



Israel Aerospace Industries
2020 Sustainability Report



Introduction.....	3
Strategy.....	8
Integrity and ethics.....	26
Value creation.....	36
Innovation.....	48
Employees and.....	54
communities Environment.....	70
GRI Content index.....	86

About the report

[102-10](#) | [102-45](#) | [102-48](#) | [102-49](#) | [102-50](#) | [102-51](#) | [102-52](#) | [102-54](#)

Reporting period and cycle

This report presents the Israel Aerospace Industries (IAI) performance on Environmental, Social and Governance (ESG) issues, as of December 31, 2020. This is the company's sixth consecutive reporting year; IAI published its last report on March 31, 2020. In some cases, we considered previous years for the sake of comparison, trend analysis, and future goal setting. When such cases appear in the report, this fact is explicitly noted. Parts of the report contents were audited for limited assurance by BDO Ziv Haft (see pages 94-95), and professional consultation on the report was provided by KPMG Somekh Chaikin.

As an essential business, IAI maintained close-to-normal levels of activity throughout 2020. In addition, during 2020, IAI united its RAMTA division operations under ELTA Systems Ltd. Group, in order to promote IAI's Land-based products as a significant growth driver. No significant changes occurred in size or locations.

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

UN SDG targets: 12.6



This report has been prepared in accordance with the GRI Standards: Core option. These reporting standards are available at the GRI website: www.globalreporting.org. This level of reporting is in line with the company's resources and the requirements of its stakeholders.

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 28-29.

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 2020 financial statement and concerns IAI 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 cases, relevant information was given for specific sites only. When such cases appear in the report, this fact is explicitly noted.

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.

This report is written in English. A full version is also available in Hebrew. These reports are available on IAI's website

Restatements

No restatements of information from earlier reports.

Significant changes to the report

The company performed a materiality validation process at the end of 2020 (see page 16). As a result, a new material topic of "business continuity" was added to the list of material topics.

The information in this report reflects the contribution of IAI's employees to sustainable operations on a daily basis, and approved for publication by the company's senior management and board of directors. 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.



From the Chairman of the board

102-14

As a technological leader in aviation, space, cyber, land, and sea, and with decades of experience and contribution to Israel's security, and to the world's military and civilian markets, IAI has stood firm amidst the challenges of 2020. Our ability to join forces with collaborators, regulators and competitors, while demonstrating responsiveness, managerial focus and attentiveness to the needs of stakeholders, allowed us to show once again that IAI is an immense resource of knowledge and capabilities, who creates true value. In very short timelines, we have set up a production line of life-support ventilators, developed a medical radar for remote monitoring of Covid-19 patients, a robotic system which disinfect large spaces and dozens of other initiatives. The Company presented extraordinary results in 2020, despite the effects of the crisis, resulting from uncompromising conformance to our strategic goals.

The Covid-19 pandemic has affected the degree of different material topics, such as occupational health and safety, responsibility in the supply chain, technological innovation, and environmental management. I am happy to say that managing these material topics strategically has enabled us to exemplify corporate responsibility in practice. In addition, IAI's management decided to introduce a new material topic, which has come to the foreground during 2020: business continuity. No doubt that integrating all the central processes of the company in a way that support effective business activity during an ongoing emergency is an important factor in how we will prosper in the new reality.

In 2020, we climbed the Israeli Ma'ala Index ranking for Corporate Responsibility in Business, to "Platinum +". This is the highest ranking in this index on the Tel Aviv Stock Exchange. At the same time, we continued to report on our contribution to the six UN 2030 Sustainable Development Goals (SDGs) that have been found most relevant to our business, and cooperated with the local and global business community in matters of social, corporate governance, environment, and innovation.

I am grateful for the dedication, perseverance, commitment and initiative of IAI's employees, which help us overcome these historic times, and for our customers, suppliers and all stakeholders, for their trust and support. We remain committed to IAI's success and its ability to be groundbreaking in every possible way.

Harel Locker

Chairman of the Board of Directors



From the CEO

102-14 | 102-15

I am proud to present IAI's sixth consecutive Sustainability Report, which presents our environmental, social and governance (ESG) performance in 2020. IAI has been my home for three decades, and I am excited to lead it into a new decade of growth and sustainability as a CEO.

2020 has changed the modern world dramatically, and IAI responded swiftly and effectively to the extensive implications of Covid-19 pandemic, first and foremost by protecting the health and safety of all who entered our premises. We were obliged to conduct ourselves on two levels - addressing the evolving needs in Israel and globally, as an essential business, focusing on the here and now, while continuing to implement our 2030 Strategic Business Plan 2030 with determination. The plan was launched in 2019, and we kept focusing on our growth drivers, improving our operational models and their efficiency, investing in our exceptional people, and leveraging our technological innovation as a leading company. As part of these processes, we have significantly broadened the dialogue with our employees, customers and other stakeholders.

This year we also continued to consistently implement our Strategic 2019-2023 Sustainability plan, which led to notable progress in a variety of environmental and social goals and objectives, and we anticipate that our continued investment and strategic focus will enable us to meet the five-year goals as planned, and create true value for all our stakeholders - customers, employees, the State of Israel, business partners, suppliers, and the communities in which we operate.

Financially, we continued to deliver great groundbreaking products and services to the Aerospace and Defense markets,

and to maintain our business stability with a net revenue of \$ 133 million and record-high sales of over \$ 4 billion. Socially, we continued to offer job security for our employees, while recruiting over 800 new employee and meeting our annual diversity targets, and dramatically reducing the number of employee safety incidents. Environmentally, we have reduced the direct emissions of greenhouse gases (Scope 1) by 19%, the volume of hazardous waste by 12% and initiated the installations of three photovoltaic panels, which will be operating in 2021.

The Covid-19 pandemic highlighted the importance of the responsibility demonstrated by corporations towards their stakeholders. As part of our business continuity, we have committed to keep reflecting our performance and improvement processes in real-time, evidence of the company's resilience in these turbulent times, and of our deep partnership with our stakeholders.

In all likelihood, the local and global impacts of Covid-19 will require us to continue adapting to the changing world. However, I am convinced that the true strength of IAI is our employees, who demonstrate innovative thinking, responsibility, solidarity, and admirable skills on a daily basis, and that together we can meet all challenges and continue to grow and thrive –financially, technologically and responsibly.

Boaz Levy

President and Chief Executive Officer

Our response to Covid-19

As an essential business in times of emergency, IAI maintained close to normal levels of activity throughout 2020. This unique characteristic translates into activating extensive protocols, procedures and mechanisms, in order to accommodate the changes brought by crisis and catastrophic events effectively. Importantly, throughout all of 2020, IAI continued to offer job security, and recruited over 800 new employees.

As the Covid-19 pandemic reached Israel in February 2020, the company quickly moved to new modes of operation based upon emergency response, such as:

- Setting up a designated Covid-19 War room, to monitor and respond to all impacts on our business.
- Adjusted operational processes to allow for quicker organizational responses.
- Activating diverse communication platforms, such as the #WeAreIAI app, to allow timely information, updates and calls for action reach our employees.
- Performing daily audits for compliance with the rigorous health requirements of social distancing, work areas disinfection and mask wearing.

In addition, we utilized various IT tools for tracking and control of regulatory and other requirements implementation, ensuring a safe workplace and business continuity. For example:

- Establishing a Covid-19 Dashboard, providing real-time updates for decision-making.
- Specific indicators for supply chain and logistics.
- Specific indicators for human resources, designed to maintain the authorized number of people in each work shift.
- Adding new features to our WeAreIAI app, such as daily body temperature measurements and declarations of health by employees and contractors, and remote attendance reporting, for all employees authorized to work from home. for internal and external communications, meetings and unclassified data

exchange.

- Expanding virtual collaborative capabilities, such as video-conferencing, for both internal and external communications, work meetings and unclassified data exchange.

Ensuring a safe and healthy workplace

We adopted numerous measures in order to keep everyone safe on our premises, including:

- Adjusted work shifts for all the non-office positions, limiting the number of employees who share and spend their working hours together, and moving to meals as takeaway only.
- Moving authorized office employees to work from their homes, equipped with all the necessary tools and equipment.
- Performing continuous educational campaigns, using posters, screensavers, management videos and other communications, to promote adoption of healthy habits and prevention of fake news.
- Making personal hygiene practices easy and accessible, by regularly distributing face masks, hand sanitizers and disinfecting products in all work areas.
- Pre-registering to a specific seat on board our work shuttles.

These actions proved efficient, with extremely low rates of intra-organizational infections.

Keeping connections strong and supportive

Maintaining social distancing, working different shifts and even remote work from home have a toll on the ability to manage teams effectively, and keeping track of personal needs and challenges experienced by our employees. IAI had put in place multiple initiatives and processes to help managers, workers and their families to bond and keep strong relationships throughout these turbulent times. For example:

- Setting up a designated call center for employees and retirees, where they can share their needs, questions and requests and receive a timely reply from IAI's HR experts and social workers. A

chatbot allow access to common Q&A off-hours.

- We sent periodic voluntary "mood" surveys to the employees, as well as invitations to suggest ideas for improvements and support.
- Special support was provided for our employees overseas, to ensure their and their families wellbeing away from home.
- Celebrating holidays online and sending our employees various gifts and family activities during lockdowns.
- Providing tools and tips for effective dialogues between managers, teams and employees, including how to receive additional support from HR.
- Senior managers communicated via weekly videos to update on important changes.

Managing our commitments to our customers

We kept a continuous contact with all our customers, locally and globally. We used different solutions in order to deliver on all our commitments and reach new customers during 2020. For instance:

- Setting a "green studio" on our premises, for virtual demonstrations of our capabilities, services and products.
- Offering support through local IAI representatives in different countries.
- Adopting a remote quality assurance process, thus allowing international regulatory entities to observe our manufacturing lines via online cameras.

Strengthening the supply chain

Like most companies worldwide, we had to adjust our supply chain management as many countries went into extensive lockdowns, including border closures and grounding flights, and as many employees were asked to work remotely or avoid attending their daily jobs altogether. Nonetheless, our emergency planning, which includes aspects of supply chain and logistics, as well as the continual investments in supply chain excellence work plans during 2020 (see pages 40-41) allowed a smooth and fast response to the

changes. This enabled us to maintain manufacturing continuity and our contact with suppliers, while ensuring the health and safety of all parties involved. Some of the activities were:

- Expanding the international transportation and shipping options, through both air and sea.
- Identifying and resolving specific "bottlenecks" in the value chain.
- Applying strategic inventory management.
- Setting up the technological infrastructure for remote purchasing.
- Promoting essential business permits for 140 of our suppliers.

Shared value and national resiliency

We collaborated through two major partnerships: Israel's health and defense authorities, and with the Government Companies Authority. Matching our capabilities and expertise as an aerospace and Defense Company, with national-level health and social needs, provided us with the opportunity to offer value in new ways. As a result, we developed an array of technological solutions in very short timelines, including:

- An autonomous robotic system for quick disinfection of hospital large spaces, based on UVC radiation technology.
- Converting one of our manufacturing lines for the serial production of life support-ventilators for Covid-19 patients, a collaboration with the ministry of defense and INVOYTEC Company, who specializes in emergency medical systems.
- A remote control system ("the cockpit") developed with Soroka Medical Center, for remote measurement of real-time data of Covid-19 patients on invasive ventilation, while minimizing exposure, detecting trends and giving notifications based on AI.
- The CoronaNet Platform, which allow information exchange on Covid-19 evolution, diagnosis, or treatments between countries, the healthcare eco-system, research organizations, and more.



STRATEGY

"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. IAI sees itself as an inseparable part of our nation's fabric of society, both in routine and in times of crisis."

Excerpt from IAI's sustainability policy



Our business

[102-1](#) | [102-3](#) | [102-4](#) | [102-5](#) | [102-6](#) | [102-7](#) | [102-16](#) | [102-45](#)

Israel Aerospace Industries (IAI) is a global Aerospace and Defense (A&D) company, and the largest governmental 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 over 14,000 workers. IAI is the largest employer of engineers in Israel, 20.8% 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.

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.

 [Link to IAI's sustainability policy](https://www.iai.co.il/about/sustainability)
<https://www.iai.co.il/about/sustainability>

Our values

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 collaborate 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



Managing sustainability

[102-26](#) | [102-29](#) | [102-32](#) | [102-33](#) | [102-34](#) | **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 in turn reflects our 20 material topics (see page 17). This policy 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.). The program supports the company's long-term business objectives and the company's senior management and the board of directors' sustainability committee reviews it annually to ensure its completeness and effectiveness.



