



Sustainability report 2023
Israel Aerospace Industries



Israel Aerospace Industries, a global leader in defense technology, recently marked 70 years of pioneering innovation. The company began in 1953 as Bedek Aviation, providing airplane maintenance for the Israeli Air Force and civilian aircraft. Over time it became a world-class aerospace and defense company, offering superior technology and advanced systems in the air, on land and at sea. IAI, Israel's second-largest exporter, offers a suite of products and services customized to the diverse needs of clients in some 100 countries around the world. As the crucible of Israel's space industry, IAI has made Israel one of only eleven countries with full space capabilities to develop, manufacture, launch and operate satellites.

The geographic distribution of IAI facilities around the country includes a central campus adjacent to Ben Gurion Airport – home to the aviation group and military aircraft programs; the missile group in the town of Yehud; Elta Systems in Beer Sheva; the ground forces development center in Beer Sheva; the integrated combat systems facility in Beer Yaakov; the Mata helicopter MRO facility in Jerusalem; and Golan Industries for crashworthy airborne seating.

Over the years Israel Aerospace Industries has offered a unique example of courage, creativity, innovation and a determination to meet Israel's national security challenges. This may seem only natural in today's environment, but things were different 50 years ago when IAI took its first steps, along with the State of Israel itself. During those formative years, the country gave top priority to establishing new infrastructures. Building aviation infrastructure required the fledgling nation to obtain the knowledge and capacities necessary for both civilian and military applications.

1953



Work begins to establish the National Institute for Aircraft Maintenance.

Launching IAI:

Al Schwimmer, David Ben Gurion and Shimon Peres.



An early project that won international acclaim was the renovation of Dakota military transport aircraft for the French Air Force.

1959



Christening the factory and building the largest aircraft maintenance facility in the Middle East.

1955

In 1951, Al Schwimmer – who would later establish Israel Aerospace Industries -- wrote a memorandum to the Ministry of Defense laying out the following vision: **“We must manufacture planes and rockets by ourselves, not just repair and renovate.”** Over time, its capacity to meet the varied needs of Israel's Air Force became one of the distinct advantages of the new enterprise, earning it a global reputation for professional quality and service.

Israel Aerospace Industries continued to grow throughout the 1960s. In collaboration with the Ministry of Defense, it established the Mabat missile manufacturing plant in Yehud and the Elta electronics facility in Ashdod.

To confront seaborne threats to the State of Israel, the missile factory in Yehud began manufacturing the Gabriel anti-ship missile, the first of its kind in the West. The Gabriel was adapted for use by the Israeli Navy and used successfully for the first time during the Yom Kippur War. Its developers were subsequently awarded the Israel Defense Prize. The Elta facility soon began producing electronic components for the Gabriel missile, developing radar for the Israeli Air Force and electronic warfare systems to disrupt enemy radar. Meanwhile, the aviation group was already exploring new fields, collaborating with America's Gulfstream Corporation to produce business jets. With the outbreak of the Six Day War IAI employees rapidly mobilized to operationalize aircraft, equipment and electronic systems for use by Israel's armed forces. Dozens of planes, damaged in the fighting, were quickly repaired at IAI facilities and returned to action.

1964



Gabriel missile

IAI develops its first missile, the Gabriel, for sea-to-sea applications. Upgraded over the years, it is still in service with navies around the world.

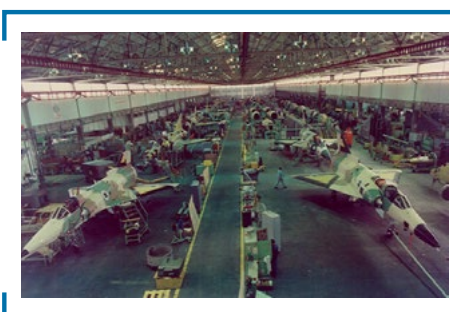
Arava

The Arava - the first indigenous aircraft to be fully designed, manufactured and licensed in Israel - takes flight. 103 of these aircraft were produced before production ended in 1988. It is still in operation in some countries.



1969

Israel's first home-grown fighter bomber, the Kfir, developed and manufactured by IAI, enters service with the Israeli Air Force. Over 220 of this aircraft were manufactured, many of them still in operation by the Colombian Air Force and Sri Lanka Air Force.



1975

In 1978 IAI conducted its first trial flight for an unmanned aerial vehicle, the Scout, thereby paving the way for a new military doctrine. As part of a national effort to improve Israel's balance of payments, generate income and build up foreign currency reserves, IAI made strenuous efforts to boost exports of all its products and services.

1978



Scout

IAI's first operational small unmanned aircraft, the Scout, enters air force service, remaining in operation until the early 1990s.

In the 1970s IAI's aviation group ramped up production of aircraft. The Kfir, Israel's first, homegrown fighter bomber entered service with the Israeli Air Force. All divisions of the company took part in developing the Kfir. It was equipped with advanced airborne radar, electro-optic capabilities and electronic warfare systems.

The decision to develop jet fighters, business jets and transport aircraft in the early 1970s was a daring one for a relatively young aircraft industry. To make it happen, IAI established an engineering division, investing it with responsibility for developing the aeronautic infrastructure for planning and production of aircraft. The Yom Kippur War and subsequent developments increased the need for unmanned aircraft for intelligence gathering, deception and electronic interference.



During the 1980s, IAI's outstanding achievements included the maiden flight of Israel's first jet fighter and the launching of Israel's first space satellite.

Following on the heels of the Neshar and Kfir aircraft, developed by Israel Aerospace Industries in the 1970s, the company's engineering division continued working on an advanced, Israeli-produced fighter jet.



Lavi

IAI's Lavi attack aircraft successfully completes its maiden flight

1986

On December 31st, 1986, the Lavi took flight for the first time. This event catalyzed the development of locally-produced technologies that have endowed the company with an enduring capability to build its own, advanced fighter aircraft

1988

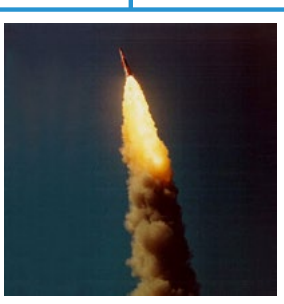
Another important milestone for IAI in the 1980s was a decision by the Ministry of Defense to charge IAI with responsibility for Israel's space efforts



Ofek 1

Israel's first reconnaissance satellite, the Ofek 1, is launched by an Israeli launcher, the Shavit, making Israel the eighth nation to achieve an indigenous launch. Since then, a total of 11 Ofek satellites have been produced and launched, the most recent one in 2016.

1990

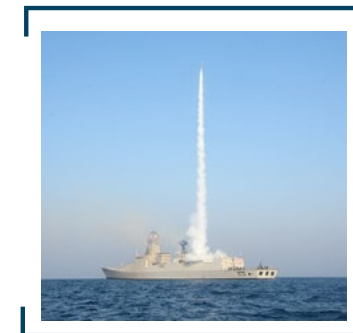


Arrow 1

The first in a family of anti-ballistic missiles, the Arrow 1, is tested. Since then the Arrow has been upgraded and revamped, with the Arrow 3 being declared operational in 2017.

