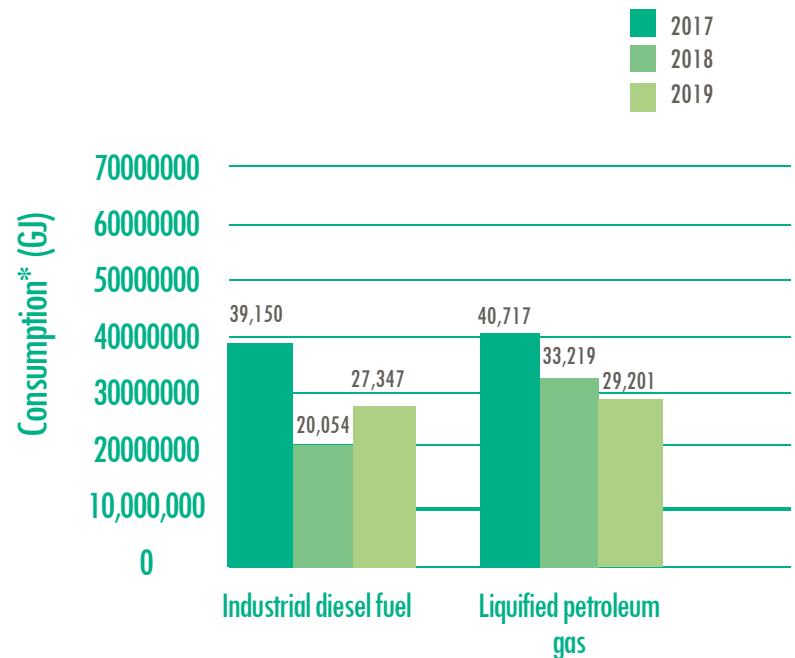


Renewable energy

No renewable energy sources were utilized by IAI in 2019; IAI installed solar panels in our sites, as part of our climate change strategy and our energy savings program, expected to be fully operational in 2020.

Fuel consumption in industrial uses

The total fuels consumed in 2019 for industrial uses were 56,548 GJ, a 6% increase from 2018, attributed to higher rates of field-based operations. In 2019, a continual decrease of 12% was noted in liquefied petroleum gas (LPG) consumption compared with 2018.



* Source used for data unit conversions: the 2006 guide of the intergovernmental panel on climate change (IPCC)

Fuel consumption in transportation

IAI operates a fleet of leased cars for its employees, as well as a fleet for short travels between its sites. Total travel in 2019 was 76,124,016 kilometers; a decrease of 30% compared to 2016. This indicator is estimated based on total automotive fuel consumption for transportation (see table) and an average of 12L/Km consumption rate by vehicles.

Jet fuel is consumed in our Aviation Group, and divided into a minor consumption by the Business Jets operations, and the main consumption by the MRO operations, for the purpose of transferring aircrafts to customers overseas.

In 2019, we saw a significant decrease in our Diesel fuel consumption for transportation, as **our fleet of leased car now stands on zero diesel cars**, a successful implementation of our policy, set in 2017. In addition, a process for the replacement of small operational diesel-fueled vehicles with electric ones was implemented. A noticeable decrease was also noted in total gasoline consumption, as **the number of hybrid vehicles at IAI has tripled**.

In 2019, our Jet fuel consumption increased by 5.5%, due to higher rates of operations. **Overall, total fuels for transportation decreased by 20% in the years 2015-2019.**

Fuel type		2019 (Liters)	2018 (Liters)	2017 (Liters)
Automotive	Diesel fuel (50)	804,530	904,907	801,223
	Gasoline (95)	5,539,138	6,294,959	7,088,850
Aviation	Jet fuel	4,307,367	4,083,931	3,604,560
Total		10,651,035	11,283,797	11,494,633

	2019	2018	2017
Number of Hybrid vehicles*	960	308	149

* Data not included in Limited assurance process.

Green house gases (GHGs) emissions

103-1 | 103-2 | 103-3 | 305-1 | 305-2 | 305-4 | Limited assurance

13 CLIMATE ACTION



Material topic

The year 2019 was the second hottest year on record after 2016, according to NASA and the National Oceanographic and Atmospheric Administration (NOAA).