In order to achieve our objectives, and to meet the expectations of the company's stakeholders regarding transparency and access to information, the program relies on a wide array of issues and quantitative targets that are systematically measured throughout the year. Based on the materiality process and the progress of our 2019-2023 strategic sustainability roadmap, we aspire to add additional issues each year, which have reached a level of maturity through the intra-organizational monitoring, as potential for expanding the public reports. Here are examples of processes and topics added to the company's sustainability reports between 2017 and 2020:

- An annual disclosure to CDP Climate
- An annual disclosure to the voluntary GHG emissions reporting scheme led by the Israeli Ministry of Environmental Protection
- Ranking "Platinum+" on Ma'ala index in Tel Aviv Stock Exchange
- Forming and implementing our 2019-2023 strategic sustainability roadmap
- Scope 3 greenhouse gas emissions (scope 3) report – business air travel
- Cases reported to IAI's hotline on code of ethics and integrity violations
- Expanded the report on diverse populations employment to include the ultra-orthodox Jewish community
- Report of participation rate in Sustainability-related training
- Our alignment with the UN Sustainable Development Goals (SDGs) 2030
- ESG risks
- Compliance with social and economic issues and anti-competitiveness behavior issues



Our stakeholders

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

We work proactively to develop trust-based relationships with our internal and external stakeholders, including our employees, customers, business partners, suppliers and contractors, regulatory authorities, civic organizations and communities in which we operate in. In 2020, we hosted new stakeholder dialogues, and strengthened processes that were set in previous years, with the aim of continuing to advance cooperation, learning and improvement based on valuable insights on our material topics and performance. The Covid-19 pandemic initiated partnerships with new stakeholders, such as medical institutions and health care representatives, along with an opportunity to expand and improve the platforms through which we communicate, such as the green studio in and the #WeAreIAI application (see pages 6-7).

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	All materials topic (see page 17)	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; Internet; Mobile app #weareIAI; Newsletters and emails; Social media posts; Forums and gatherings; Company events; Surveys; Round tables
Board of directors and senior management	Internal	All materials topic (see page 17)	Management reviews; Professional training; Steering committees; Surveys; Round tables
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



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

Stakeholders	Internal/ External	Proposed material topics for engagement	Engagement approach (existing and under development)
Customers	External	Corporate governance and business ethics; Product responsibility and customer service; Technological innovation; Compliance; Business development and performance; Energy and emissions; Environmental management; Responsible supply chain; Cyber defense and information security; Anti-competitive behavior prevention; Business continuity	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; Anti-corruption and bribery prevention practices; Environmental management; Occupational health and safety; Cyber defense and information security; Business continuity	Internet; Meetings; Joint seminars and conferences; Audits; Supplier training; Surveys
Local and International partnerships and Industry associations	External	Technological innovation; Environmental management; Social impact; Compliance; Cyber defense and information security; Energy and emissions; Waste and effluents	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	Impact on Israel; Social impact; Responsible supply chain; Anti-corruption and bribery prevention practices; Energy and emissions; Environmental management; Waste and effluents; Technological innovation; 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; Technological innovation; Employees recruitment and talent management	National-level Long-term outlook forums; Future women engineers of tomorrow project
Media	External	All materials topic (see page 17)	Press releases; Annual reports; Internet; Social media posts; Site visits
Investors and financial stakeholders	External	All materials topic (see page 17)	Annual reports; Meetings; External website

Strategic alliances and memberships

102-12 | 102-13 | Limited assurance

IAI is active in various associations, forums and alliances, both local and international, which focus on promoting collaborative efforts and knowledge sharing around its 20 material topics. During 2020, we maintained and bolstered these relationships, in light of the Covid-19 pandemic, as an integral part of our business continuity.

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 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; 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.

Ma'ala

Ma'ala is a nonprofit organization promoting corporate social responsibility in Israel. Founder of Ma'ala index at the Tel Aviv Stock Exchange, it is considered the CSR standards-setting organization in Israel. In 2020, IAI received the "Platinum +" ranking, the highest ranking available.

International Aerospace Environmental Group (IAEG)

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

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 Greenhouse Gases (GHG) emissions to CDP climate since 2017.



Environmental, Social and Governance (ESG) risk management

102-11

Environmental, social and governance (ESG) risks are included in the company's periodic risk review (see page 27) and reported on regularly to the senior management's sustainability steering committee, and in relevant cases, to the board of directors' committee on corporate governance, sustainability and the advancement of diverse populations, in order to ensure they are addressed and prepared for in a timely manner. The sustainability and corporate responsibility administration carries out ongoing monitoring and examination of all of the risks that derive from the material topics with respect to the company's business activity, leads improvement and preparedness processes with respect to division and factory managers, and helps leverage opportunities for shared value with respect to internal and external stakeholders.

The table below presents the main risks in ESG issues that could potentially affect our business activity. Information on all key corporate risks is located in section 29, pages 124-135 of the company's 2020 financial report (in Hebrew).

Risk area	Potential impact	Organizational mechanisms for managing and reducing risk
Coping with crises and emergency events	Harm to people and equipment, disruption of business activity, failure to meet objectives and deliveries, loss of opportunities	Risk management (see page 27) and Business continuity (see page 35)
Cyber defense and information security	Disruption of business activity, shutdown of systems, loss of information, security breach, information leakage to competitors	Cyber defense and information security (see page 30)
ESG-related regulatory developments (local and international)	Infrastructure investment for the purpose of meeting regulatory requirements, prohibition or limitation on the use of specific raw materials in the company's products	compliance with laws and regulations on environmental issues (see page 69) and socio-economic issues (see page 28)
Human capital management vis-à-vis the current and developing labor trends	Competitiveness in recruiting and maintaining human capital in accordance with the company's needs	Career at IAI (see page 54)

Materiality

102-46 | Limited assurance

102-46 | 102-47 | Limited assurance

IAI's matrix of material topics was updated in a full methodological process in 2019 (report available in IAI's website), some 3 years after our first materiality mapping process. The company's material topics are reflected in the company's sustainability policy, and constitute the basis that guides the five-year strategic plan for sustainability 2019-2023.

The company's core products, markets and activity, and the essence of its new business strategy, whose implementation began in 2019, remained in place in 2020. However, it is clear that the development of the global pandemic crisis affected the importance of various topics for internal and external stakeholders, such as the aspects of safety, health and occupational hygiene in the workplace (see pages 6-7). Consequently, the company's management decided to carry out a validation process for the matrix. This process helped to refine our approach to managing sustainability and the company's policy on the material topics, as well as the framework of the discussion with our stakeholders, and to define the content of the current report in accordance with the requirements of sustainability reporting in GRI standards.

The validation included two main steps:

1. Reviewing **the existing material topics**: relevance and ratings in relation to the other topics and in relation to their location in 2019. In this process, the possibilities for expanding existing material topics were also examined in order to include new developments, such as remote work environments.

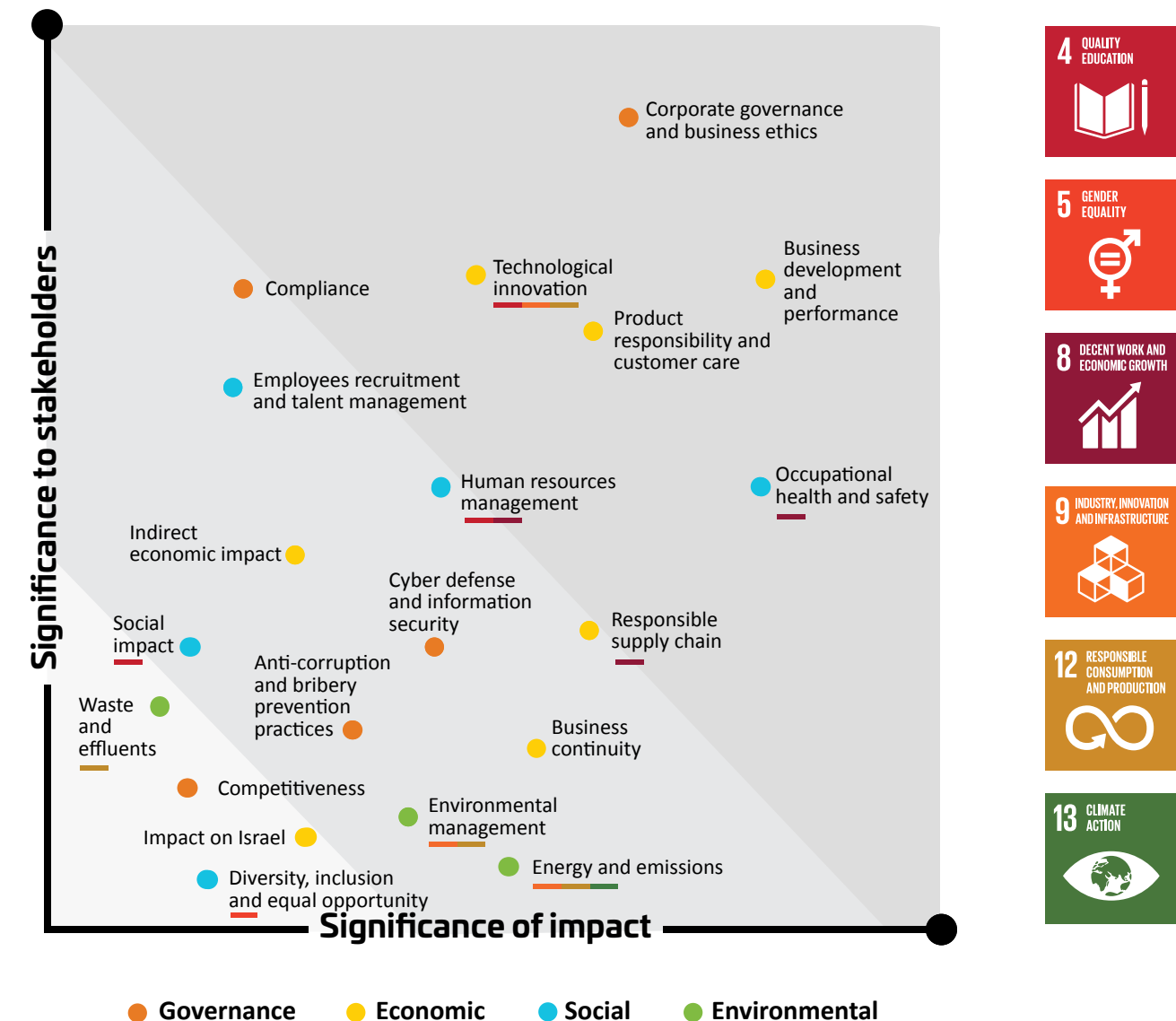
2. Reviewing **new material topics** in light of the Covid-19 pandemic. The current materiality matrix reflects the changes in ratings made for the existing material topics and approved, after validation, by the senior steering committee for sustainability. In addition, it was decided to add a new material topic – **business continuity**. Thus the number of the company's material topics increased from 19 to 20. This process ensures that we continue to work in the right direction, while listening to our stakeholders on existing and emerging issues.



Look for the icon!

This icon is placed throughout this report wherever a strategically managed **material topic** is discussed.

These are the top material topics identified in the validation process. All topics are included and managed in the company's 2019-2023 strategic sustainability roadmap (see page 18).





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. The roadmap is divided into three levels of implementation and monitoring of the annual derivatives, and for each of the material topics (see page 17). Senior management and the Sustainability and Corporate responsibility Directorate are tracking the majority of the roadmap's targets and objectives, and IAI's Board of Directors' sustainability committee directly monitors five strategic objectives (see table). Following the Covid-19 pandemic outbreak, we have fine-tuned some of the processes planned for 2020, and kept implementing the rest toward achieving the overall roadmap. For some topics, such as ESG aspects of business continuity, we even moved forward the original timelines of implementation.



Look for the icon!

This icon is placed throughout this report wherever a progress in our **2019-2023 strategic sustainability roadmap** is discussed.

Category	2019-2023 vision (KPIs and sample actions)	2020 update	Additional 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"> Progress is according to plan Progress is according to plan 	70-71
	<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"> Progress is according to plan 	40-41
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"> Progress is according to plan Annual target met, to be maintained each year until 2023 	55, 63
	<ul style="list-style-type: none"> 5% annual increase in hiring of diverse work populations 	<ul style="list-style-type: none"> Annual target met 	55, 63
	<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"> Progress is according to plan Annual target met 	58-59 64-65



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

In 2015, the United Nations assembly has launched 17 Sustainable Development Goals (SDGs) with the aim of making sustainability a uniting global agenda for 2030. Six SDGs were identified as most relevant and material to our business, and our contribution to each is measured and reported on an annual basis.

Starting with the current report, under each of the six goals, we note **the specific targets** that the company's activity relates to.

UN SDGs

UN Targets

Our alignment and contribution



Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Target 4.3: By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university.
Target 4.4: By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.

Our social impact strategy focuses on developing future technological human capital in the fields of aviation and space, with an emphasis on promoting gender equality. This strategy is implemented, among other things, in joint activities with non-profit technological education associations, and cooperatinf with the Socio-economic forum to advance diversity and equal opportunity. In addition, IAI operates a professional school, part of the ORT network, which combines conventional studies with a weekly program of practical employment. The school's curriculum is based on three areas of expertise: Aircraft Mechanics, Electrical and Electronic Systems and Unmanned Aircrafts.



Achieve gender equality and empower all women and girls

Target 5.1: End all forms of discrimination against all women and girls everywhere.
Target 5.5: Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.

IAI promotes a diverse and inclusive work environment and equal opportunity employment. Our gender equality plan was built in order to increase the percentage of women out of the overall population of employees, in the core professions (technological specializations) and in all of the existing professions. In addition, social impact programs such as "Women Engineers of tomorrow", and "Women Engineers for Industry" focus on empowering girls and women to pursue STEM professions.



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

UN SDGs

UN Targets

Our alignment and contribution



Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Target 8.1: Sustain per capita economic growth in accordance with national circumstances.
Target 8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors.
Target 8.4: Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead.
Target 8.5: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.
Target 8.8: Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

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. In addition, the company invests in environmental management systems and infrastructure that promote business growth with an environmental perspective, such as a circular economy.



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

Target 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.
Target 9.5: Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending.