Another important milestone for IAI in the 1980s was a decision by the Ministry of Defense to charge IAI with responsibility for Israel's space efforts

1991



Barak

The Barak, a naval vessels defense system, is tested. The surface-to-air missile system is currently operated by Chile, India, Israel and Singapore.

By the end of that decade, the launching of Ofek 1 marked Israel's accession to the exclusive club of nations with the technology to launch satellites

The digital revolution of the 1990s facilitated new technological breakthroughs.

Israel Aerospace Industries -- in collaboration with the Ministry of Defense -- developed a unique solution for the United States Strategic Defense Initiative. SDI was seeking ways to intercept enemy ballistic missiles in outer space, before reentry into the atmosphere. A series of trials conducted in the 1990s demonstrated the effectiveness of the Israeli solution, which helped meet a variety of needs both for the US Department of Defense and Israel's Defense Ministry.



Heron

The Heron medium-altitude, long-endurance unmanned aerial vehicle completes its first flight. Capable of operations of up to 45 hours duration, at up to 30,000 ft, the Heron is currently serving over 20 global leading customers in a wide range of mission types.



1994

In 1994 IAI unveiled the Heron UAV at the Paris Air Salon. This large aircraft, which has become a globally recognized standard for unmanned aerial vehicles, can operate at long ranges for extended periods in almost any weather. These advantages make it ideal for strategic missions. The Heron currently serves military and civilian organizations around the world for information gathering and intelligence missions.

2000



Arrow 2

The Heron medium-altitude, long-endurance unmanned aerial vehicle completes its first flight. Capable of operations of up to 45 hours duration, at up to 30,000 ft, the Heron is currently serving over 20 global leading customers in a wide range of mission types.

Heron TP

The first successful flight is completed of the largest indigenous unmanned reconnaissance aircraft, the Eitan, also known as the Heron TP.



2006

2012



MMR

IAI's ground-based multi mission radar (MMR) becomes fully operational. One of its main missions is as a firing control radar for various defense systems, including the Iron Dome.

Barak 8

The Barak 8 successfully completes its operational testing by the Indian Navy. The surface-to-air missile (SAM) is currently being used by Israel's navy, and by India's navy, air and land forces.



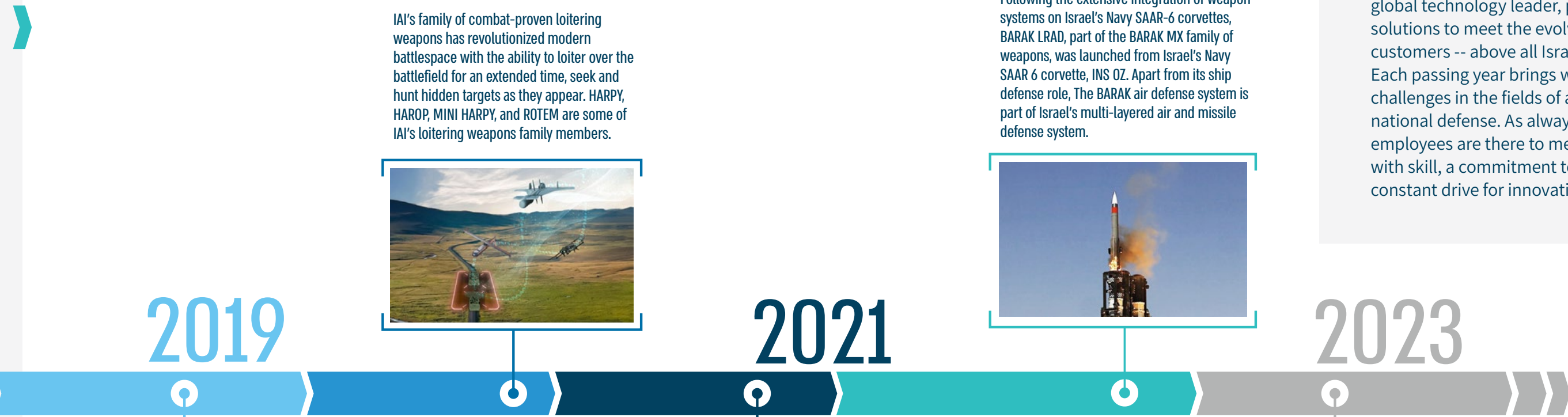
2015

The start of the 21st century saw rapid advances in component miniaturization. Technologies that hitherto had required large aerial platforms could now be carried by smaller and more nimble aircraft, such as the Shavit and Eitan, which serve in the Nachshon squadron of the Israeli Air Force. At the same time, IAI equipped the G550 business jet with ELINT, SIGINT, Electronic Warfare technologies and tactical radar, thus refitting it for strategic intelligence missions. Another technological advance - Multi Mission Radar (MMR) - has become an integral and highly effective part of Israel's air defense systems. Israel Aerospace Industries' Heron TP, known in the IDF as the Eitan, is the world's largest UAV.

The Heron TP, which can operate at altitudes of up to 45,000 feet, carries systems that enable it to take off and land automatically. After the Indian navy carried out a successful intercept in 2015 using the Barak 8 missile, demand for that system has grown on the part of military establishments around the world. The Barak 8 provides both point and area defense, protecting not only the ship on which it has been installed but also working seamlessly with other vessels, integrating their capabilities for more comprehensive defense.

Two decades into the 21st century, Israel Aerospace Industries is now building a new land military systems development and production center, in close cooperation with the Ministry of Defense and the IDF. Among other things, the facility will produce tactical radar for border defense; radar for the Trophy active protective system for tanks; land vehicles for special forces; autonomous combat systems; and systems that protect against gliders.

IAI has also won a major tender issued by the Ministry of Defense to develop and manufacture the Carmel, an advanced armored fighting vehicle that can be operated either autonomously or by two soldiers. Carmel can carry out long-range missions and save the lives of combat troops. IAI also worked closely with Space IL, the nonprofit organization that led the national project to launch Beresheet, an Israeli satellite that achieved lunar orbit.



Beresheet

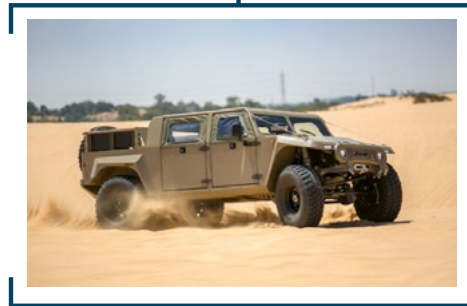
a co-development lunar lander of IAI and SpaceIL and the 1st commercial lunar mission, situated Israel as the 4th country to attempt landing and the 7th country that managed to orbit the moon. Beresheet is also the 1st non-government mission to the moon, the 1st ride share to the moon and the smallest spacecraft to aim and reach the moon.