IAI's carbon control cross-organizational program includes:

- Annual disclosure to the CDP (2017 was our first reporting year);
- Annual disclosure to the voluntary GHG reporting scheme led by the Israeli Ministry of Environmental Protection (2017 was our first reporting year);
- Specific internal goals for GHG reduction as part of our 2023 sustainability plan;
- Supporting reductions of GHG emissions in aviation, through our participation in the Clean Sky 2 program (see pages 52-53);
- Supporting climate change mitigation in the A&D supply chain through IAEG (see page 21);
- Aligning our climate change focus with the UN SDGs (Goal 13: Climate action);

IAI's greenhouse gas inventory is complex, including all our operating sites and subsidiaries in Israel. Operationally, our main efforts focus on effective energy utilization and greener company travel options, while exploring potential solutions in renewable energy.

The sources included in the calculations were fuels for industrial consumption and transportation and our electricity consumption, based on 100% natural gas use by the electricity supplier. The electricity savings noted in 2019 (scope 2) were achieved alongside a rise in use due to new buildings being populated and general increase in production operations.

GHG intensity

Our GHG intensity is calculated per **total built area, 876,121** square meters in 2019:

GHG intensity	2019	2018*	2017*
Scope 1	0.037	0.039	0.041
Scope 2	0.105	0.106	0.105

* Data was re-stated for 2017-2018 due to update in jet fuel consumption.

305-1 | 305-2 | Limited assurance

Source	2019 (CO ₂ equivalent emissions, metric tons)	2018 (CO ₂ equivalent emissions, metric tons)	2017 (CO ₂ equivalent emissions, metric tons)	Trends between 2018-2019
Stationary fuel sources (Industrial fuels)*	4,081	3,714	5,776	
Mobile fuel sources (transportation fuels)	28,720	30,059	30,121	
Total scope 1: direct emissions	32,801	33,773	35,897	↓
Electricity consumption	92,291	92,837	92,045	
Total scope 2: indirect emissions	92,291	92,837	92,045	↓
Total emissions (scopes 1 & 2)*	125,092	126,610	127,942	↓

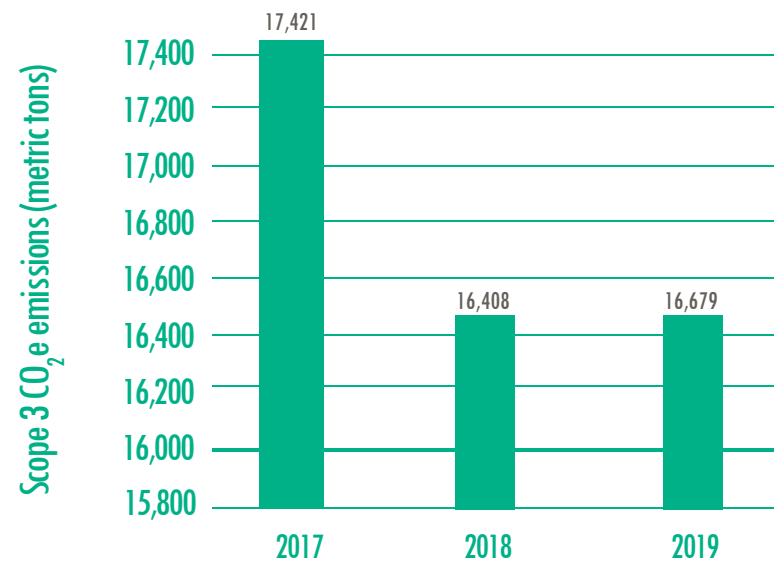
* Data was re-stated for 2017-2018 due to update in jet fuel consumption.

305-3 | Limited assurance

Scope 3: Employees' air travel for business purposes

The scope 3 business travel data represents 90% of total business travel occurring during the calendric year, which represent the majority of emissions. The calculation methodology is based on WRI Scope 3 calculation guidance, category 6 - business travel.

Calculations were based on distance-based data of air travel only. According to the guidance, the activity data (i.e., Person-kilometers travelled by air) was multiplied by the emission factors (international flight emission factors of average air passenger, DEFRA 2019).