IAI regularly maintains and upgrades its facilities and infrastructures, and ensures all our operational sites work in accordance with highest standards of quality, environmental management, safety management and information security. IAI is also dominant in patents applications and registry, and offers innovative solutions in all arenas: space, air, sea, land and cyber.



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

UN SDGs

UN Targets

Our alignment and contribution



Ensure sustainable consumption and production patterns

Target 12.2: By 2030, achieve the sustainable management and efficient use of natural resources. **Target 12.5:** By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
Target 12.6: Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.
Target 12.8: By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature.

IAI continually invests in minimizing the environmental footprint of its production lines, and in environmental R&D (Clean sky, Green labeling) 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.



Take urgent action to combat climate change and its impacts

Target 13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.

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 VENmS research nano-satellite and UAV used for agricultural monitoring.



INTEGRITY AND ETHICS

IAI implements corporate governance principles in accordance with its standing as a governmental company, and as a global company that is active in the international aerospace and defense sector.

The material topics identified in relation to our activity in corporate governance are: Compliance, corporate governance and business ethics, anti-corruption and bribery prevention practices, cyber defense and information security, and competitiveness.



Corporate governance

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



102-22 | 102-32 | 102-33 | 405-1 | Limited assurance

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"). IAI maintains current communications with the Government Companies Authority, inter alia, through a representative of the Authority, present at meetings of the Board.

Company secretary

IAI's Company Secretary is responsible for the ongoing communication and coordination between IAI'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 IAI. The Company Secretary is also responsible for the communication between IAI 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.

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

IAI 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 IAI.

Limitations and supervision over the company

With respect to the restrictions and supervision over the Company - see Section 21 of the Fourth Chapter of the Financial Statement of the Company (in Hebrew) for 2020, pages 104-114.

Prohibition on financial contributions and donations

IAI is prohibited by the Government Companies Authority, from 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.

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

IAI'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, relating to such financial statements. The Board 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.

The Board of directors and its committees

The board of directors is responsible for defining company policy and overseeing management activity. The company's management is responsible for implementing this policy in practice and reporting to the board of directors. In 2020, the following committees convened: (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. In addition, a designated committee was convened for CEO search. In 2020, the company's board of directors and its committees held 97 meetings.

Board tenure and composition

The Minister of Defense and the Minister of Digital affairs, in consultation with the Government Authority committee, appoint IAI's Directors. The nomination approval, including the review of the Directors' skills, complies with the Government Companies Law.

Accounting and financial expertise

In accordance with Section 92 (a) (12) of the Companies Law, the Board of Directors 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.

The Board of Directors' diversity

UN SDG targets: 5.5



Three out of six of our board members in 2020 were women. Board' diversity is achieved through coordination with the relevant regulatory functions.

The board of directors ESG responsibility

The Sustainability board committee was established in 2012 (under the name "the corporate governance and sustainability committee"). The sustainability committee's areas of responsibility are: aspects of corporate responsibility; aspects of corporate governance; sustainable development; internal enforcement of the securities laws. This committee discusses IAI's annual sustainability reports and chooses whether to accept and approve their publication or seek further information, commentary, and/or revisions prior to approval. In 2020, an increase was noted in the committee's number of meetings, reflecting the Board's commitment to these issues.

IAI's ESG codes and policies

IAI's Sustainability policy and other ESG-related documents align with the expectations and values of our stakeholders on environmental, social and corporate governance issues, and are supported by internal Company procedures. These documents are available on IAI's website.

Senior management' reward policy

IAI has a policy in place for rewarding senior management, 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.



Business ethics

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



Our code of ethics

IAI is committed to creating a work environment that relies on open communication and supports employees in reporting potential violations. The company's code of ethics embodies all of the guiding principles for fair and acceptable conduct, and 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 website, and its training materials are available through the company's INTRANET. Concerns can be raised safely through a designated Human Resources personnel or the direct managers, particularly in cases that are not clear-cut under the law.

During 2020, the company carried out a comprehensive process of updating the code. It was reviewed by a steering committee that included content experts from all disciplines – legal, finance, procurement and logistics, human resources, corporate responsibility and more. The process was based on a sectorial benchmark, as well as dialogues with internal and external stakeholders, in order to create an authentic, applicable and relevant code.

The code covers many topics, for example: Marketing and Sales; Quality; Sustainability; Environment, Safety, and Occupational Health; Employment and working relationships; Relationships with customers, partners, suppliers, and authorities; Conflict of Interests and illegal benefits; Protection of assets, privacy, information security, and confidentiality; OECD compliance program and more. New topics were introduced into the code, such as community relations, as well as a flow chart for decision-making, to be utilized by employees as they consider a dilemma. We plan to expand and deepen the organizational implementation of the new code, for example, with specific campaigns.

The code was approved by IAI's Senior management and the

Board of Directors, and will be periodically reviewed.

Employees' ethics training

All new employees sign the Code upon commencement 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. 93% of our employees have completed the web-based training in 2020, as part of the 2019-2020 cycle. In 2021, we expect to update our web-based training to reflect our updated code.

Preventing workplace harassment

IAI strives to create a respectful, positive, and pleasant work environment without discrimination, harassment or abuse. We place the utmost importance on preventing sexual harassment and incidents of workplace abuse, and provide our employees and managers with tools for identifying, reporting, and determinedly dealing with these phenomena.

All of the company's new employees receive training on harassment prevention during their orientation, along with annual mandatory refresher training for all employees at all levels in the company. Contact information for experts on sexual harassment and workplace abuse prevention are published and accessible in every division and organizational unit, along with contacts to our ethics and compliance team and a hotline, and we encourage all employees to raise any concerns of incidents that violate the company's values in this respect.

As we emphasize in the company's code, IAI sees any attempt to prevent dealing with ethical violations as endangering the trust that our employees, partners and other stakeholders place in us, and works to learn from failures, and to instill our employees with confidence in fulfilling reporting obligations without fear of retaliation.



Sustainable risk management

As part of implementing globally accepted advanced management methods, IAI strives to optimally identify and manage risks with an integrated and corporate-wide perspective, so that it constitutes an integral part of the company's strategy and growth, leading to improved operations and the ability to meet its business objectives.

The company's risk management reflects the value of the process, which is associated with the company's objectives and the changes taking place inside and outside of the organization, while creating an opportunity to leverage the risk and exploit the opportunities it may present.

For the purpose of implementing the corporate risk management process, IAI has adopted the principles of the international COSO-ERM model (Committee of Sponsoring Organizations – Enterprise Risk Management). This model takes into account the company's activity at all of its units, individually and collectively, and allow the corporation to manage a "portfolio" of all risks and potential damaging events, in parallel with the individual management of risks defined in each unit.

Among other things, the company is committed to effective corporate risk management, according to the principles outlined in the Government Companies Authority circular from January 2020. The company has implemented these principles in its policy and regulations of corporate risk management, and updates them from time to time.

In 2020, the company conducted a reassessment of its key risks set in 2018, as part of an extensive risk review process. The process included a complete and comprehensive mapping of the risks relevant to the company, by examining to the company's business objectives. In addition, we verified that the risks reviewed include all categories defined in the Government Companies Authority requirements and in international

methodologies (i.e. operational risks, financial risks, compliance and regulation risks, reputation risks, information technology risks, embezzlement and fraud risks and ESG risks). The process met the provisions of the Government Companies Authority and was approved by the company's management and Board of Directors.

As a result, 15 key corporate risks were prioritized. IAI had integrated these risks into its annual and multi-year strategic plans, and addressed them by formulating risk reduction plans. Continual processes for monitoring, control and reporting to IAI's management and Board of Directors are also in place.

The company's Deputy CEO was appointed as Chief Risk Officer, reporting directly to the management and the Board of Directors on IAI's risk management and manifestation of material risks. In addition, IAI's annual internal auditing plans as well as its 2019-2023 sustainability roadmap both take into account the key corporate risks that have been prioritized for the company.

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.



Compliance

103-1 | 103-2 | 103-3 | 419-1



Socio-economic compliance

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. A variety of compliance mechanisms are in place, to ensure the identification, prevention, control and minimization of regulatory risks, and their integration into our Code of ethics (see page 26) and our bribery and corruption prevention program.

In any case, in which a disparity is identified, the Senior management is notified and corrective actions are taken. 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.

for further details, see Section 21 of the Fourth Chapter of the Financial Statement of the Company (in Hebrew) for 2020, pages 104-114.

With regard to environmental compliance, see page 69, and for competitiveness compliance, see page 28.

Internal compliance program

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. As part of its operations, IAI has integrated and implemented a compliance program for the prevention of corruption and bribery of foreign public officials, which is regularly updated according to current regulations and the company's risk assessment.

The company's Board of directors appointed the company's Compliance Officer. The Compliance Officer is in charge for the appropriate execution of the compliance program and reports directly to the CEO and every two years to the Board. The comprehensive Anti- corruption and bribery prevention compliance program reflects Israel's adherence to the OECD's convention on Combating Bribery of in International Transactions, and IAI's values.

Implementation of the compliance program

Employees who conduct business affairs on behalf of IAI receive training according to the company's program and as part of its implementation. The training focuses on the prevention of corruption and bribery of foreign public officials, and communicates IAI's strict policy in this matter. In 2021, these training sessions will be conducted routinely to all relevant populations in both management and employee levels, either frontal or through web-based learning, depending on the individual level of interaction with third parties in various disciplines – marketing, contacts, finance etc.



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

The non-ethical claims case (2017)

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. for further details, see Section 23 in the Financial Statement of the Company (in Hebrew) for 2020, pages 118-119.



Competitiveness

103-1 | 103-2 | 103-3 | 206-1



Most markets in which IAI operates are characterized by intense competition, both from local and international companies. In 2020, we saw further restrictions in local contract requirements by both customers and authorities, alongside a growing global competition 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 these countries. IAI continued its implementation of a strategic growth strategy, including various initiatives and actions that aims to support our position in existing markets and allow growth in our market share.

The outbreak of the Covid-19 pandemic created significant impacts in the global aviation market, leading to considerable levels of shutdowns during lockdowns and a reduction in global passenger travel. These impacts are expected to continue in 2021. On the other hand, there has been a massive increase in demand for passenger-to-cargo aircraft conversions in light of the online commerce growth during the pandemic, an activity that IAI specializes in and in which it is an important global player. In the defense markets, no significant impacts have been observed in the near future, due to them being critical for maintaining the national security of countries.

IAI is committed to fair competition and refrain from anti-competitive activities, creating monopolies or illegal partnerships with competitors. We expect our employees and anyone who works on behalf of the company to maintain the privacy of IAI's customers in every context, and not to engage, discuss or make use of insider information that is not public.

IAI participates in tenders in accordance with the rules detailed in them, and according to the laws and regulations of the country in which each tender is published.

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 in relations to competitiveness practices in 2020.

Cyber defense and information security

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



According to the World Economic Forum's global risk report (from January 2021), information security and cyber defense failures constitute one of the top risks with the highest probability of manifesting in the coming decade. On the other hand, the acceleration in digital transformation in 2020 as a result of the Covid-19 pandemic, had created a work environment based on information sharing and virtual channels of communication on historical scales (see pages 6-7). Accordingly, IAI invests considerably in dynamic and tight risk management that encompasses all means, infrastructure and resources, in order to ensure resilience and continuity in the face of threats and disruptions.

IAI's IT and computing systems organizations, ITC (formerly 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).

ITC's cyber defense activities provide end-to-end information and cyber security coverage for IAI's computer and network infrastructure, including an advanced center for cyber security that monitors and responds to threats and enables the investigation of complex cyber threats. ITC continues to be at the forefront of the most advanced international standards regarding Cyber

Incident Response (IR) plans, Cyber Security Operational procedure and Cyber Forensics capabilities, along with regular exercises and internal and external audits.

In addition, all IAI's employees are required to complete an annual web-based training on cyber defense and information security, and 85% have completed this training in 2020.

IAI's expertise in this area is also present in our products and services for cyber defense (see page 37).

Performance scorecards

102-22 | Limited assurance

Indicator	2018	2019	2020
Corporate governance			
No. of general assembly Board meetings	18	20	44
No. of Board committees meetings	45	38	53
No. of Board sustainability committee meetings ¹	4	4	5
No. of Directors in the Sustainability committee	4	3	3
Board composition (as of 31.12.21)			
No. of Directors (Total)	10	9	6
No. of women members of the Board	6	3	3
No. of men members of the Board	4	6	3
No. of independent Directors	2	3	3
No. of Directors representing a minority ²	1	1	1
No. of Directors, ages 30 and under	not reported	0	0
No. of Directors, ages between 31-50	not reported	2	0
No. of Directors, ages 51 and over	not reported	7	6
Business ethics			
No. of reported cases to IAI's hotline: Code of ethics issues	15	9	3
No. of reported cases to IAI's hotline: sustainability issue	not reported	not reported	1

¹ Of the total number of board committee meetings.

² From the Druze community.



VALUE CREATION

As part of IAI's strategic business plan, we expand our presence in defense and civilian markets, improve our operations and their effectiveness, focus on growth drivers and continue to invest in our people and our technologies as an industry leader.

The material topics identified in relation to our economic and business performance are: Business development and performance, responsible supply chain, technological innovation, product responsibility and customer service, indirect economic impact, impact on Israel and Business continuity.