2020



IAI's family of combat-proven loitering weapons has revolutionized modern battlespace with the ability to loiter over the battlefield for an extended time, seek and hunt hidden targets as they appear. HARPY, HAROP, MINI HARPY, and ROTEM are some of IAI's loitering weapons family members.

2021



Acquiring the manufacturing rights of the Z-MAG off-road vehicle family, IAI began producing the Israeli-developed vehicle at its production line in Beer Sheba, these unique vehicles are destined for Israel's special operations units and export.

2022



BARAK MX

Following the extensive integration of weapon systems on Israel's Navy SAAR-6 corvettes, BARAK LRAD, part of the BARAK MX family of weapons, was launched from Israel's Navy SAAR 6 corvette, INS OZ. Apart from its ship defense role, The BARAK air defense system is part of Israel's multi-layered air and missile defense system.

2023



OFEQ-13

Israel's third Radar Observation Satellite system enters service after a successful launch by the IAI Shavit launcher. Based on the TecSAR family, OFEQ-13 offers the most advanced radar observation capabilities, providing imagery during the day, at night, enabling intelligence collection in any weather and visibility conditions, thus enhancing strategic intelligence.

Today, Israel Aerospace Industries continues its decades-long mission as a pioneering, global technology leader, providing innovative solutions to meet the evolving needs of its customers -- above all Israel's security forces. Each passing year brings with it new challenges in the fields of aviation and national defense. As always, IAI's dedicated employees are there to meet these challenges with skill, a commitment to service, and a constant drive for innovation.





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GRI Content index

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Reporting period and cycle

This report presents the Israel Aerospace Industries (IAI) performance on Environmental, Social, and Governance (ESG) issues, as of December 31st, 2023. This is the company's ninth consecutive annual report, published on March 31st, 2024. In some cases, previous years were considered 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 were audited for limited assurance by BDO Ziv Haft (see pages 99-100), and professional consultation on the report was provided by KPMG Somekh Chaikin.

No significant changes occurred in the organization's sector, value chain or business activities compared with the previous reporting period.

Reporting 'in accordance' with the GRI Standards

UN SDG targets: 12.6



This report has been prepared in accordance with the GRI Standards. 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 Content Index – Essentials Service, GRI Services reviewed that the GRI content index has been presented in a way consistent with the requirements for reporting in accordance with the GRI Standards, and that the information in the index is clearly presented and accessible to the stakeholders.

The GRI Standards Content Index is located at the end of this report, on pages 89-96.

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 is aligned with IAI's 2023 financial statement period, from January 1st to December 31st, and concerns IAI's global activity. Unless otherwise mentioned, all the sustainability data (other than financial) included in this report applies to IAI's activities and operational sites in Israel alone, and reflect the consolidated data from these sites. 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

Change in the measurement or in the definitions used to:

- Frontal training hours: update includes external training hours (for the years 2021-2023).
- Data refinement for the number of directors with accounting and financial expertise for the year 2022.
- Data refinement for the non-hazardous waste recycle/reuse for the year 2022.
- Data collection methodology refinement for the aviation jet fuel and the industrial diesel fuel consumptions (for the years 2021-2023).

Significant changes to the report

No significant changes were made compared with previous reports.



From the Chairman of the board

2-22

Tradition tells us that the carob tree takes 70 years to bear fruit. Therefore, just as our ancestors planted trees for our enjoyment, we must plant trees for the benefit of future generations. This lesson is as relevant today as ever. We must always remember the past as we look towards the future.

I am pleased to submit Israel Aerospace Industry's 9th annual sustainability report, on the 70th anniversary of the establishment of our company.

This report reflects our performance in the fields of sustainability, social responsibility and corporate governance (ESG). Our sustainability practices cut across all IAI operations, producing substantial impact on both a local and global scale. The report lays out the story of Israel Aerospace Industries, while offering a roadmap for our future growth and resilience. For 70 years our company has been an engine for technological and economic development in Israel, turning vision into reality with groundbreaking innovations in the fields of aviation, national security and space technology.

IAI's holistic strategy for sustainability aligns with our overall corporate strategy while contributing to the six sustainable development goals set by the UN for 2030 that are most relevant to our core business operations. We continually adapt this strategy to changes and emerging trends, both locally and internationally. The current report marks the completion of our plan for 2019 to 2023. We have, accordingly, formulated a new plan that will take us through 2030, in an ongoing effort to improve our environmental and social performance and enhance our impact. As always, we will embed this plan in all company operations.

The management of Israel Aerospace Industries is deeply committed to a process based on social and environmental values. A Board of Directors Committee for Corporate Governance, Sustainability and Diversity, headed by Ms. Maha Mansour Ali, provides oversight to ensure we live up to those values. As a government-owned company and a global technology leader, sustainability is fundamental to IAI in all aspects of our business.

2023 was the most profitable year in IAI's history. In fact, our performance was unprecedented across the board.

We achieved all of our business goals and fulfilled our commitments to military and civilian customers in Israel and around the world this despite multiple challenges, geopolitical instability and supply chain disruptions. We maintained our business priorities while continuing to invest in long term growth and sustainable development. We were awarded, once again, a Platinum Plus rating by the Maala Index for Social Responsibility, measuring companies listed on the Tel Aviv Stock Exchange. These achievements reflect the stability and resilience of Israel Aerospace Industries as a company and illustrates our contribution to the resilience of Israeli society as a whole.

Looking back over seven decades, it is clear that our carob tree has indeed borne fruit. Thanks to the dedicated, professional employees at Israel Aerospace Industries – our company's greatest asset – I have no doubt we will continue to expand operations in Israel and around the world. In these trying times for the State of Israel, in the midst of an ongoing war, we continue to support Israel's national defense effort and help it contend with evolving threats, even as we expand our business operations around the globe. We will continue to do so in the years ahead, leading the way in excellence and innovation, so that future generations can continue to live in safety and security.

We proceed in this mission, always cognizant of our obligation to protect and nurture the environment. This is no mere luxury. Protecting the environment is a basic obligation to our descendants.

Israel Aerospace Industries will continue to uphold the values of social and environmental justice going forward.

Sincerely,

Amir Peretz
Chairman of the Board of Directors



From the CEO

2-22

I am honored to present, herewith, the 9th annual sustainability report for Israel Aerospace Industries. This report reviews our performance in 2023, a year in which the State of Israel was obliged to defend itself in Operation Iron Swords.

This document, published concurrently with the company's annual financial reports, exemplifies our commitment to accurate and timely reporting, and illustrates our pursuit of sustainability. These efforts are integral to the broader strategy of Israel Aerospace Industries, and contribute to the success and resilience of our company, now and in the future. Our policies in this regard are informed by the understanding that social responsibility derives from reliable corporate governance, transparency and ongoing dialogue with our stakeholders.