Waste and effluents

103-1 | 103-2 | 103-3 | 306-2 | 306-4 | Limited assurance

12 RESPONSIBLE CONSUMPTION AND PRODUCTION



Waste

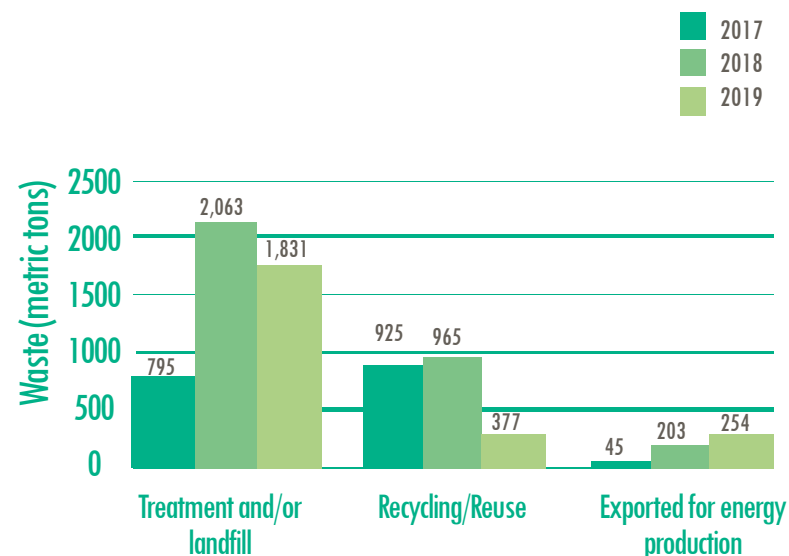
Material topic

Raw materials are quickly exhausted on a global scale. This situation calls for better management of waste - both economically and environmentally - and employing systems that go beyond mere pollution prevention actions. IAI is focusing its efforts in continually looking for more recycling and reuse opportunities, while implementing a smarter raw material use.

Compared with 2018, our hazardous waste overall weight decreased by 23%, and our non-hazardous waste overall weight decreased 2%, compared with 2018. These changes originate from changing operating rates. In addition, our **recycling/reuse rate for non-hazardous waste measured 60%**.

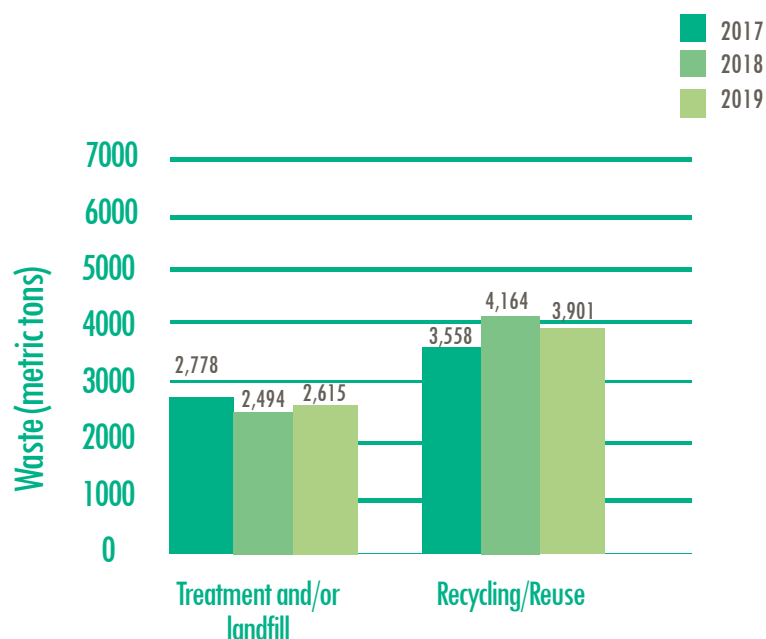
Hazardous waste

In 2019, a total of 2,462 metric tons of hazardous waste was evacuated from IAI's sites, and all waste designated for reuse or recycling was treated based on the waste contractor alternatives. All exported hazardous waste was designated for Waste-to-Energy via a hazardous waste exporter, who is compliant and authorized by the Israeli Ministry of environmental protection.



Non-hazardous waste

In 2019, a total of 6,516 metric tons of Non-hazardous waste was evacuated from IAI's sites, of which 60% were sent for recycling and the rest for landfill. All waste recycling was done based on the waste contractor alternatives.



Effluent treatment

Material topic

Total Effluents discharged in 2019 was 225,893 cubic meters at Ben Gurion Airport campus only (where the majority of IAI's industrial wastewater is emitted). This is a decrease of 9% compared with 2018, originating from changing operating rates within this campus.

All effluent consumption data are based on internal and external monitoring and billing information.

Water consumption and efficiency

Israel is situated in a geographical area that suffers from water shortage, leading to a globally-acknowledged leadership in water technologies. IAI regards water consumption in its operations as a significant resource, and is taking active steps to make it more efficient.