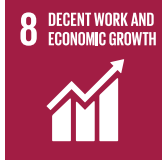
Business development and performance

102-5 | 102-6 | 102-7 | 103-1 | 103-2 | 103-3 | 201-1 | 201-4

Limited assurance



UN SDG targets: 8.1 | 8.2



Financial performance

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, 2020, IAI held a backlog of orders amounting to 12.6 billion US Dollars that equals to 3.13 years of activity. The total company equity stands at 1,082 million US Dollars and the total company debt stands at 5,175 million US Dollars.

In 2020, IAI was ranked 41 out of 100 companies in the international A&D sector index by Defense News.

[Link to the company's financial statements
https://www.iai.co.il/iai-publishes-its-annual-financial-statements-2020](https://www.iai.co.il/iai-publishes-its-annual-financial-statements-2020)

Business development

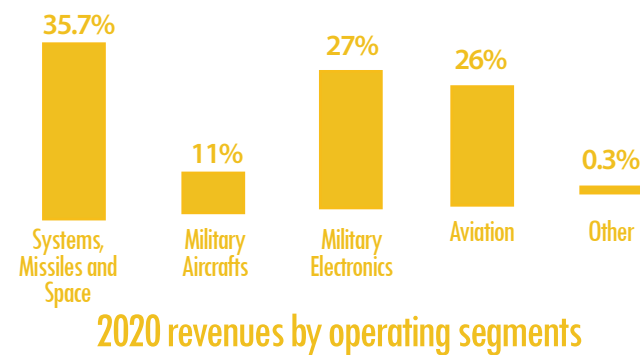
The goal of IAI's Business Development is to identify and develop new business areas and markets, while creating value and leveraging synergy with the company's activities.

In addition, the organization is responsible for the growth strategy that maximizes IAI's sustained competitiveness and its position as a dominant leader in its core and other areas. The major instruments used to in business development are: Mergers and acquisitions; Joint Ventures; creating added value through business synergy; acquiring required technologies for continual development and new business plans; offering business support for innovative programs; converting military technologies to civilian applications.

Sustainability aspects in business development

In-depth due diligence is done as a part of mergers and acquisitions processes, involving a wide spectrum of business and legal aspects. In 2020, as part of our 2019-2023 strategic sustainability roadmap, the sustainability aspects reviewed in these processes were expanded, in order to ensure that the risk assessments of potential transactions are up-to-date and complete.

In addition, IAI applied its capabilities towards health and social needs caused by the Covid-19 pandemic, and demonstrated "shared value" (see pages 6-7). These developments present the potential for adapting military technologies for civilian uses.



Business continuity

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



IAI is an essential business by the approval of the Ministry of Economy and Industry, as an enterprise that serves the needs of national security. In order to ensure national continuity and resilience, the company is committed, in coordination with the relevant authorities, to carrying out all of the activities and allocating the resources necessary to take part in the State of Israel's emergency preparedness plans.

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.

These mechanisms directly contributed to the company resilience in the face of the large-scale Covid-19 pandemic outbreak in 2020 (see pages 6-7). As a learning organization, we will continue to improve the company's business continuity plans, including for sustainability aspects as part of our 2019-2023 sustainability roadmap, and to leverage the organizational insights accumulated during this global crisis.

Products and services

102-2 | 102-6

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 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.

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>



Product responsibility and customer service

103-1 | 103-2 | 103-3 | 403-7 | 417-1



103-1 | 103-2 | 103-3



Customer service

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. The strategy includes work plans, defining customer service indicators and business objectives. Furthermore, IAI sees customer service 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.

The year 2020 posed challenges for customer connectivity due to a significant shutdown of air traffic around the world. In order to continue to maintain our relationships with our customers, we developed alternative processes that helped us continue to provide proper and satisfactory solutions without compromising on the safety and well-being of our employees (see page 6-7).

The privacy of IAI's customers and stakeholders

IAI respects the privacy rights of its customers and is committed to protecting them. This commitment is enshrined in computerized infrastructure mechanisms for information security, in the Code of ethical, in company and security procedures and in employee trainings, in order to ensure full protection of the confidentiality of information that reaches our employees as part of their work, including information that belongs to the individual, the corporation, our customers, our suppliers, and our stakeholders.

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.

Despite the Covid-19 pandemic outbreak in 2020, we continued to focus on reducing the cost of poor quality (COPQ), alongside developing solutions for remote auditing (see page 7).

Environmental management system ISO 14001:2015

All IAI's divisions hold a valid ISO 14001:2015 certification issued by the Standards institution of Israel (SII). For more details, please refer to the environmental management section in this report (see pages 68).

Safety management system OSHAS 18001/ISO 45001

Most of IAI's divisions hold a valid ISO 45001:2018 certification issued by the Standards institute of Israel (SII). The remaining divisions are expected to complete their transition in 2021. For more details, please refer to the safety management section in this report (see pages 58-59).





Responsible supply chain

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



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



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.

Suppliers certification process

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. In 2020, as part of our 2019-2023 strategic sustainability roadmap, we expanded our requirements (see pages 18 and 41).

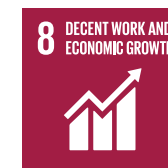
Both the supplier certification process and the continuous quality assurance procedures are set supported by IAI's Quality Assurance Organization. These include, inter alia:

- 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.



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

UN SDG targets: 8.1 | 8.2



Sustainable practices in the supply chain

IAI's procurement and logistics organization manages structured processes and mechanisms that ensure that sustainability considerations constantly guide decision-making. In 2020, the procurement and logistics organization led in-depth processes with the aim of bringing about excellence, implementing the agility and tightening cooperation and transparency between headquarters and the divisions. This included:

- Training procurement employees, including in relation to the Code of ethics and interpersonal communications, with emphasis on interactions with suppliers, for the mutual development of quality products and maintaining long-term, fair and honorable partnerships. Over the course of 2020 the core processes were fine-tuned and professional training was adapted, alongside dialogues via roundtables and surveys.
- At the end of 2018, some of our divisions began using a central logistics center that promotes the company's preparedness for Industry 4.0, decreases storage spaces and excess inventory, and enables traceability and automation of manual processes. The transfer of other divisions is expected to continue in 2021.

- Support of local suppliers ("blue and white"), small businesses, and suppliers from peripheral regions in Israel is strategically managed by the company in order to increase their capabilities and their portion of the international aerospace and defense industry.
- Setting annual savings targets, inventory values and distribution targets for raw materials, services and procurement of resources via database system, and preventing the purchasing of items marked as unnecessary.
- In 2020, the company began to implement the use of an environmental questionnaire for strategic suppliers in our production operations. As part of the questionnaire, the performance of suppliers was assessed in relation to compliance with environmental regulations, emergency preparedness, environmental management systems, targets and indices, etc.

We will continue to expand our sustainable processes in the supply chain as part of the 2019-2023 strategic sustainability roadmap.

Indirect economic impact and impact on Israel

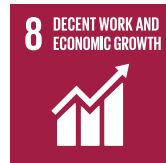
102-9 | 103-1 | 103-2 | 103-3 | 203-2 | 204-1 | Limited assurance



Performance scorecards

201-1 | 201-4 | 204-1 | Limited assurance

UN SDG targets: 8.1 | 8.2



Local procurement

As a government owned company, IAI contributes to the development of Israel's economy in general, while paying particular attention to purchasing locally ("Blue-and-White"). The majority 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 committed its foreign suppliers to further expand their procurement from Israeli sources, a requirement covered by Israel's Mandatory Tender regulations - 2007, in full partnership with The Industrial Cooperation Authority at the Ministry of Economy and Industry.

With the outbreak of the Covid-19 pandemic, the company's emergency processes were activated, with the intention of maintaining functional continuity (see page 35). Among other things, the company applied to the Israeli authorities to receive essential business permits for 140 of our suppliers. The provision of this permit enabled the suppliers to continue to operate their business during the lockdowns in Israel.

Indicator	2018	2019	2020
Economic performance			
Net sales	3,682	4,108	4,184
Tax income	0	0	0
Total economic value produced (income):	3,682	4,108	4,184
Operating costs (including salaries and benefits)	3,670	3,987	3,989
Finance expenses	49	12	21
Tax expenses	15	23	46
Dividends	0	10	0
Total economic value distributed:	3,734	4,032	4,056
Total economic value gained ¹	-52	76	128
Net income	-44	90	133
Government support: R&D grants	6	10	7
Indirect economic impact and impact on Israel			
Spend on local procurement (Bn\$)	1.6	1.9	1.6
% local procurement (of total procurement)	56	55	51

¹ Calculated as the total value produced less total value distributed.



INNOVATION

We invest substantial resources in the research and development of advanced and prospective technologies, leading to cutting-edge solutions for both military and commercial markets.



Technological innovation

103-1 | 103-2 | 103-3



UN SDG targets: 9.5



Technological innovation is at the foundation of IAI's culture, promoting our success. 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 tools, materials 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.

With the outbreak of the Covid-19 pandemic, along with continued investment in developing and improving our core products, IAI has created a fast axis for addressing this social challenge, one of the severest in modern human history. By taking advantage of the innovation mechanisms, responsiveness and creative thinking that are rooted in our DNA, new business lines have been created with partners in the fields of medicine and health. For these innovations, IAI has won the prestigious startup competition for Israeli companies by the Genesis Prize Foundation at the end of 2020. The prize was donated to an educational NGO in Israel, alongside lectures by IAI employees in space, science and aviation.

We implement Innovation in two complementary approaches - organic innovation and open innovation.

Organic innovation

IAI has an active and vibrant entrepreneurial innovation community. All our employees are invited to contribute through the innovation system or as a project in our innovation center.

Innovation system

In 2020, the innovation system was launched as an open tool for all company employees, in order to encourage raising and advancing innovative ideas. Ideas uploaded to the system are reviewed by the divisional innovation team with the guidance of external content experts. Ideas which can be pursued are presented to the innovation committee in order to approve a development budget and integration as a company product.

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 a spearhead technology-based solutions provider.

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

IAI's international innovation center

The company's innovation center was established at the heart of the ecosystem for startup companies in Israel, managed by the international Starburst Accelerator, which specializes in advanced technologies, by using open innovation methodologies to encourage technological diversity and internal entrepreneurship, alongside cooperation with potential partners. During 2020 the company's employees took part in two intra-organizational innovation cycles. The participants submitted innovative proposals for the accelerated development of advanced technological initiatives in the pre-initial stage. The participants also took part in an enrichment program

that included accelerated development methods, putting together and managing teams, the ability to stand in front of an audience and creating collaborations. A third cycle was based on open innovation and included a first-ever hybrid teams of IAI and startup employees. The cycles were supported by the accelerator infrastructure and by professional mentors and experts from within IAI and external experts. In this way, a start-up work model proves its concept within weeks and relies on the capabilities of IAI as a large and well-established company.



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

Managing IAI's knowledge assets

Technology companies compete over the development, design, and production of products at high levels of sophistication and complexity, and at affordable costs. In order to realize these capabilities, the company must manage and maintain its accumulated knowledge in an organization-wide and methodical manner. After decades of business activity, IAI has extensive, complex, and detailed engineering and technical knowledge base, strategically managed by the company's knowledge manager, in the CTO organization, while using advanced methodologies and technologies. This guarantees that our knowledge, as a material asset, will be preserved and made accessible, and continue to sustain our business and human capital.

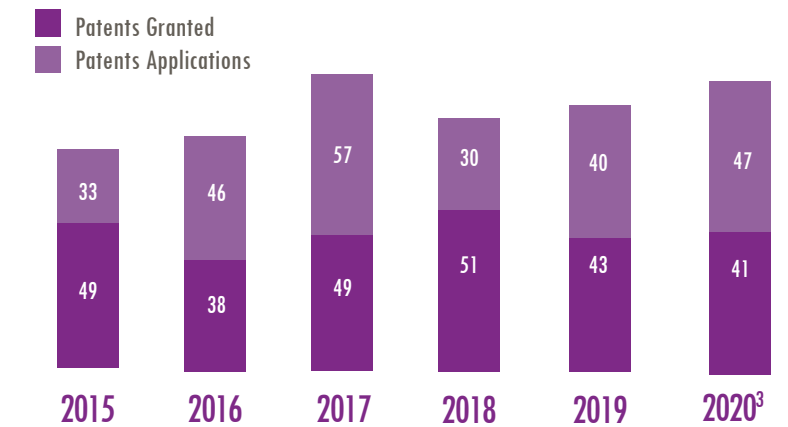
Patents

Limited assurance

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. By defending our ideas, ensure freedom of action in dealing with technologies developed by our people, encouraging further innovations and creative paths to take form, and supporting the continual advancement and expansion of our knowledge base and intellectual property.

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. In addition, A rewards system is in place for compensating employees based on successful inventions that were accepted for patent registry.

The year 2020 brought about technological innovation in the fields of medicine and health. As a result, two patents were submitted in these areas.



Number of patents^{1,2}

¹ From the 2019 annual report of Israel's patents office (latest report available in March 2021).

² The chart represents the number of patents submitted to the Israeli Patents Registry, and the number of patents granted by the Israeli Patents Registry, on a specific year.

³ Internal data only.

Environmental R&D

201-2



UN SDG targets: 9.4 | 12.2 | 13.1



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.



The expansion of our innovative DFS program is part of our 2019-2023 strategic sustainability roadmap, in order to allow full integration with our engineering best practices.