Last year we completed the implementation of our strategic sustainability plan for 2019 to 2023. Each year of the plan focused on specific objectives that contributed to the achievement of United Nations sustainable development goals (SDGs). A cumulative review of our efforts over these five years indicates demonstrable progress in promoting gender equality. The first cohort of our "School for Future, Women CEOs" has already led to a marked increase in the number of women who have submitted their candidacy for senior management positions in 2023, as well as a growing number of women who have advanced to managerial and technological roles in the company. We also met our goals for recruiting a diversified workforce. In 2023 we registered a major increase in community volunteer hours performed by IAI employees. We also initiated work on the ground forces development center in Beer Sheva as part of our effort to provide employment opportunities for residents of Israel's geographic periphery in the Negev region. Occupational health and safety was another area where we met our multiyear goals. We also made progress in reducing our carbon emissions and improving energy efficiency. Israel Aerospace Industries' environmental protection

efforts are ongoing. I am proud of our achievements in this field, and credit our dedicated employees whose untiring efforts have yielded measurable results. Notably, IAI's achieved unprecedented business results in 2023.

Israel Aerospace Industries continues to promote Israel's economy, technology and national defense.

2023 was a year of unprecedented achievement by almost every measure. Our order backlog rose to \$18 billion, sales reached \$5.3 billion, net profit reached \$318 million, and outlays on R&D totaled \$275 million. We distributed dividends of over a billion dollars to the Israeli treasury on these profits and increased our domestic purchases to 69%. All this amounts to a resounding declaration of confidence in Israel Aerospace Industries, which was recently awarded a AAA credit rating by S&P.

Our outstanding business performance is a notable milestone on the occasion of the company's 70th anniversary. Israel Aerospace Industries has come a long way from a small workshop for aircraft repair to the global leader it is today in defense, civil aviation, and technological innovation. Israel's national defense and the fortunes of Israel Aerospace Industries have been closely tied since the very establishment of the company, something that is most evident during these trying times of military conflict. IAI will remain on the cutting edge of global technological innovation to ensure the future of the State of Israel, our employees, and the best interests of our partners.

Looking towards the future, we have just formulated a new strategic sustainability plan that will carry us through to 2030. This new roadmap is a natural continuation of our preexisting efforts, taking into account local and global developments as well as the expectations of our stakeholders for superior performance and corporate stability going forward.

Sincerely,

Boaz Levy
President and Chief Executive Officer



The "Swords of Iron" War

On October 7th, the Israeli society woke up to a dire situation. Since then the State of Israel and the Israel Defense Forces have been waging a valiant and resolute struggle, on the battlefield and the home front, to restore security to our homes and families.

The present sustainability report, which reviews our company's performance in the fields of environmental protection, social responsibility, and corporate governance for 2023, was written in the shadow of the "Swords of Iron" war.

Israel Aerospace Industries was and remains a vital partner in the effort to guarantee freedom and security for Israel's citizens.

Since October 7th, our company has been operating on an emergency footing, ensuring operational continuity along with a stable and reliable supply chain. Our control room has been a beacon of light for our suppliers, coordinating vital needs and interfaces, while providing a strong and stable logistical infrastructure. At the same time, IAI has launched ongoing efforts to support the residents of Israeli communities affected by the war. We also dramatically increased our domestic purchases.

Israel Aerospace Industries systems are integrated within the war effort. The company has given top priority to meeting the changing needs of Israel's security forces. Our dedicated employees, painfully aware of their responsibility in this emergency, have doubled their efforts, accelerated the pace of work on existing and new projects, and crafted ad-hoc solutions to new needs as they arise. They have expanded production lines and maintenance crews and made themselves continuously available to Israel's armed forces.

In light of the situation, IAI is making extraordinary efforts to nurture and empower our employees and their families. This includes workshops on resilience and managerial training, support for those called up for military reserve duty, special assistance to those wounded in battle, and care for grieving families who have lost loved ones on and since October 7th.

This time of crisis is also Israeli society's finest hour. The spirit of unity and mutual help that guides the Israeli people is evident at Israel Aerospace Industries. Our employees have volunteered for dozens of initiatives to support farmers impacted by the conflict, help displaced families, distribute food, provide logistical and transportation assistance, support our soldiers, visit the wounded, and meet other needs on the home front and the battlefield.

At a time when Israel Aerospace Industries boasts the finest business results in its 70 year history, we are also called upon to play our part to serve Israeli society. Today, more than ever, we must look forward and consider the needs of future generations.

Our recent decision to establish an electronic component production facility in the town of Ofakim illustrates our values as a company. The new factory will meet the growing needs of Israel Aerospace Industries while providing employment and economic stability to this underserved community, so painfully impacted on October 7th. Likewise, we are moving forward with plans for new innovation centers in Dimona and Eilat, cities located on Israel's geographic periphery.

Today, when operational continuity is more vital than ever, the stability and resilience of Israel Aerospace Industries is a beacon of hope. Our company will continue to promote environmental protection, social responsibility, and good corporate governance, setting ambitious targets and meeting them. As always, our objective is sustainable growth and ongoing resilience for the company and Israeli society at large.

Sincerely,

Menashe Ben Haim
Executive VP Chief Operating Officer

Shai Gal
VP External Relations

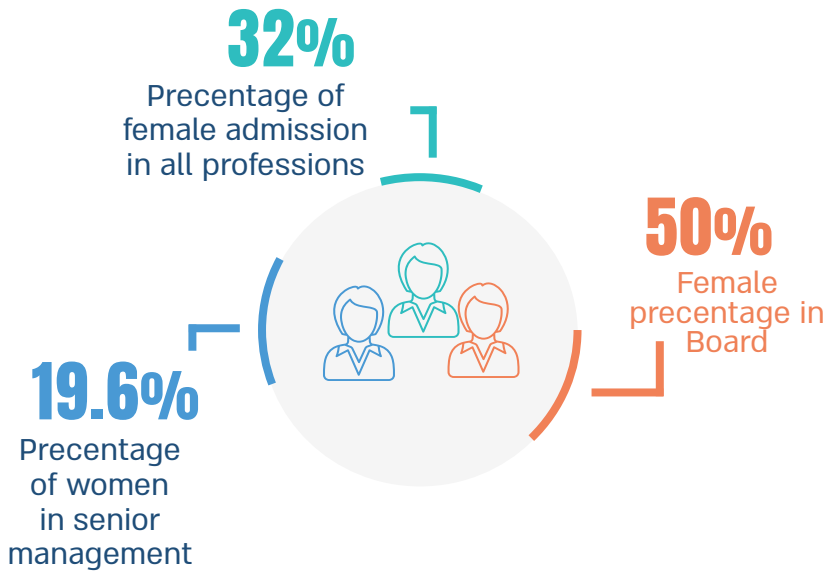
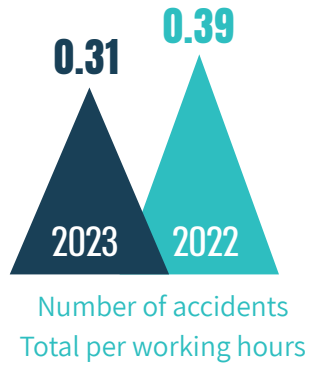
Yael Laham
Director of Sustainability and
Corporate Responsibility