Total **fresh water consumed in 2019 was 670,658* cubic meters**, including all water sources in use in all the following sites: Ben Gurion Airport campus, ELTA, MLM, RAMTA, MABAT, and TAMAM. All water consumption data is based on direct internal and external consumption monitoring and billing information.

* Due to data availability limitations, 2 sites were not able to share all required information for the limited independent assurance report. However, please note that the non-included information has very low impact on the report.

Air emissions

103-1 | 103-2 | 103-3 | 305-7 | Limited assurance



Material topic

Air quality is directly linked to the population's health, having a measurable impact on the economy and the environment. The major contributors having a direct influence on air quality are the transportation, industry, and

agriculture sectors. IAI is constantly searching for new ways to reduce hazardous materials use in its manufacturing lines, as well as implementing systems to reduce emissions from its operations and transportation sources.

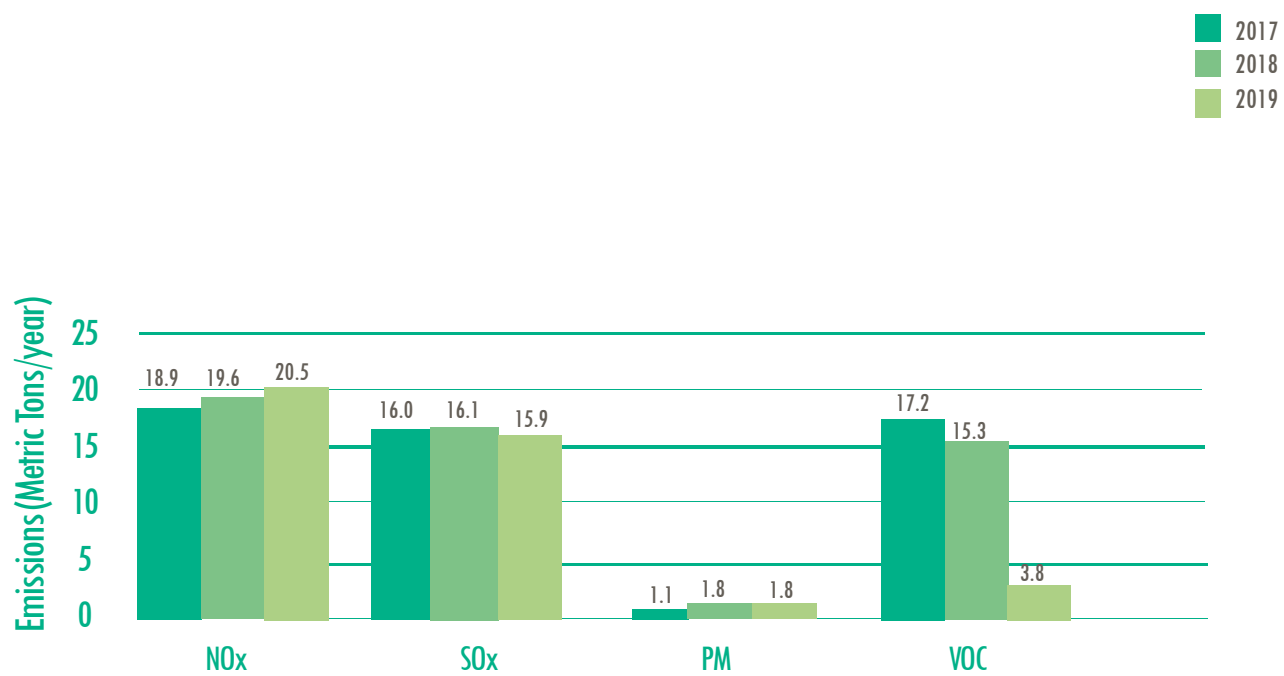
IAI facilities' compliance with the Israeli Clean Air Law - 2008 regulations

The Israeli Clean Air Law, which came into effect January 2011, was designed to dramatically impact all sources affecting air quality in Israel through regulatory mechanisms. Following an extensive evaluation process done in all our facilities, two of them were found to fall under the Israeli Clean Air Law - 2008 regulations criteria. Those facilities underwent a series of processes to meet all legal requirements, and their 2019 performance is according to stack monitoring and calculation methodologies defined in the Israeli Pollutant Release and Transfer Register - 2012.