In 2020 we expanded our internal activities along with external collaborations on developing environmentally-friendly materials substitutes for products, and we laid the foundations for additional collaborations in the fields of circular economy (see page 68).

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 emitted 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 develops a set of new technologies (materials, manufacturing processes and methods, recycling operations, etc.)

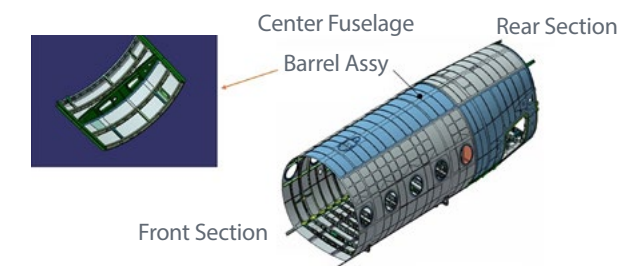
to reduce the environmental footprints of aircraft production from a global life-cycle perspective, while using life cycle assessment methodologies. In the final stage of the project, key enabling technologies will be used to manufacture four demos (Thermoplastics, Thermoset, Metallic, and Biomaterial)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

Expected accumulating results from EcoTech airframe are over 50% reduction in manufacturing effluents, manufacturing waste and green Housegases (GHG) emissions.

Green products

IAI's HERON UAV is certified as a product compliant to green specification by the Israeli Standards Institute (SII), and serves as an example of design for sustainability practices. The design, manufacturing, use and end-of-life are based on specifications aiming to minimize the ecological footprint of the UAV. For instance:

- **Fuels:** using unleaded fuel; reuse of used fuel; testing of the fuel systems based on fuel substitutes.
- **Paints:** using non-chromated paints and environmentally-friendly thinners.
- **Maintenance and end-of-life:** Instructions for users, designed to extend the shelf-life of parts, as well as end-of-life recycling.
- **Ground control station:** Design for low energy consumption.



EcoTech demonstrator (2020)



EMPLOYEES AND COMMUNITIES

Our success depends first and foremost on our people. IAI aims to maintain an inclusive, empowering, and diverse work environment and promote equal opportunities. Each day we create business value for our customers and our partners out of a sense of mission, pride, professionalism, and desire to reach as high as we possibly can.

The material topics identified in relation to our social performance are: Human resources management, occupational health and safety, diversity, inclusion and equal opportunity, employee recruitment and talent management, and social impact.

Human resources management

103-1 | 103-2 | 103-3



UN SDG targets: 8.5



Israel aerospace industries: employer of choice

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. IAI operates in accordance with Israel's labor laws, respects the human rights of its employees, and implements organization-wide procedures and processes for managing the excellence of our human capital.

The responsibility for managing the human resources organization and carrying out strategic plans for all aspects of employment is vested with the IAI's HR VP, who reports directly to the company's CEO and is a member of the Senior management sustainability steering committee. The Board of directors frequently follows the progress of these issues as part of its agenda.

In 2020, IAI ranked 2nd "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 shuttle 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 18).

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.

In order to ensure that we create an empowering, rewarding, and forward-looking work environment, we maintain various mechanisms of dialogue employee and manager involvement, and transparently report on our progress through:

- An annual organizational climate survey and employee satisfaction surveys
- A new "speak openly" platform, which enables direct contact and dialogue with the Senior management, and Roundtables with content leaders at the company and members of the management in the various disciplines
- Weekly and special reports on the intra-organizational communication platform and on the WeAreIAI app
- Annual company reports to stakeholders: BDI index,

103-1 | 103-2 | 103-3



Ma'ala index on Tel Aviv stock exchange, and our sustainability reports.

In 2020 the concept "social distancing" was introduced in our lives – a guideline required to maintain and protect the health and wellbeing of our employees. During the days of social distancing and lockdowns, we succeeded in quickly developing alternatives to the way we carry out, maintain and strengthen the interpersonal connections within work teams, units and management staffs. We are proud of the way the human resources teams in all of the company's groups and divisions assisted in adopting these alternatives, and continue to examine long-term adoption of some of these strategies, which proved their effectiveness and importance during this year (see pages 6-7).

Over the course of 2020 we continued to invest in our human capital excellence processes, including establishing a new recruitment and career center and a payroll center, expanding the performance evaluation program and formulating the company's leadership concept.

We are proud of our achievements, the resilience of our people in times of crisis, and the enlistment of our best minds in developing ways to address Israel's national needs.

We maintain and continue to focus our community involvement as an essential part of our social responsibility strategy. Our commitment to society in Israel, through our products and our employees, is the undisputed basis of our value as an organization.

Leadership and management excellence

Over the course of 2020, we led an in-depth process of formulating IAI's leadership concept. Together with the members of the Senior management and dozens of managers at various levels, we have shaped the company's model of leadership, reflecting the behaviors and skills required from IAI's managers, in order to continue to lead our business success and ensure the commitment and connectivity of our employees.

The model is now implemented in various platforms (management training, recruitment and mobility tools, performance evaluation etc.) to promote management excellence on all levels, today and in the future.



Career at IAI

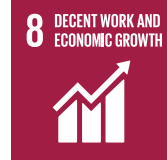
103-1 | 103-2 | 103-3 | 201-3 | 401-1 | **Limited assurance**



UN SDG targets: 5.1 | 8.5



Being an attractive employer is expressed in the quantity of potential applicants to positions that we advertise, in employment rankings such as the BDicode, and in the choice on the part of the vast majority of our employees to continue to grow with us over the long years of their careers.



Our new recruitment center

In 2020, the company launched the new recruitment center, in order to create an inviting and positive recruitment experience from the candidacy stage to intake, while significantly shortening the length of the recruitment process. The center integrates all of the processes in a single place, enables identifying and canceling duplicate processes, improving availability vis-à-vis potential candidates and the quantity and quality of CVs that are submitted to the company, as well as the digital recruitment measures that maintain human-based dialogue. The center's teams hold recruitment events in cooperation with universities and colleges, and specific recruitment events and special collaborations for diversity and inclusion, in order to promote the recruitment of qualified employees from diverse populations.

The recruitment center staff won 2nd place in the human resources excellence competition in Israel, in the "cross-organizational change processes" category.



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

Employees' mobility and talent management

As of 2020, the new recruitment center also supports all mobility and career development processes, in order to allow the employees to have a solid infrastructure for their success, in light of the wide variety of roles and positions available at IAI. This abundance of opportunities allows employees to pursue internal transfers as part of a flexible career path, and to learn, advance and expand their expertise and skills. 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 AI 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. 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.

We kept our retirement workshops during 2020, in small groups and via digital platforms. This program was attended by 99% of our retiring employees in 2020.

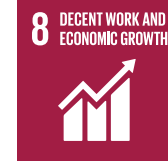


Diversity, inclusion and equal opportunity

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



UN SDG targets: 5.1 | 8.5



IAI employees are the human power that makes IAI into what it is. We believe in respect and equality without discrimination and 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. Moreover, out of a desire to create a better, more equal and fair society in Israel, even before the intake stage of employees at IAI, we lead and participate in a variety of social projects in accordance with the company's diversity policy (see pages 60-61). As part of establishing our new recruitment center, and the implementation of our human resources management, we have reviewed and updated our human capital, as well as our diversity and inclusion KPIs, as they appear in our sustainability reports. This allows us to fine-tune the targets and objectives most relevant to our core operations, and focus the reporting on performance in matters where the company has the most impact.

Women at IAI

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 women from junior management roles, as well as encouraging women to advance while implementing work-life balance. The percentage of women at IAI in 2020 was 23%, and the percentage of women in management (from the level of Unit Director and up) was 18%. In addition, over the past year the number of female engineers increased by 5.5%. A survey

on a social network by IA found that the number of women who responded to our recruitment ads jumped from 12% to 29%, when the ads used a female-based language. Even during the Covid-19 pandemic, we continued to carry out many activities that support the strategic plan to advance women to positions in the core technological professions and to management positions at the company. for example:

- Dedicated media campaigns for women in recruitment
- Collaboration with a nonprofit association to advance women
- Advertising positions for graduates of our "Women Engineers of tomorrow" (see page 60)
- Workshop on gender-neutral writing for content writers and managers from a variety of disciplines at the company

Diversity and inclusion

Even though the trainings that support our diversity programs were affected by the outbreak of the Covid-19, we continued to invest considerable efforts in order to increase our recruitment rates among members of the Druze community, people with disabilities, people of Ethiopian origin and members of the Ultra-orthodox Jewish community. These included:

- Publishing the company's diversity and inclusion policy and establishing a steering committee
- Operating a special shuttle service for the Druze community, most of whom live in the northern parts of Israel
- Two courses launched for the DRUZE community, focusing on aviation manufacturing
- A campaign, based on stories of employees from diverse populations
- Expanding collaborations with multi-sector offices, institutions, non-profit associations (see page 61)

Empowering workplace

404-1 | 404-2 | Limited assurance



102-41 | 201-3 | 403-5 | Limited assurance

UN SDG targets: 4.4 | 8.2 | 8.5



Career development and the future of employability

Our work allows us to express ourselves and our abilities, and find meaning and value through our profession and organizational belonging. Rapid social and technological changes redefine roles, the career length, and the educational mechanisms and ways by which one can obtain a profession. The new and exciting era of employability requires

companies to rethink and redesign their employee recruitment, development and retention processes. A special emphasis is required for populations who struggle with various socio-economic and other barriers, on their way to a solid job.

Professional training and certification

IAI greatly invests in its managers and employees training. Our training infrastructure is one of the leading in Israel, responsible, among other things, for the development of advanced technological courses, managerial and regulatory certifications, making external training available in-house and more. These are all important components in our employees career path and their personal and professional development.

Our training programs are designed to support:

- New employee orientation (including safety, occupational health and ethics)
- Knowledge and skills in various fields of expertise (technologies, project management and more)
- Annual refreshers on mandatory or regulatory topics

- Managerial level training (for existing and future management)
- Career and professional change
- Retirement readiness and knowledge transfer
- Generic enrichment courses

The company also offers to participate in academic degrees (bachelor's, master's and doctorate degrees) and cooperates with universities and colleges to that end.

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, and AS9100 (see page 38).

Training is done either through frontal classes or online. the Covid-19 pandemic had accelerated remote trainings via a virtual platform. We anticipate this trend to continue in 2021.

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. These trainings support an organizational culture based on the material topics (see page 17), and emphasize the importance that the company places on promoting them.

Performance evaluation

We aim to focus and empower our employees and increase their motivation in supporting the achievement of IAI's overarching goals. During 2020, we continued to expand our performance evaluation process, based on the tool introduced in 2019, which directly links IAI's business goals and employees' personal strengths. From 2021 and on, the updated process will include all IAI's employees.

New payroll service center

In 2020, a new payroll center was set, integrating all various activities related to this service, and accessed through different communication platforms. This process included establishing a designated website that includes detailed information about payroll and its various components, establishing an internal portal and a cell phone app for submitting requests and forms efficiently and quickly, while indicating the status of the request, and establishing a dedicated system of payroll representatives providing service by telephone.

Employees' wellness and benefit plans

IAI's employee benefit plans and pensions are reported in the 2020 financial statement (hebrew), pages 56-61. For example:

- 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, including designated working schedules, special shuttle transportations for mothers of children up to 8 years old, and sharing in daycare costs for employees with young children.
- Vacation: paid vacation and special vacations on specific occasions (wedding, etc.)

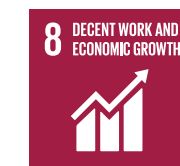
- Paid sick days
- Paid overtime (with approval)
- Paid participation in conventions and professional training
- Meals and shuttle transportation to and from work
- Innovation grants
- Sports activities

Medical care and coverage

IAI operates internal clinics for occupational health and immediate medical care at its sites, available to all employees (see page 59). 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.

UN SDG targets: 8.8



Freedom of association

At IAI, our employees exercise their rights of freedom of association and collective bargaining. In 2020, 66% of our permanent employees were covered by collective bargaining agreements.



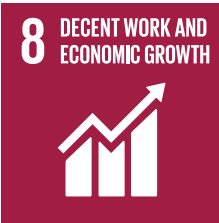
Occupational health and safety

103-1 | 103-2 | 103-3 | 403-1 | 403-2 | 403-3 | 403-4 | 403-5 | 403-7 | 403-9

Limited assurance



103-1 | 103-2 | 103-3 | 403-1 | 403-2 | 403-3 | 403-4 | 403-5 | 403-7 | 403-9 | Limited assurance



UN SDGs targets: 8.8

Occupational health and safety management at IAI

Safety, occupational health and environmental matters are managed operationally at all levels of the organization and under the supervision of the EHS (Environment, Health, and Safety) Directorate on a corporate level.

The EHS Directorate is the professional authority that sets out the company's policy and procedures, and initiates strategic processes and cross-organizational targets and objectives for managing safety, occupational health, and the company's emergency plans, and provides professional guidance to division- or group-level safety officers. In 2020 there was a decrease in the rate of accidents, a key target in the 2019-2023 strategic sustainability roadmap. This trend is comparable to previous years, because the company's total production activity was maintained as an essential business during the Covid-19 pandemic (see page 35).

Transitioning from OSHAS 18001 to ISO 45001

The safety management system (SMS) provides a basis for continuous and ongoing improvements, periodic surveys, and management reviews. All IAI's operational divisions have valid business licenses and most of them have completed the transition from the safety standard OSHAS 18001 to the new standard, ISO 45001:2018, including: ELTA Systems group, military aircraft group, Systems, missiles and space group, and some of the divisions in the aviation group. The rest of the divisions are expected to complete the transition by the end of 2021. The SMS scope includes all activities.