פורצים גבולות
70
שנים



STRATEGY AND VALUE CREATION



14,332
Employees

5,327
Sales (Mil \$)

318
Net Income (Mil\$)

69%
Local procurement

17.7
Order backlog (B\$)

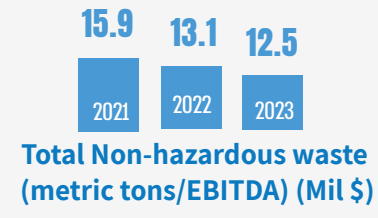
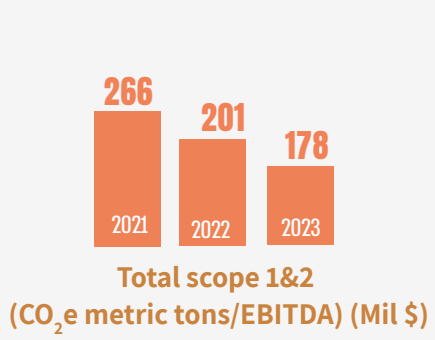


Our business

2-1 | 2-2 | 2-6

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. IAI was founded in Lod, Israel in 1966. Prior to its establishment, it operated as a supporting unit in the Ministry of Defense, established in 1953. Its name changed to Israel Aerospace Industries Ltd. In 2007.

IAI's headquarters is located near Ben-Gurion Airport, Lod. Overseeing multiple distributed operational sites across Israel, IAI is the largest employer of engineers in Israel, 22.49% of which are women. The company sustains over 30,000 households nationwide, across all circles of employment.



Managing sustainability

2-9 | 2-12 | 2-13 | Limited assurance

In IAI, sustainability management is cross-organizational and includes all the company's Groups, Divisions, R&D, operations, and manufacturing. The program is managed hierarchically, by a Board of Directors' Corporate Governance, Sustainability, Women's Advancement and Diversity Committee, overseen by a senior management Sustainability Steering Committee, led by the Executive Vice President of Operations, Procurement and Logistics. The Steering Committee in turn supervises the Sustainability and Corporate Responsibility Directorate, and is responsible, among other things, for the approval of IAI's annual sustainability reports. Through these authorities, we form manageable, measurable, and consistent work plans, strategically directing IAI's progress in the main issues of sustainability.

Our sustainability management is directly derived from our sustainability policy, which in turn reflects our material topics (see page 29). This policy dictates both the focus of IAI's senior management and the strategic work of the Sustainability and Corporate Responsibility Directorate, as well as the targets and objectives assigned to the various functional units acting to promote sustainability issues (for example, Human Resources and Career Advancement, Finance, Procurement, and Logistics). The Sustainability and Corporate Responsibility Directorate collates progress reports from the company's various units and reports back each quarter to both the Senior Management Sustainability Steering Committee and the Board of Directors' Sustainability Committee. The program supports the company's long-term

business objectives and is reviewed annually by the company's senior management and the Board of Directors' Sustainability Committee to ensure its completeness and effectiveness.

To achieve our objectives and 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 which are systematically measured throughout the year. Drawing on the materiality process and the progress made each year, taken together with our 2019-2023 strategic sustainability roadmap, and the formulation of a new multi-year strategic plan that will take us through to 2030, we continue to advance those issues that have matured during the period in question and as a result of internal organizational monitoring, aspiring to add additional issues each year to expand the public reports. Examples of processes and topics added to the company's sustainability reports up the publication of this report include the formation and implementation of our 2019-2023 strategic sustainability roadmap, formulation of the strategic sustainability plan for 2030, and diverse range of reporting schemes such as CDP, the international Carbon Disclosure Project for monitoring climate impact, the voluntary reporting mechanism of Israel's Ministry of the Environment for greenhouse gases emissions, the Maala index at the Tel Aviv Stock Exchange, and supporting the UN's 2030 Sustainable



Link to IAI's sustainability policy
<https://www.iai.co.il/sites/default/files/2019-12/sustainability-policy.pdf>

Our stakeholders

2-29 | Limited assurance

We work proactively to develop trust-based relationships with our internal and external stakeholders, including our employees, customers, business partners, suppliers, contractors, regulatory authorities, civic organizations, and communities in which we operate. We seek engagement with our stakeholders through various processes and approaches. In 2023, we continued to engage with new stakeholder dialogues, and strengthen processes that were set in previous years in order to advance cooperation, learning, and improvement, based on valuable insights on our material topics and performance.

Stakeholders	Internal/ External	Proposed material topics for engagement	Engagement approach
Israel's government (owners)	External	All materials topics (see page 29)	Annual reports; Meetings, Participation of a representative of the Companies Authority as an observer in the Board meetings and its committees
Regulatory authorities (including environmental and social compliance)	External	All materials topics (see page 29)	Annual reports; Meetings; Joint seminars, conferences and seminars; Site visits and audits; Professional forums
Employees, employees' families, our retirees	Internal	All materials topics (see page 29)	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 topics (see page 29)	Management reviews; Professional training; Steering committees; Surveys; Round tables
Customers	External	Corporate governance ethics and corruption prevention; Safety and quality of products and services; Innovation and technological leadership; Resource management and environmental efficiency; Climate change related activities; Responsibility within the supply chain; Cyber defense and information security;	Annual reports; Trade shows and technical conventions; Audits and site visits; Surveys; Meetings; Joint seminars, conferences and seminars; Social media posts; External website

Stakeholders	Internal/ External	Proposed material topics for engagement	Engagement approach
Suppliers and contractors	External	Responsibility within the supply chain;; Corporate governance ethics and corruption prevention; Resource management and environmental efficiency; Climate change related activities; Occupational health; and safety; cyber defense and information security;	Internet; Meetings; Joint seminars and conferences; Audits; Supplier training; Surveys
Communities	External	Social impact and community engagement; Resource management and environmental efficiency; Climate change related activities;	Internet; Strategic partnerships; Volunteering and local initiatives; Meetings; Round tables; Surveys; Social media posts
Local and international partnerships and industry associations	External	Innovation and technological leadership; Resource management and environmental efficiency; Climate change related activities; Social impact and community engagement; Corporate governance ethics and corruption prevention; Cyber defense and information security;	Strategic partnerships; Professional committees and forums; Joint seminars and conferences; External website
Civil organizations	External	Social impact and community engagement; Responsibility within the supply chain;; Corporate governance ethics and corruption prevention; Resource management and environmental efficiency; Climate change related activities; Innovation and technological leadership; Diversity, inclusion and gender equality;	Surveys; Meetings; Joint seminars, conferences and seminars; Social media posts; Internet; Surveys; Round tables
Academia	External	Technological innovation; Impact on Israel	Strategic partnerships; Technical conferences; Internships and higher education training; Joint R&D projects
Future generations	Internal/ External	Technological innovation; Human resources management	National-level Long-term outlook forums; Future women engineers of tomorrow project
Investors and financial stakeholders	External	All material topics (see page 29)	Annual reports; Meetings; External website

Strategic alliances and memberships

2-28 | Limited assurance

IAI is active in various associations, forums, and alliances, both local and international, that focus on promoting collaborative efforts and knowledge sharing around our material topics. These important connections inform our responsible business practices and our policies, as well as their implementation. During 2023, we continued to strengthen these partnerships as an integral part of our sustainability and business continuity management.