Note that Persistent Organic Pollutants (POP) are not present in IAI's operations.

Our main achievement in 2019 is the **significant reduction in VOC emissions, a staggering 75% compared with 2018**. This was the result of replacing the main material used for degreasing processes in manufacturing, by an environmentally-friendly alternative.

305-7 | Limited assurance





GRI CONTENT INDEX

GRI Content index

102-55



For the GRI Content Index Service, GRI Services reviewed that the GRI content index is clearly presented and the references for all disclosures included align with the appropriate sections in the body of the report.

GRI standard	Disclosure	Page	Omissions
GRI 101: Foundation 2016			
General Disclosure: Organizational profile			
GRI 102: General disclosures 2016	102-1	Name of the organization	12
	102-2	Activities, brands, products, and services	39-41
	102-3	Location of headquarters	12
	102-4	Countries of operations	12
	102-5	Ownership and legal form	12, 42, 100
	102-6	Markets served	12-13, 38-41
	102-7	Scale of the organization	12, 38, 42
	102-8	Information on employees and other workers	56-59
	102-9	Supply chain	43-45
	102-10	Significant changes to the organization and its supply chain	13, 100
	102-11	Precautionary principle or approach	14
	102-12	External initiatives	21
	102-13	Membership of associations	21

102-55

GRI standard	Disclosure	Page	Omissions
General Disclosure: Strategy			
GRI 102: General disclosures 2016	102-14	Statement from senior decision-maker	4-5
	102-15	Key impacts, risks and opportunities	4-5
General Disclosure: Ethics and Integrity			
GRI 102: General disclosures 2016	102-16	Values, principles, standards, and norms of behavior	11,34
General Disclosure: Governance			
GRI 102: General disclosures 2016	102-18	Governance structure	28
	102-22	Composition of the highest governance body and its committees	28
	102-26	Role of highest governance body in setting purpose, values, and strategy	14
	102-29	Identifying and managing economic, environmental, and social impacts	14
	102-32	Highest governance body's role in sustainability reporting	14
	102-33	Communicating critical concerns	14
	102-34	Nature and total number of critical concerns	14

GRI standard	Disclosure	Page	Omissions
General Disclosure: Stakeholder Engagement			
GRI 102: General disclosures 2016	102-40	List of stakeholder groups	18-19
	102-41	Collective bargaining agreements	61
	102-42	Identifying and selecting stakeholders	18-20
	102-43	Approach to stakeholder engagement	18-20
	102-44	Key topics and concerns raised	14, 18-19
General Disclosure: Reporting practice			
GRI 102: General disclosures 2016	102-45	Entities included in the consolidated financial statements	12, 100
	102-46	Defining report content and topic boundaries	14-16
	102-47	List of material topics	14-17
	102-48	Restatements of information	100-101
	102-49	Changes in reporting	101
	102-50	Reporting period	100
	102-51	Date of most recent report	100
	102-52	Reporting cycle	100
	102-53	Contact point for questions regarding the report	102
	102-54	Claims of reporting in accordance with the GRI Standards	100
	102-55	GRI content index	88
	102-56	External assurance	6-7, 100-101

GRI standard	Disclosure		Page	Omissions
Material topics: Corporate governance: Corporate governance and business ethics				
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	28, 34	
	103-2	The management approach and its components	28, 34	
	103-3	Evaluation of the management approach	28, 34	
Material topics: Corporate governance: Anti-corruption and bribery prevention practices				
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	35	
	103-2	The management approach and its components	35	
	103-3	Evaluation of the management approach	35	
GRI 205: Anti-corruption 2016	205-2	Communication and training about anti-corruption policies and procedures	34-35	
Material topics: Corporate governance: Compliance				
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	72-73	
	103-2	The management approach and its components	72-73	
	103-3	Evaluation of the management approach	72-73	
GRI 307: Environmental compliance 2016	307-1	Non-compliance with environmental laws and regulations	72-73	

GRI standard	Disclosure	Page	Omissions
Material topics: Corporate Governance: Cyber defense and information security			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	33
	103-2	The management approach and its components	33
	103-3	Evaluation of the management approach	33
Material topics: Economic: Business development and performance			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	38, 42
	103-2	The management approach and its components	38, 42
	103-3	Evaluation of the management approach	38, 42
GRI 201: Economic performance 2016	201-1	Direct economic value generated and distributed	38, 42
	201-4	Financial assistance received from government	42
Material topics: Economic: Competitiveness			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	38
	103-2	The management approach and its components	38
	103-3	Evaluation of the management approach	38