Safety committees

Expert Safety, Health and Environment committees were formed to establish specific guidance and training requirements for issues

identified as major aspects. Additional committees work to establish safety procedures, work instructions, guidelines and training on topics that serve as a basis for a healthy and safe work environment, such as: 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. These safety committees are made up of 50% representatives of management and 50% representatives of employees, and safety issues derived from collective labor agreements are integrated into the annual work plans.

Managing safety and health risks

All our divisions operate based on company procedures and detailed annual safety and hygiene plans, based on guidelines of global standards and monitored by safety officers. Each work plan is based on a professional risk management relevant to the division, including risk factors and their level (probability and severity), and analyzes methods for monitoring and reducing the risks. IAI had implemented a tool for safety and health risk assessment, and each employee can view the risks in their work station. Risk control and reduction is based on the identified level of risk, and the highest ranking risks are managed directly by the division managers.

Proactive management rounds are performed based on an annual plan, aiming to locate and remove hazards, and safety trustees are also trained to spot hazards and report for corrective action.

Safety incidents prevention and response

In cases of a safety incidents, an investigation takes place based on a methodical procedure, including a documentation, implementing lessons learned in the work environment and monitoring corrective

actions. Investigations are monitored and recorded in a web-based system. The division investigation process is accompanied by a professional expert from the EHS directorate, in order to fully explore all aspects of the incident. In addition, the company's procedure includes a structured "before-action review" in order to assess potential risks and preventable future failures.

Safety and health training

All our employees are trained in general safety issues upon their intake. Refresher training on safety issues takes place once every two years for all employees, and includes a variety of topics, such as conduct during an emergency, fire safety, and ergonomics. In 2020, 77% of employees completed the biannual refresher training. For specific occupations that require additional safety training and/or external training in accordance with regulatory requirements, a designated annual training program is coordinated. A web-based system enables monitoring the validity of certifications and refreshers.

Medical services for employees

The following services are provided at our occupational clinics:

- **Urgent medical care:** including first aid services and treatment of work accident injuries, and when necessary, by a decision of an urgent care physician, referral to a hospital in the area for continued treatment.
- **Occupational health:** including general anamnesis and monitoring of employees in specific occupations that require monitoring for exposure to harmful materials, and checking the fitness of employees returning from absence due to illness, work or car accidents.
- Carrying out certain annual employees check-ups, such as hearing, based on risks of exposure in their specific occupation.
- Treatment and first aid in emergency situations.

Contractors and suppliers health and safety

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

Traffic

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 TNUFA division (formerly Industrial services) and MALAM division hold a valid Israeli standard certification ISO 9301, relating to traffic safety and quality. The major activities in 2020 included:

- Establishing a committee for road signage in Ben Gurion airport campus, and preparing signage maps to all sites
- Enforcement actions regarding cellular use during driving, including establishment of disciplinary committees
- 29% fewer violations were noted in TRAFFILOG, an web-based system used to document and record speed limits exceeding (compared with 2019).
- 11% fewer reports were submitted through "NOHAL 6", a system documenting violations reported anonymously (compared with 2019).

There was a slight increase in the number of traffic accidents in 2020, due to working in shifts and increase in the number of employees moving to commuting by private cars. The company will continue to invest to overturn this trend.

safety



Social impact

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



413-1



UN SDG targets: 4.3 | 4.4



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.

Women engineers of tomorrow

The "Women Engineers of Tomorrow" project was launched 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. The project creates a prestigious club for outstanding female science students in order to cultivate the next generation of women in STEM professions. In each cohort 100 students are selected and divided into ten teams that are guided by women engineers from different divisions at IAI. Each team is presented with a unique challenge, and the girls work on developing a solution over the course of three months. In addition, they are exposed to the company's advanced technologies and developments through tours, lectures and

panels with inspiring technology experts from IAI and from other companies in Israel. At the end of the process the prototypes and business models are presented to the students' families, to employees and the management of IAI, and to prominent business managers in the Israeli economy and municipal and governmental representatives. The activity includes girls from diverse populations, such as the DRUZE community.

Women Engineers for Industry

A unique project in cooperation with Ben-Gurion University of the Negev, the Hebrew University, Tel Aviv University and the Technion, aiming to advance outstanding female university students in technological professions by providing scholarships and funded training, integrating them as students at IAI in the final years of their degree, and providing opportunities for their integration at the company in full-time positions upon graduation.

The developers group

A project that connects IDF veterans with disabilities with developers from IAI, in cooperation with the non-profit association Tikkun Olam Makers (TOM), in which employees make use of their skills in order to develop and create solutions that help improve their quality of life.

Adva

A Scale-Up program in cooperation with the Ultra-orthodox Jewish Institute for Public Affairs that promotes the Israeli high-tech industry by developing programs for expanding human capital via special short-term trainings on programming. The program works to integrate populations of outstanding Ultra-orthodox Jewish women in the employment. IAI is a partner in conducting the professional interviews, designed to simulate interviews with programming professionals.

Atidim for Industry

An IDF social program that has developed into a project of national importance since it was established in 1999. The program advances students from underprivileged socioeconomic backgrounds who have been accepted into the IDF's Academic path. As part of the program, we are partners in funding the students' needs during their studies and work to integrate them in leading projects at the company upon graduation.

Kids zone

The Kids Zone was launched in 2020 on the company's website (in Hebrew), offering a variety of online activities for children in science and space; the Kids Zone includes a series of videos of experiments hosted by the company's engineers, DIY craft workshops and virtual tours in IAI's facilities..

MITCHASHVIM project

The Covid-19 pandemic forced the Israeli education system to transition to distance learning, creating a substantial need for personal computers among students lacking the digital means to be able to continue their education. In order to provide a quick, effective, and environmentally-friendly solution that would help reduce social gaps, the Mitchashvim initiative was launched with sponsorship by Israel's President, with the aim of collecting used computers, refurbishing and distributing them. The IAI joined the initiative and provided 160 computers and accessories. We also established a refurbishment laboratory at IAI, which takes computers from our operations and other companies, in order to be refurbished and used by students.

The "aero-lounge" project

IAI is a leader in passenger-to-cargo aircraft conversions. As part of these projects, an aircraft's fuselage is taken apart, and is usually

destined for scrapping due to the complexity of its structure. In 2020, IAI created a first unique collaboration, in which industrial designers were invited to use these aircraft items to design furniture for donation to NGOs or for sale, with the proceeds going towards charity.

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. 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.

The socio-economic forum partnership

The socioeconomic forum was established by the directorate of the business sector in 2019. Its purpose is to augment the power of companies and civil organizations into an integrated strategic action toward solving the challenges facing Israeli society. Within the framework of the forum, the IAI, as a "champion" company, leads an employers' coalition vis-à-vis the IDF. The activity focuses on providing relevant skills and abilities, developing professional trainings directed at business needs, and targeting diverse populations in order to leverage military service towards future employment. Furthermore, IAI participates in other initiatives in the forum, such as Mitchashvim and the Israeli business roundtable. Starting in 2021, the company will also serve as a "champion" of the employers' coalition for advancing women in technology.



Performance scorecards

102-8 | 202-2 | 401-1 | 405-1 | Limited assurance

Details regarding our human capital information in 2020 (see page 55) is specified in footnotes to this table.

Indicator	2018	2019	2020
Human resources management			
No. of employees (women)	3,275	3,299	3,298¹
No. of employees (men)	11,642	11,623	11,033¹
No. of employees (Total)	14,917	14,922	14,331¹
No. of engineers	6,174	6,412	6,682
No. of managers (women)	8	10	94²
No. of managers (Total)	50	56	429²
No. of managers (men)	58	66	523²
% managers from local communities	100	100	100
Diversity, inclusion and equal opportunity			
% women at top 10% salary-level	11.1	11.5	11.6
% employees from Ethiopian origins	1.5	1.7	2.1
% employees from the Ultra-orthodox community	2.7	2.5	2.5
% employees from the Druze community	0.1	0.1	0.2
% employees with disabilities ³	2.6	2.7	2.8
% employees, ages 30 and under	12	13	12
% employees, ages between 31-50	49	51	53

¹ As of 2020, this indicator includes employees under employment relations (permanent, personal contract, temporary and students).

² As of 2020, this indicator includes managers from unit director level and up.

³ The number of employees with disabilities as percentage of total employees refers to employees with permanent disability.



Performance scorecards

102-8 | 401-1 | 405-1 | Limited assurance

Details regarding our human capital information in 2020 (see page 55) is specified in footnotes to this table.

Indicator	2018	2019	2020
Diversity, inclusion and equal opportunity			
% employees, ages 51 and over	39	36	35¹
% managers, ages 30 and under	0	0	0^{1,2}
% managers, ages between 31-50	21	32	33^{1,2}
% managers, ages 51 and over	79	68	67^{1,2}
% managers with disability ³	8.6	4.5	2.5^{1,2}
No. of new employees (Total)	1,325	1,306	846
% new employees (women, in all professions)	31	26	31
% new employees (women, in core professions)	not reported	not reported	26
% new employees (men)	69	74	69
% new employees from Ethiopian origins	1.1	2.5	0.95
% new employees from the Druze community	0.1	0.3	0.83
% new employees with disabilities ³	1.0	0.6	0.83
% new employees from the Ultra-orthodox community	not reported	not reported	2.6
% new employees, ages 30 and under	58	54	48
% new employees, ages between 31-50	35	38	46
% of new employees, ages 51 and over	7	8	6

¹ As of 2020, this indicator includes employees under employment relations (permanent, personal contract, temporary and students).

² As of 2020, this indicator includes managers from unit director level and up.

³ The number of employees with disabilities as percentage of total employees refers to employees with permanent disability.



Performance scorecards

102-8 | 102-41 | 403-9 | 404-1 | Limited assurance



Performance scorecards

102-8 | 403-9 | Limited assurance

Indicator	2018	2019	2020
Empowering workplace			
No. of training hours (frontal only)	523,864	516,714	274,503
No. of training hours (non-mandatory)	-	86,628	21,343
Average No. of training hours per employee ¹ (incl. e-learning)	35	35	24
% employees completing sustainability-related training	77	76	86
% employees covered by collective bargaining agreements	67	63	66
Occupational health and safety²			
No. of absence days : Aviation	1,473	1,495	1,300
No. of absence days: Elta systems	435	610	148
No. of absence days: Systems, missiles and space	329	572	175
No. of absence days: Military aircraft	345	296	149
No. of absence days: Supporting units ³	235	47	29
No. of absence days: Management	74	18	184
No. of absence days: Total	2,910	3,038	1,985
No. of absence days: Total per 1000 employees	195	204	138
No. of accidents :Aviation	42	56	45
No. of accidents: Elta systems	19	20	10

¹ The number of training hours is normalized per the company's total number of employees.² The data represented in this table is based on a cutoff analysis from February 2021. 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.³ TNUFA (formerly Industrial Services), ITC (formerly MAMAN), and MHT.

Indicator	2018	2019	2020
Occupational health, wellness and safety¹			
No. of accidents: Systems, missiles and space	13	20	9
No. of accidents: Military aircraft	9	10	3
No. of accidents : Supporting units ²	7	2	2
No. of accidents: Management	2	2	3
No. of accidents: Total	95	110	72
No. of accidents: Total per 1000 employees	6.4	7.4	5
No. of accidents: contractors ³	12	11	11
No. of fatalities	0	0	0
No. of traffic accidents	16	26	29
No. of pedestrian injured	2	1	1

¹ The data represented in this table is based on a cutoff analysis from February 2021. 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.² TNUFA (formerly Industrial Services), ITC (formerly MAMAN), and MHT.³ Data is based on insurance claims only.



ENVIRONMENT

IAI is committed to reducing its environmental impacts and to a strategic and efficient management of these aspects. In addition, the company cooperates with others in coping with global environmental issues, such as climate change action and promotion of circular economy.

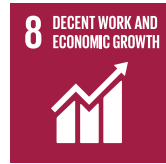
The material topics identified in relation to our environmental performance are: environmental management, energy and emissions, and waste and effluents. Nevertheless, we ensure the management of all other environmental aspects in accordance with all legal requirements and as part of the our environmental management systems.

Environmental management

103-1 | 103-2 | 103-3



UN SDG targets: 8.4 | 9.4 | 12.2



All production divisions of the IAI are certified with ISO 14001:2015 standard as a basic practice. Thus, we are able to define authority and responsibility and to consistently implement procedures, reporting and monitoring systems and performance targets and objectives, in order to proactively identify possible gaps and to create constant environmental improvement at the division and corporate level. Pre-treatment infrastructures are implemented in order to meet regulatory requirements and create resource-effective processes.

At the corporate level, the EHS Directorate and the Sustainability and corporate responsibility Directorate set out policy and provide tools, information gathering infrastructure and professional support to the divisions, as well as reduce risks at the corporate level and ensure that IAI meets its strategic environmental targets as part of the 2019-2023 strategic roadmap for sustainability. In addition, a strategic perspective of environmental issues is integrated into a wide variety of processes at the company, such as design processes (page 48), merger and acquisition (page 34), and in the supply chain (page 41). Environmental management also includes emergency preparedness activities by means of defined emergency teams, response procedures, action plans, designated equipment and periodic drills, whose purpose is to enable the company to continue to protect its staff and the environment, including in cases in which the operational routine could be disrupted.