In Israel

As the largest governmental employer in Israel, we take part in, and in some cases lead, important efforts to advance both environmental and social-based projects.

Among our partners are: The Manufacturers Association of Israel (professional and sustainability groups); the Standards Institute of Israel; The Israeli Association of Systems Engineering; The Association of Engineers, Architects and Graduates in Technological Sciences in Israel (AEAI); the joint government and business forum for a competitive low-carbon economy; the forum for corporate responsibility of the Government Companies Authority; the forum for corporate responsibility of the Israel- America Chamber of Commerce; the socio-economic forum of the Israeli directorate of business organizations; the voluntary GHG emissions reporting scheme of Israel's Ministry of the Environment, and more.

Maala

Maala is a nonprofit organization promoting corporate social responsibility in Israel, and established the Maala Index at the Tel Aviv Stock Exchange. In 2023, IAI maintained its "Platinum Plus" ranking, the highest-possible ranking.

International Aerospace Environmental Group (IAEG)

An international trade association formed by the world's largest aerospace and defense companies focuses on compliance with future laws and regulations regarding the environment. The association advances mutual efforts to aid the industry's value chain in becoming more sustainable, reduce potential risks, and drive continual improvements to help companies make their products more environmentally friendly. As sole Israeli participant in this association since 2013, IAI is involved in various working groups, such as chemicals disclosure throughout the supply chain, implementation of systems for environmental management, Development of sector-specific guidelines for Greenhouse Gases reporting, and most recently, ESG engagement.

International Forum on Business Ethical Conduct (IFBEC)

An international forum of major member companies in the aerospace and defense sector, focusing on the promotion of global principles and standards, as well as sharing best practices on ethical business conduct. IAI joined the forum in 2021.

ESG risk management

2-12

Environmental, social, and governance (ESG) risks and their impacts are included in the company's periodic risk review (see page 54-55) and tracked regularly by the senior management sustainability steering committee and by the Board of directors' committee on corporate governance, sustainability and the advancement of diverse populations. The Sustainability and Corporate Responsibility Directorate carries out ongoing monitoring and evaluation of all of the impacts that derive from the material topics with respect to the company's business activity, leads processes to improve preparedness among group and division managers, and leads processes to improve preparedness among group and division managers with respect to internal and external stakeholders. A climate-related risk assessment was performed in 2023, and the strategic plan for sustainability in 2030 was formulated to work toward risk reduction and sustainability targets.

Information on all key corporate risks is located in Section 29 of the First chapter (Description of the corporation's business) of the 2023 Financial Statement of the Company (in Hebrew), pages 136-148. The table below outlines the main ESG risks that could potentially affect our business activity.

Risk area	Potential impact	Organizational mechanisms for managing and reducing impact
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 56) and business continuity (see page 45)
Cyber defense and information security	Disruption of business activity, shutdown of systems, loss of information, security breach, information leakage including sensitive commercial and personal information	Cyber defense and information security (see page 57)
ESG-related regulatory developments (local and international)	Infrastructure investment for 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 77) and socioeconomic issues (see page 52)
Human capital management vis-a-vis current and developing labor trends	Competitiveness in recruiting and maintaining human capital in accordance with the company's needs	Career at IAI (see page 62)
Climate-related risks (transition and physical)	Mid- to long-term potential impact on operations and supply chain due to resource price and taxation changes in transitioning to a global low-carbon economy and due to severe weather trends	GHG emissions (see page 82), business continuity (see page 45) and Environmental R&D (see page 83)

Materiality

2-14 | 3-1 | 3-2 | Limited assurance

Israel Aerospace Industry's five-year sustainability roadmap (2019-2023), similarly to its sustainability policy as a whole is based on a common set of topics which are material to the long-range growth of the company. They reflect the significant economic, environmental and social impact, including both risks and opportunities, company activities have on its stakeholders.

These topics have been identified through a materiality assessment.

During 2023, with the conclusion of the previous five-year sustainability roadmap (2019-2023) and the formulation of a new, multi-year plan, the company again carried out full materiality assessment in line with the GRI Standards.

The process included an assessment of material topics, which derived from the following sources: round tables with external and internal professionals; insights from material topics identified by industry peers; a review of accepted standards and frameworks in the sustainability field, such as UN and SASB sustainability goals as well as Aerospace and Defense Industry data.

The review identified 16 material topics that were subsequently ranked by senior company management. The specific, measurable ranking criteria addressed a broad range of impacts: operational, financial, social, and environmental, both immediate and long-term.

Given the company's experience, it was able to carry out a focus process and select 11 material topics that would contribute to building a plan with maximum

impact. These topics were not subordinated to a ranking process.

The topics were then approved by the Senior Management Sustainability Committee and the Corporate Governance, Sustainability, Women's Advancement and Diversity Board Committee. The process allows for flexibility in response to future changes as they arise.

The Senior Management Sustainability Committee reviews company progress in meeting the goals of the strategic roadmap while considering new developments that may require impact assessment and decision-making. If necessary, relevant stakeholders are consulted again to consider adding new material topics.

Look for the MT mark!

This icon stands for "material topic", and is placed throughout this report wherever a strategically managed material topic is discussed.