GRI standard	Disclosure		Page	Omissions
Material topics: Economic: Responsible supply chain				
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	43-44	
	103-2	The management approach and its components	43-44	
	103-3	Evaluation of the management approach	43-44	
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GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	45	
	103-2	The management approach and its components	45	
	103-3	Evaluation of the management approach	45	
GRI 203: Indirect economic impacts 2016	203-2	Significant indirect economic impacts	45	
GRI 204: Procurement practices 2016	204-1	Proportion of spending on local suppliers	45	

GRI standard	Disclosure		Page	Omissions
Material topics: Economic: Impact on Israel				
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	45	
	103-2	The management approach and its components	45	
	103-3	Evaluation of the management approach	45	
Material topics: Economic: Product responsibility and customer support				
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	46-47	
	103-2	The management approach and its components	46-47	
	103-3	Evaluation of the management approach	46-47	
GRI 417: Marketing and labeling 2016	417-1	Requirements for product and service information and labeling	46-47	
Material topics: Economic: Technological innovation				
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	50	
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	103-3	Evaluation of the management approach	50	

GRI standard	Disclosure		Page	Omissions
Material topics:				
Social: Human resources management				
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	56	
	103-2	The management approach and its components	56	
	103-3	Evaluation of the management approach	56	
GRI 201: Economic performance 2016	201-3	Defined benefit plan obligations and other retirement plans	61	
GRI 202: Market presence 2016	202-2	Proportion of senior management hired from local community	57	
GRI 404: Training and education 2016	404-1	Average hours of training per year per employee	60	
	404-2	Programs for upgrading employee skills and transitions assistance programs	60	

GRI standard	Disclosure		Page	Omissions
Material topics:				
Social: Diversity, inclusion and equal opportunity				
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	58	
	103-2	The management approach and its components	58	
	103-3	Evaluation of the management approach	58	
GRI 405: Diversity and equal opportunity 2016	405-1	Diversity of governance bodies and employees	31, 58-59	

Material topics:				
Social: Employees recruitment and talent management				
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	62	
	103-2	The management approach and its components	62	
	103-3	Evaluation of the management approach	62	
GRI 401: Employment 2016	401-1	New employee hires and employees turnover	62-63	

GRI standard	Disclosure		Page	Omissions
Material topics:				
Social: Occupational health and safety				
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	64	
	103-2	The management approach and its components	64	
	103-3	Evaluation of the management approach	64	
GRI 403: Occupational health and safety 2016	403-1	Workers representation in formal joint management–worker health and safety committees	64	
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	65	
	403-4	Health and safety topics covered in formal agreements with trade unions	64	
Material topics:				
Social: Social impact				
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	67	
	103-2	The management approach and its components	67	
	103-3	Evaluation of the management approach	67	
GRI 413: Local communities 2016	413-1	Operations with local community engagement, impact assessments, and development programs	67-68	

GRI standard	Disclosure		Page	Omissions
Material topics:				
Environmental: Environmental management				
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	72-73	
	103-2	The management approach and its components	72-73	
	103-3	Evaluation of the management approach	72-73	
GRI 201: Economic performance 2016	201-2	Financial implications and other risks and opportunities due to climate change	52-53	
GRI 303: Water 2016	303-1	Water withdrawal by source	83	
Material topics:				
Environmental: Energy and emissions				
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	74, 79, 84	
	103-2	The management approach and its components	74, 79, 84	
	103-3	Evaluation of the management approach	74, 79, 84	
GRI 302: Energy 2016	302-1	Energy consumption within the organization	74-78	
	302-4	Reduction of energy consumption	74-78	
GRI 305: Emissions 2016	305-1	Direct (Scope 1) GHG emissions	79-80	
	305-2	Energy indirect (Scope 2) GHG emissions	79-80	
	305-3	Other indirect (Scope 3) GHG emissions	81	
	305-4	GHG emissions intensity	79	
	305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	84-85	

GRI standard	Disclosure		Page	Omissions
Material topics:				
Environmental: Waste and effluents				
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	82-83	
	103-2	The management approach and its components	82-83	
	103-3	Evaluation of the management approach	82-83	
GRI 306: Effluents and Waste 2016	306-1	Water discharge by quality and destination	83	
	306-2	Waste by type and disposal method	82-83	
	306-4	Transport of hazardous waste	82	

Report profile

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This report presents the Israel Aerospace Industries Ltd. performance on corporate responsibility and ethics, as well as on social, economic, and environmental matters. 2019 is IAI's fifth reporting year; Our last reporting year was 2018. Parts of the report contents were audited for limited assurance by BDO (see pages 6-7), and professional consultation on the report was provided by KPMG Somekh Chaikin.