Circular economy

Circular economy offers an innovative concept of the way companies can create sustainable business value by transitioning from linear production and consumption patterns to circular ones. The principles of circular economy are already applied at the company in some of its business activities. For example, converting passenger-into-cargo aircrafts – one of the company's most prominent business lines in aviation – is a process that maintains and extends the life cycle of the product. IAI has also adopted collaborative business models for its UAV production, and technologies such as 3D printing and imaging and simulation processes through VR tools constitute an integral part of the development of our most innovative and advanced satellites, missiles etc. Along with the environmental benefit, IAI regards promoting principles of circular economy as an opportunity for technological innovation and business efficiency and savings. Potential exists in connecting to the processes of material substitutions in product design, in the use of digital means as an infrastructure that replaces the need for the use of physical resources, and in examining the development of additional collaborative business models and the feasibility of sharing intra-organizational assets such as buildings, inventories and knowledge. Expansion of circular economy application at the company takes place as part of the 2019–2023 sustainability roadmap. It includes extensive mapping of the circularity potential in our business activity in order to identify opportunities for implementation, along with developing intra-organizational circular expertise in the various disciplines.

In 2020, IAI joined various forums for promoting circular economy on the national level: the Circular Economy Forum of the Israel-America Chamber of Commerce and the joint forum for environmental issues of the business sector and environmental NGOs in Israel.

Environmental compliance

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



IAI's sustainability program is based on our uncompromising commitment to abiding by all laws and regulations applying to our business activity. Due to the large number of processes, transactions and activities, we need to comply with many legal requirements on an ongoing basis. To this end, the company employs the following mechanisms:

Environmental regulatory watch (Israel)

IAI subscribes to a daily web-based service on environmental issues in Israel. This service enables us to receive timely updates on existing legal requirements in order to ensure that the company complies with the most up-to-date versions of these requirements. This service also encompasses future requirements being developed, such that we will be able to prepare in advance. In addition, aspects of environmental standards, public policy, and publications of environmental initiatives on the national level are also included, and help the company in promoting internal strategic objectives and taking an active part in the dialogue with environmental stakeholders in Israel.

Environmental regulatory watch (International)

The production, operation, maintenance and end-of-life of existing aerospace and defense technologies produce a significant environmental footprint. In addition, a global shortage of materials is an increasing cause of concern for continuous production, along with stricter regulations, which lead to the removal from use of many raw materials in the industry. As members of the IAEG organization (see page 14) we continuously track regulatory updates on these materials in the international markets that have a direct impact on uses in the aerospace and defense sector. These updates are used by IAI as part of its reporting processes vis-à-vis customers and the development of environmental friendly alternatives.

Environmental regulatory enforcement

In 2020, an environmental regulation survey was conducted as part of the company's internal environmental enforcement plan. The purpose of the enforcement plan is to ensure that the company complies with the requirements of the Israeli environmental regulations, to continuously prevent environmental violations and to fulfill the supervisory obligations of IAI's Senior managers.

In any case where a disparity is identified, the Senior management is informed and corrective actions are taken. Furthermore, there are cases in which the event or the issue is reported to the Board of Directors and/or our external auditors, and if the relevant criteria are met, they are also reported to the public.

To the best of our knowledge, up to the date of publication of this report, no violation letters, fines, or sanctions were imposed on IAI in relation to our environmental performance in 2020.

Environmental risks management

The company's Board of Directors and Senior management are committed to sustainable development and to an organizational culture that promotes corporate responsibility. As part of this commitment, and in accordance with the provisions of the Government Companies Authority on this issue, the company's management monitors, track and regularly discuss the planning and implementation of these issues. In addition, the management's designated reports on environmental issues are presented to the Board sustainability committee.

For more on environmental risks (including statutory regulations related to decision-making) see section 20 of the company's 2020 financial report (in Hebrew) (pages 102-104).



Energy management

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



302-1 | 302-4 | Limited assurance

UN SDG targets: 8.4 | 9.4 | 12.2 | 13.1



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 2020, 80% of our employees have completed a designated e-learning course on energy savings, and additional training on energy supply and consumption was delivered to energy officers, and energy trustees.

The following divisions hold a valid certification of ISO 50001:2018 standard for energy management in operations:

Military aviation group, TNUFA unit (formerly industrial services), and the Missiles and Space group.

Electricity consumption

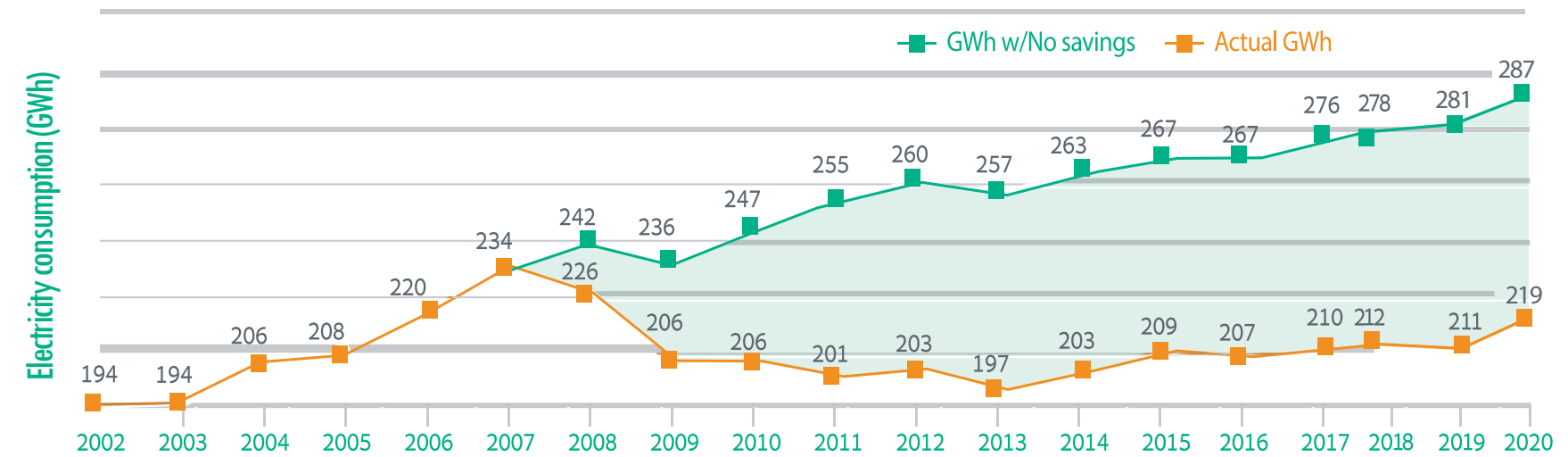
100% of IAI's electricity consumption is based on a private supplier, which produces electricity based on Natural gas.

As of 2007, IAI established a continuous working plan to implement cross-organizational efficiency and saving measures. Since 2007, 704 GWh were saved in relation to the "business as usual" scenario. Savings were achieved alongside a rise in total electricity consumption in 2020, due to new buildings being populated and additional impacts following Covid-19 procedures designed to protect employees health, for example by working in shifts (see pages 6-7).

IAI did not sell any energy (electricity, cooling/heating or steam) during 2020.

Renewable energy

The IAI did not utilize renewable energy sources in 2020; in 2020, the company installed three photovoltaic installations on its premises, as part of 2019-2023 sustainability roadmap for the reduction of greenhouse gases and our energy savings. Due to Covid-19, the renewable energy consumption is expected to begin in 2021.





[103-1](#) | [103-2](#) | [103-3](#) | [302-1](#) | [302-4](#) | **Limited assurance**



Fuel consumption in industrial uses

As an essential enterprise, the IAI needed to maintain continuous activity, while implementing processes to protect the health of employees during the Covid-19 pandemic, for example by working in shifts (see pages 6-7). As a result of the adjustments, the fuel consumption regime in production was affected in 2020, and there was an increase in the consumption of liquefied petroleum gas (LPG) and diesel. We expect that with the return to routine activity, it will be possible to continue the reduction trend.

Fuel consumption in transportation

IAI operates a fleet of leased vehicles for its employees, as well as a fleet of carpooling vehicles for short trips between its sites. The total of all trips in 2020 was 65,060,508 kilometers. This is estimated based on the total consumption of fuel for vehicle transportation and an average usage of 12 km per liter for the vehicles.

There was a downward trend in all forms of fuel for transportation at the company in 2020. The decline is attributed to a combination of the continued implementation of the 2019-2023 strategic roadmap and implementation of steps to protect the health of employees during Covid-19 pandemic, for example by working in shifts (see pages 6-7), that affected aspects of shuttles operation and overall commuting.

Jet fuel is consumed mainly in the aviation division, and is divided into marginal consumption by the activity of the business jet factory, and the main consumption by maintenance, repair, and overhaul (MRO) activities, for the purpose of sending the aircraft to overseas customers. Due to the impact of the Covid-19 pandemic on this specific market, there was a 20% decrease in the overall consumption of jet fuel in 2020.

Shuttle service

IAI is one of the largest companies in Israel that operates an extensive shuttle service for its employees at all of its sites in Israel. This service enables employees who choose shuttles as their commute, to travel easily and efficiently, while reducing the need for using private vehicles. With the outbreak of the Covid-19 pandemic, the shuttle service was adapted, in order to enable continued safe use for employees.

The carpool app

In 2020, a carpool system was launched that enables employees to find partners for commute on various schedules and locations, who are traveling to all of the company's sites in Israel. The system enables reducing the use of private vehicles along with reducing traffic and parking at the company sites.

Greenhouse gases emissions

[103-1](#) | [103-2](#) | [103-3](#) | [305-1](#) | [305-2](#) | **Limited assurance**



UN SDG targets: 13.1



According to the American space agency (NASA), 2020 was measured to be the hottest year, on par with 2016. The transition to a low-carbon economy has been identified as the central tool for countries to combat climate change along with developing the ability to adapt to the changes expected to occur in the coming decades around the world.

As part of the implementation of the strategic roadmap for sustainability 2019-2023, the IAI works to refine dealing with global climate risks, and to manage the reduction of the company's emissions from operations and production processes, to a variety of products we partner in their development:

- 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
- Supporting climate change mitigation in the A&D supply chain through IAEG
- 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.

- Starting in 2020, IAI is participating in a joint forum on environmental issues of the business sector and environmental organizations in Israel, which, among other things, also deals with renewable energy aspects on the national level.

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 annual trend of declining emissions from direct activities (scope 1) continues, with an 11% decline compared to 2019. This decline is comparable to previous years, because the company's total production activity was maintained as an essential business during the Covid-19 pandemic (see page 35). However, after years of declining annual emissions from electricity consumption (scope 2), there was an increase in 2020, which stemmed from the implementation of processes to protect the health of employees during the Covid-19 pandemic, for example by working in shifts (see pages 6-7). We expect that with the return to routine activity, it will also be possible to continue the reduction trend.



Water and effluent treatment

303-1 | 303-2 | 303-5

Water consumption and efficiency

Limited assurance

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 2020 was 703 mega-liter, including all water sources in use in all the company's sites. Water consumption data is based on direct internal and external consumption monitoring and billing information.

Effluent treatment



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

The vast majority of the company's industrial wastewater flows from the Ben-Gurion Airport site to a nearby treatment facility under an organized wastewater quality and composition agreement, and in relevant streams, following a designated pre-treatment for hazardous components. In 2020 the trend of declining amount of wastewater continued, by about 19% in comparison with 2019. This trend is maintained and comparable to previous years, because the company's total production activity was maintained as an essential business during the Covid-19 pandemic (see page 35).

All wastewater use figures are based on internal and external monitoring and billing information.

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.

For an up-to-date progress, see the Financial Statement of the Company (in Hebrew) for 2020, pages 47-48.



Waste management

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



UN SDG targets: 12.5



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 and adopting circular economy (see page 68).

Compared to 2019, total hazardous waste declined by 12%, while total non-hazardous waste remained the same. This trend is comparable to previous years, because the company's total production activity was maintained as an essential business during the Covid-19 pandemic (see page 35). However, recycling/reusing processes that are done in accordance with the possibilities offered by hazardous and non-hazardous waste contractors were significantly affected by the global crisis. We will continue to promote the implementation of the 2019-2023 sustainability strategic roadmap including the waste management aspects in the coming years, along with the recovery of the recycling industry in Israel and worldwide, and keep integrating the circular economy principles wherever applicable..

Air emissions

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



UN SDG targets: 12.2



Air pollution emissions are closely linked to impacts on the health of the public and the environment. IAI works within the framework of the 2019-2023 sustainability roadmap, to reduce the use of hazardous materials in its production processes, and to reduce air pollution emissions from its industrial production processes and from transportation sources. In this framework, there was a dramatic decline of 75% in emissions of organic compounds in 2019, and the decline was maintained in 2020. This trend is comparable to previous years, because the company's total production activity was maintained as an essential business during the Covid-19 pandemic (see page 35).

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 2020 performance is in accordance with stack monitoring and calculation methodologies defined in the Israeli Pollutant Release and Transfer Register - 2012.