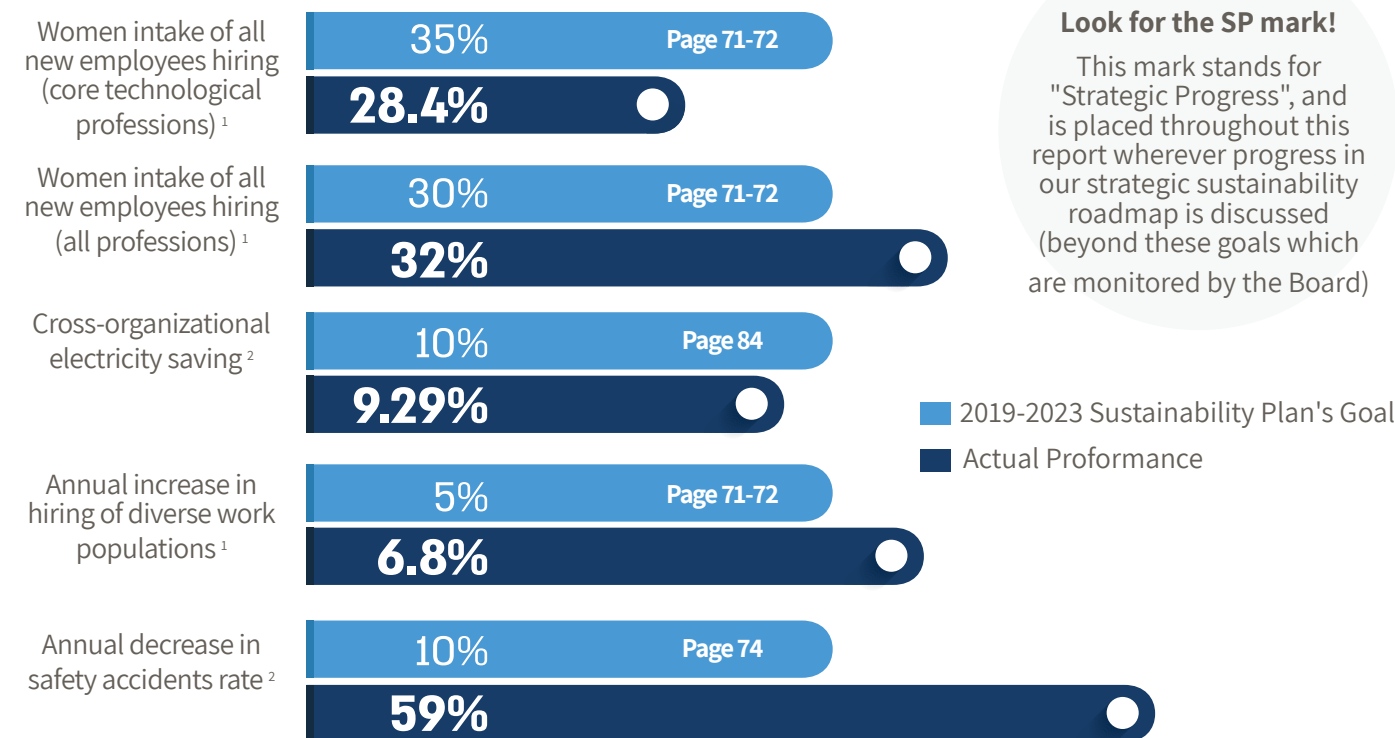


2019–2023: Our sustainability roadmap

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 to implement and monitor the annual derivatives, as well as for each of the material topics (see page 29).

Both the Senior Management Sustainability Steering Committee and the Sustainability and Corporate Responsibility Directorate are tracking the majority of the roadmap's targets and objectives. IAI's Board of Directors' sustainability committee directly monitors selected strategic objectives.



¹ Actual performance refers to 2023.

² Actual performance refers to accumulate achievement (2019 - 2023).

* Sustainability assessment for strategic suppliers became a significant goal in the 2030 sustainability plan.

Along the implementation of the strategic plan for sustainability 2019-2023, we followed the annual derivative to meet the annual and the long-term goals:

Energy Efficiency and Savings in Electricity:

Taking a broad view and considering the last five-year plan, cumulative savings are 9.29%. This was achieved alongside a 30% growth in sales during the same period.

On a specific level, savings goals were met in 2019, 2021 and 2022. Dozens of energy efficiency measures were planned and implemented. These included replacing old equipment, such as lighting and air conditioning, with more energy-efficient equipment. We also made several rounds of operational improvements in existing facilities, both in automatic mechanisms and in human performance.

In 2020 considerable operational changes were made to comply with COVID work regulations (including two almost complete shifts, and wasteful operation of air conditioning) that led to an increase in electricity usage and made it difficult to isolate savings vectors. In 2023, usage spiked from October through December due to increased production activity. This was in addition to opening new buildings that were already taken into account. In 2023 IAI increased the number of trials it carried out, leading to a surge in electrical use for wind tunnels. It should be noted, however, that running a continuous set of trials is more energy efficient than carrying out each trial separately.

The IAI Supply Chain and Estimated Energy Efficiency of Strategic Suppliers. Progress has been made by updating engagements with suppliers. We are currently expanding our questionnaires for strategic suppliers.

Promoting Gender Equality. IAI has met the percentage targets laid out in the five-year roadmap for integrating women

in all company professions. Considerable efforts were made to promote women. In 2023, IAI saw a major increase in the number of women applying for and being accepted to senior management positions.

As we continue to learn and improve, we have set even more ambitious targets in the new five-year plan. For instance, we have re-examined the percentage targets for placement of women in core technological professions in light of industry comparisons and consultation with academia. In another example, we have set more ambitious goals for workforce diversity.

Occupational Health and Safety. We have successfully met the target set in the five-year roadmap and updated the objective in the new plan.