Reporting period

All information contained in this report is relevant as of December 31, 2019. In some cases, earlier years were considered for the sake of comparison, trend analysis, and future goal-setting. When such cases appear in the report, this fact was noted adjacent to the data.

Reporting cycle

This is IAI's fifth sustainability report. Our company shall continue to publish these reports on an annual basis and in accordance with the GRI Sustainability Reporting Standards, in order to keep our stakeholders updated on our performance.

Reporting 'in accordance' with the GRI Standards: Core option

This report has been prepared in accordance with the GRI Standards: Core option. This level of reporting is in line with the company's resources and the requirements of its stakeholders. These reporting standards can be found at the GRI website www.globalreporting.org. For the GRI Content Index Service, GRI Services reviewed that the GRI content index is clearly presented and the references for all disclosures included align with the appropriate sections in the body of the report. The GRI Standards

Content Index is located at the end of this report, on pages 86-99.

Reporting scope

IAI has a worldwide business and financial activity, with the majority of its managerial and manufacturing activities taking place in Israel's territory. Relevant financial data specified in this report are in line with IAI's 2019 financial statement and concerns IAI's global activity.

Unless otherwise mentioned, all the data (other than financial) included in this report applies to IAI's activities and operational sites in Israel alone. In some instances, relevant information was given for specific sites only, and this fact was noted in adjacency to the data.

ELTA systems Ltd., included in this report as an IAI group, has a dual status, as it operates both as a group and as a subsidiary.

Significant changes in operations, size, or sites that were noted in 2019:

As of January 1st, 2019, The new Aviation Group was established, consisting of former groups: Bedek aviation group, Engineering and development group, Commercial aircrafts group and LAHAV division's aero-structures business.

Reporting process and External Assurance

As part of the reporting process, relevant data collection infrastructure, controls and methods were assessed, in order to build a sustainable reporting framework that will serve the company in assembling sustainability information in a reliable and effective process in future reporting procedures.

As a governmental company, we see great importance in supplying our stakeholders with accurate and reliable information about the environmental and social impacts of our activity. This report was externally assured for the fourth consecutive year.

Reporting language

This report is fully written in English. A full version of our report is now also available in Hebrew, for the first time, instead of the former highlights reports. The reports can be accessed at www.iai.co.il/Sustainability.

Restatements

The following restatements were done in this report, compared with earlier reports:

- GHG emissions data was re-stated for both 2017 and 2018 based on jet fuel consumption update (see pages 79-80).

Legal disclaimer

This document reflects the policy of Israel Aerospace Industries Ltd, which is "beyond compliance". As such, it reflects the targets, objectives and milestones the Company has decided on and which it strives to achieve, but which it has no legal obligation to meet.

The document is updated as of the December 31, 2019. The Company has made efforts to ensure that this document will be correct and accurate and, to the best of the Company's knowledge, it is correct and accurate, as of such date.

None-the-less, as in any document, it may contain generalities, misstatements, errors and omissions and accordingly, the Company does not accept any liability for the accuracy or completeness thereof, nor does it permit any reliance on, or use made of, the information contained therein, by any person. In addition, the Company is under no obligation to update the information contained herein.

In the event of any inconsistency between the information in this report and any information in the Company's public reports published on the ISA's filing system [<https://www.magna.isa.gov.il>], the information in the public reports on the ISA's website shall prevail.

Lastly, any assessments and estimates included in the document, are the Company's alone, and as in any qualitative information, they reflect assessments and estimates which are subjective by their nature and which are not necessarily measurable.

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As an interested stakeholder, we would appreciate receiving any comments, queries, or feedback you may have on this report or on our sustainability program in general.

Please direct these to:

Inbal Sternberg

Director, Sustainability and
corporate responsibility

+972-3-935-4869

isternb@iai.co.il

For media inquiries, please contact:

Gili May

Chief relationship officer

+972-3-935-8509

gilimay@iai.co.il



*Where Courage
Meets Technology*