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

Performance scorecards

302-1 | 302-4 | Limited assurance

Indicator	2018	2019	2020
Energy management¹			
Electricity consumption: heating/cooling (TJ)	374	378	396
Electricity consumption: lighting (TJ)	92	90	94
Electricity consumption: air compressors (TJ)	54	50	50
Electricity consumption: manufacturing (TJ)	168	169	173
Electricity consumption: other (TJ)	76	72	76
Fuel consumption: industrial diesel fuel (GJ)	20,054	27,347	29,318
Fuel consumption: liquefied petroleum gas (GJ)	33,219	29,201	40,416
Fuel consumption, automotive: diesel (50) (Liter)	904,907	804,530	523,649²
Fuel consumption, automotive: gasoline (95) (Liter)	6,294,959	5,539,138	4,898,060
Fuel consumption, aviation: jet fuel (Liter)	4,083,931	4,307,367	2,747,103³
Fuel consumption, total: transportation (Liter)	11,283,797	10,651,035	8,168,812
No. of hybrid vehicles in company's fleet	308	960	1,055
Greenhouse gases emissions			
Stationary fuel sources (CO _{2e} , metric tons)	3,714	4,081	4,932

¹ Source used for data unit conversions: the 2006 guide of the intergovernmental panel on climate change.

² used by operational fleet only.

³ The sources used for this data were updated during 2020.

Performance scorecards

305-1 | 305-2 | 305-3 | 305-4 | 306-2 | 306-4 | Limited assurance

Performance scorecards

303-4 | 303-5 | 305-7 | Limited assurance

Indicator	2018	2019	2020
Greenhouse gases emissions			
Mobile fuel sources (CO _{2e} , metric tons)	30,059	28,720	21,537
Total scope 1: direct emissions (CO _{2e} , metric tons)	33,773	32,801	26,470
Electricity consumption (CO _{2e} , metric tons)	92,837	92,291	96,858
Total scope 2: indirect emissions (CO _{2e} , metric tons)	92,837	92,291	96,858
Total scope 1&2 (CO _{2e} , metric tons)	126,610	125,092	123,328
Total scope 3: employees travel (CO _{2e} , metric tons)	16,408	16,679	3,560
Built area (square meters)	874,184	876,121	894,635
Scope 1 GHG intensity	0.039	0.037	0.029
Scope 2 GHG intensity	0.106	0.105	0.108
Waste			
Hazardous waste, treatment and/or landfill (metric tons)	2,063	1,831	1,749
Hazardous waste, recycling/reuse (metric tons)	965	377	280
Hazardous waste, exported for energy (metric tons)	203	254	146
Hazardous waste, total (metric tons)	3,231	2,462	2,176
Non-hazardous waste, treatment and/or landfill (metric tons)	2,494	2,615	4,236
Non-hazardous waste, recycle/reuse (metric tons) ¹	4,164	3,901	2,215
Non-hazardous waste, total ¹ (metric tons)	6,658	6,516	6,450

¹ Due to data limitations, one site was not able to share the all the required information for the Independent Limited assurance Report. However, please note that the non-included information has very low impact on the report.

Indicator	2018	2019	2020
Water and effluents			
Total water consumption (mega-liter) ¹	683	671	703
Total water discharge (mega-liter) ²	250	226	184
Air emissions			
Total air emissions, NOx (metric tons)	19.6	20.5	27
Total air emissions, SOx (metric tons)	16.1	15.9	2.8
Total air emissions, VOC (metric tons)	15.3	3.8	1.97
Total air emissions, PM (metric tons)	1.8	1.8	0.85

¹ Including ELTA systems, MALAM, MABAT, TAMAM and Ben Gurion airport campus.

² Ben Gurion airport campus only.



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	10
	102-2	Activities, brands, products, and services	36-37
	102-3	Location of headquarters	10
	102-4	Countries of operations	10
	102-5	Ownership and legal form	10,34
	102-6	Markets served	10, 34, 36-37
	102-7	Scale of the organization	10, 34
	102-8	Information on employees and other workers	55, 62-65
	102-9	Supply chain	40-42
	102-10	Significant changes to the organization and its supply chain	3
	102-11	Precautionary principle or approach	15
	102-12	External initiatives	14
	102-13	Membership of associations	14



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	5
General Disclosure: Ethics and Integrity			
GRI 102: General disclosures 2016	102-16	Values, principles, standards, and norms of behavior	10, 26
General Disclosure: Governance			
GRI 102: General disclosures 2016	102-18	Governance structure	24
	102-22	Composition of the highest governance body and its committees	31, 24-25
	102-26	Role of highest governance body in setting purpose, values, and strategy	11
	102-29	Identifying and managing economic, environmental, and social impacts	11
	102-32	Highest governance body's role in sustainability reporting	11, 25
	102-33	Communicating critical concerns	11
	102-34	Nature and total number of critical concerns	11, 25



102-55

GRI standard	Disclosure	Page	Omissions
General Disclosure: Stakeholder Engagement			
GRI 102: General disclosures 2016	102-40	List of stakeholder groups	12-13
	102-41	Collective bargaining agreements	57, 64
	102-42	Identifying and selecting stakeholders	12
	102-43	Approach to stakeholder engagement	12-13
	102-44	Key topics and concerns raised	12-13
General Disclosure: Reporting practice			
GRI 102: General disclosures 2016	102-45	Entities included in the consolidated financial statements	3, 10
	102-46	Defining report content and topic boundaries	16-17
	102-47	List of material topics	17
	102-48	Restatements of information	3
	102-49	Changes in reporting	3
	102-50	Reporting period	3
	102-51	Date of most recent report	3
	102-52	Reporting cycle	3
	102-53	Contact point for questions regarding the report	3
	102-54	Claims of reporting in accordance with the GRI Standards	96
	102-55	GRI content index	82-92
	102-56	External assurance	93-95



102-55

GRI standard	Disclosure	Page	Omissions
Material topics: Corporate governance and business ethics			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	24, 26
	103-2	The management approach and its components	24, 26
	103-3	Evaluation of the management approach	24, 26
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	28
	103-2	The management approach and its components	28
	103-3	Evaluation of the management approach	28
GRI 205: Anti-corruption 2016	205-2	Communication and training about anti-corruption policies and procedures	26, 28
Material topics: Corporate Governance: Compliance			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	28, 69
	103-2	The management approach and its components	28, 69
	103-3	Evaluation of the management approach	28, 69
GRI 307: Environmental compliance 2016	307-1	Non-compliance with environmental laws and regulations	69
GRI 419: Socio-economic compliance 2016	419-1	Non-compliance with environmental laws and regulations	28



102-55

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	30
	103-2	The management approach and its components	30
	103-3	Evaluation of the management approach	30
Material topics: Economic: Business development and performance			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	34
	103-2	The management approach and its components	34
	103-3	Evaluation of the management approach	34
GRI 201: Economic performance 2016	201-1	Direct economic value generated and distributed	34, 43
	201-4	Financial assistance received from government	34, 43
Material topics: Economic: Competitiveness			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	29
	103-2	The management approach and its components	29
	103-3	Evaluation of the management approach	29
GRI 206: Anti-competitive behavior 2016	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	29



102-55

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	40-41
	103-2	The management approach and its components	40-41
	103-3	Evaluation of the management approach	40-41
Material topics: Economic: Indirect economic impact			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	42
	103-2	The management approach and its components	42
	103-3	Evaluation of the management approach	42
GRI 203: Indirect economic impacts 2016	203-2	Significant indirect economic impacts	42
GRI 204: Procurement practices 2016	204-1	Proportion of spending on local suppliers	42-43
Material topics: Economic: Impact on Israel			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	42
	103-2	The management approach and its components	42
	103-3	Evaluation of the management approach	42



102-55

GRI standard	Disclosure	Page	Omissions
Material topics: Economic: Product responsibility and customer service			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	38-39
	103-2	The management approach and its components	38-39
	103-3	Evaluation of the management approach	38-39
GRI 417: Marketing and labeling 2016	417-1	Requirements for product and service information and labeling	38
Material topics: Economic: Technological innovation			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	46
	103-2	The management approach and its components	46
	103-3	Evaluation of the management approach	46
Material topics: Economic: Business continuity			
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



102-55

GRI standard	Disclosure	Page	Omissions
Material topics: Social: HR management			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	52-54
	103-2	The management approach and its components	52-54
	103-3	Evaluation of the management approach	52-54
GRI 201: Economic performance 2016	201-3	Defined benefit plan obligations and other retirement plans	54, 57
GRI 202: Market presence 2016	202-2	Proportion of senior management hired from local community	62
GRI 404: Training and education 2016	404-1	Average hours of training per year per employee	56, 64
	404-2	Programs for upgrading employee skills and transitions assistance programs	56
Material topics: Social: Diversity, inclusion and equal opportunity			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	55
	103-2	The management approach and its components	55
	103-3	Evaluation of the management approach	55
GRI 405: Diversity and equal opportunity 2016	405-1	Diversity of governance bodies and employees	25, 55, 62-63



102-55

GRI standard	Disclosure	Page	Omissions
Material topics:			
Social: Employees recruitment and talent management			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	54
	103-2	The management approach and its components	54
	103-3	Evaluation of the management approach	54
GRI 401: Employment 2016	401-1	New employee hires and employees turnover	54, 63
Material topics:			
Social: Occupational health and safety			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	58-59
	103-2	The management approach and its components	58-59
	103-3	Evaluation of the management approach	58-59
GRI 403: Occupational health and safety 2016	403-1	Occupational health and safety management system	58-59
	403-2	Hazard identification, risk assessment, and incident investigation	58-59
	403-3	Occupational health services	57-59
	403-4	Worker participation, consultation, and communication on occupational health and safety	58-59
	403-5	Worker training on occupational health and safety	58-59
	403-6	Promotion of worker health	57
	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	38, 58-59
403-9	Work-related injuries	58-59, 64-65	Information unavailable – hours worked for the calculation of rate of high-consequence work-related Injuries. Expected to be obtained by 2022. Currently calculated per number of employees.



102-55

GRI standard	Disclosure	Page	Omissions
Material topics:			
Social: Social impact			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	60
	103-2	The management approach and its components	60
	103-3	Evaluation of the management approach	60
GRI 413: Local communities 2016	413-1	Operations with local community engagement, impact assessments, and development programs	60-61
Material topics:			
Environmental: Environmental management			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	68-69
	103-2	The management approach and its components	68-69
	103-3	Evaluation of the management approach	68-69
GRI 201: Economic performance 2016	201-2	Financial implications and other risks and opportunities due to climate change	48
GRI 303: Water and effluents 2018	303-1	Interaction with water as a shared resource	74
	303-2	Management of water discharge-related impacts	74
	303-5	Water consumption	74, 79



102-55

GRI standard	Disclosure	Page	Omissions
Material topics:			
Environmental: Energy and emissions			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	70, 72-73, 76
	103-2	The management approach and its components	70, 72-73, 76
	103-3	Evaluation of the management approach	70, 72-73, 76
GRI 302: Energy 2016	302-1	Energy consumption within the organization	70-72, 77
	302-4	Reduction of energy consumption	70-72, 77
GRI 305: Emissions 2016	305-1	Direct (Scope 1) GHG emissions	73, 78
	305-2	Energy indirect (Scope 2) GHG emissions	73, 78
	305-3	Other indirect (Scope 3) GHG emissions	78
	305-4	GHG emissions intensity	78
	305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	76, 79
75, 78Material topics:			
Environmental: Effluents and waste			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	74, 75
	103-2	The management approach and its components	74, 75
	103-3	Evaluation of the management approach	74, 75
GRI 303: Water and effluents 2018	303-1	Interaction with water as a shared resource	74
	303-2	Management of water discharge-related impacts	74
	303-4	Water discharge	79
GRI 306: Effluents and Waste 2016	306-2	Waste by type and disposal method	75, 78
	306-4	Transport of hazardous waste	75, 78



102-56

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, 2020. 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.

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 a fourth consecutive year.



Limited assurance

102-56

Independent Limited assurance Report to the users/ readers of Israel Aerospace Industries Ltd. (IAI) 2020 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 2020 Sustainability Report for the year ended 31 December 2020 (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 Sustainability Reporting Standards (SRS): Core option, of the Global Reporting Initiative (GRI) as described in pages 82-92 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 topics 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 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:

xamination 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 topics 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.



102-56

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.

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 2020 Sustainability Report are not presented, in all material respects, in accordance with the GRI (SRS) 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.

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

² Due to data limitations, one site was not able to share the all the required information for the Independent Limited assurance Report. However, please note that the non-included information has very low impact on the report.



Ziv Haft
Certified Public Accountants Tel Aviv
March 30th, 2021

Subject	Page
IAI's Stakeholders	12-14
IAI's 2020 Materiality Process	16-17
IAI's Managing Sustainability and 2019-2023 Sustainability roadmap	11, 18
IAI Corporate Governance	24-25, 31
IAI's Business Ethics	26
IAI's Cyber Defense and Information Security	30
IAI's Financial Performance	34, 43
IAI's Business Continuity	35
IAI's Local Procurement	42
IAI's Patents	47
IAI's Employees Training and Development	54, 56-57, 64
IAI Employees' Diversity	55, 62-63
IAI's Occupational Health and Safety	58-59, 64-65
IAI's Energy	70-72, 77
IAI's GHGs and Climate Change	73, 77-78
IAI's Waste and Effluents	74-75, 78-79
IAI's Water consumption and efficiency	74, 79
IAI's Air emission	76, 79
IAI's Built Area	78



102-53

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.

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***Where Courage
Meets Technology***