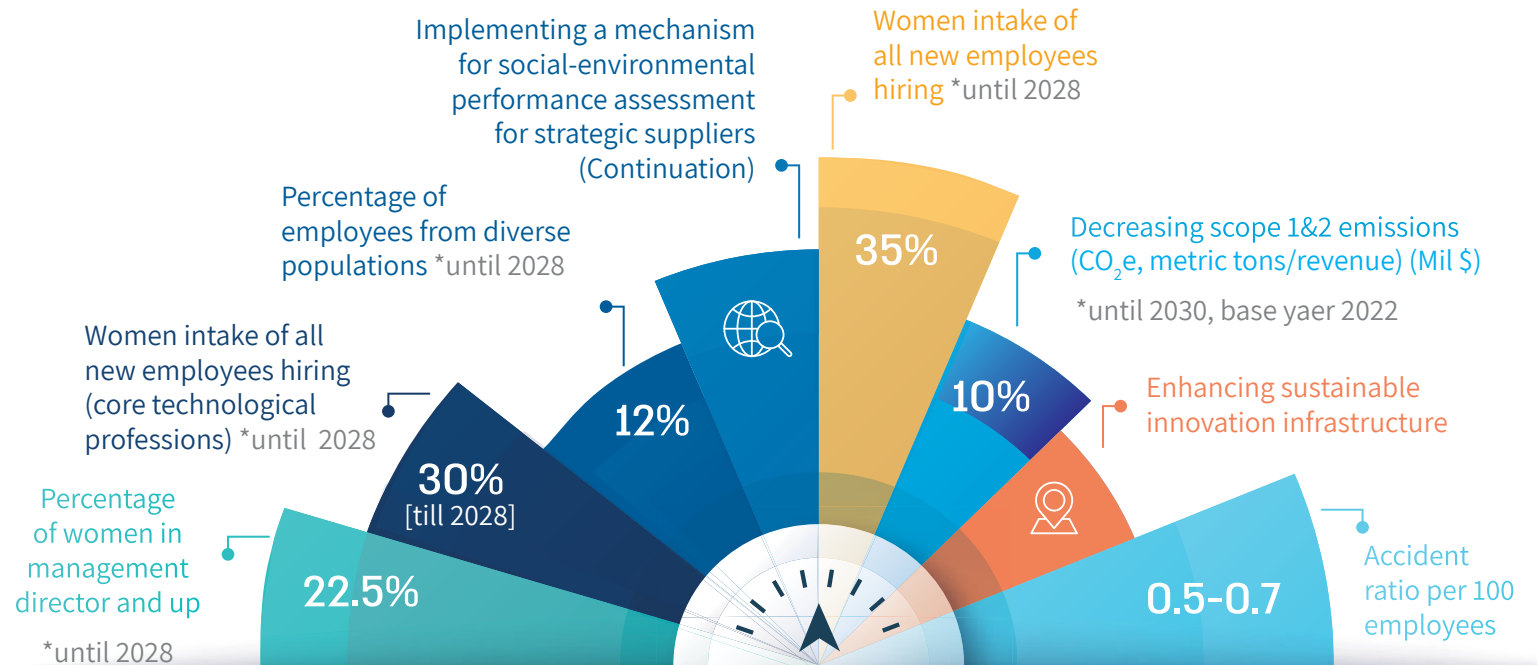
Our Sustainability Roadmap 2030

Limited assurance

Sustainability is a strategic engine of business development for Israel Aerospace Industries. From the company's perspective, creating business value goes hand in hand with the promotion of environmental and social goals.



In 2023 IAI formulated a strategic roadmap for sustainability through the end of the decade. The process relied on both internal and external sources. It included an examination of relevant industry trends, published data, roundtables with stakeholders, and interviews with expert professionals. Together with a list of topics arrived through a materiality assessment process, targets were set and subsequently approved by Senior Management Sustainability Steering Committee and the Sustainability and Corporate Social Responsibility Directorate.

A senior staff person was charged with responsibility for each target and tasked with issuing periodic progress reports. The Sustainability Steering Committee and the Corporate Responsibility Directorate are in charge of overall tracking and follow-up. The Directorate bears direct responsibility for the main strategic objectives:



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

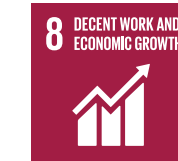
In 2015, the United Nations Assembly launched 17 Sustainable Development Goals (SDGs) intending to make sustainability a uniting global agenda for 2030. Six SDGs were identified as most relevant materials to our business. Our contribution to each is measured and reported annually. Under each of the six goals, we note the specific targets that the Company's activity relates to.

UN SDGs	UN Targets	Our alignment and contribution
 <p>4 QUALITY EDUCATION</p>	<p>Target 4.3: By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university.</p> <p>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.</p>	<p>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 NGOs and cooperation 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 Aircraft.</p>
 <p>5 GENDER EQUALITY</p>	<p>Target 5.1: End all forms of discrimination against all women and girls everywhere.</p> <p>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.</p>	<p>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 our women employees in both core and general professions. "Future CEOs academy" program encourages women to apply for management positions. In addition, our social impact programs such as "Women Engineers of tomorrow" aim at empowering girls and young women to pursue STEM professions.</p>

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

Achieve gender equality and empower all women and girls

UN SDGs



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



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

UN Targets

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 labor-intensive sectors.

Target 8.4: Improve progressively, through 2030, global resource efficiency in consumption and production and endeavor to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programs 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.

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.

Our alignment and contribution

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 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.

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.

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 2019-2023 strategic sustainability roadmap, 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 tracking and reporting capabilities (CDP climate, the voluntary GHG reporting scheme of the Israeli ministry of environmental protection) and actively participating in important industry collaborations (such as IAEG, Clean Sky 2, Clean Aviation). IAI also invests technologically through innovations such as VENU research Nano-satellite.

Business development and performance

2-1 | 2-6 | Limited assurance | SP

Financial performance

UN SDG targets: 8.1 | 8.2



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 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, 2023, IAI held a backlog of orders amounting to 17.7 billion US Dollars which equals to 3.3 years of activity. The total company equity stands at 1,495 million US Dollars and the total company's scope of obligations stands at 6,232 million US Dollars.

In 2023, IAI was ranked 29 out of 100 companies in the international A&D sector index by Defense News.

Business development

The goal of IAI's Business Development to support the company's entry into new markets, identifying and developing new business opportunities, while creating value and leveraging synergy with the company's activities.

In addition, the organization is responsible for the external growth strategy that maximizes IAI's sustained competitiveness and its position as a dominant leader in its core and other are-as. The major instruments used in business development are: Mergers and Acquisitions; establishing Joint Ventures; creating additional 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 and business investments processes, involving a wide spectrum of business and legal aspects. Sustainability aspects are reviewed in these processes to ensure that the risk assessments of potential transactions are up-to-date and complete.

Products and services

2-6

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 integrate 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 sized 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 Nanosatellites, 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](https://www.iai.co.il/defense)



Commercial

Aviation

IAI has been designing and manufacturing 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 complete maintenance, repair, and overhaul (MRO) of aircraft, engines, and components.

IAI's MRO processes are approved by 18 Aviation Authorities from around the world. MRO business line also provides the Taxibot, a towing robot that connects to the passenger airplane's main landing gear and is fully controlled from the cockpit without engine activation. The system is certified by the FAA & EASA, contributing to an 85% decrease in fuel consumption and air emissions and a 60% reduction in noise.

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 systems, 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](https://www.iai.co.il/commercial)

 [Link to Cyber & HLS products and services
https://www.iai.co.il/cyber-hls](https://www.iai.co.il/cyber-hls)

Innovation and Technological leadership

3-3 | MT

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



Organic Innovation

IAI has an active and vibrant entrepreneur innovation community that contains innovation leaders, active entrepreneurs, and alumni. The program is open to all IAI employees, who are invited to contribute and develop their ideas using an innovation system and grow them into Minimum Viable Product (MVP) at our Innovation

Center. Ideas uploaded to the system are reviewed by the division innovation team with the guidance of divisional content and business experts. The innovation committee then proceeds to secure budgets for relevant ideas and add them to the company's product lines.

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 the local and international industry, to maintain our position as a leading technology-based solutions provider. For this purpose, our divisional engineers cooperate with various partners in the ecosystem (startups, defense entities, and academia), to grow products to MVP maturity, and later on, to form joint projects.

IAI's Innovation Center

The Innovation Center is at the core of IAI's overall innovation strategy, which seeks to foster both organic and open innovation, while training and grooming innovation champions. The center was established in 2019 at the heart of Israel's startup ecosystem. Since 2022, it has been located in Tel Aviv. The center functions as an accelerator to promote new initiatives based on advanced technology. We use open innovation methodologies to encourage technological diversity and internal entrepreneurship, while also cooperating with potential partners. In 2023 employees from all company divisions, took part in the innovation process, after submitting preliminary development proposals. The center runs several programs:

- The Innosphere, a 13-week accelerator program, is open to all IAI employees. The program may operate with technology startups or with the defense establishment to shorten development timelines (TTM) and achieve MVP. It includes workshops and guidance by technological and business experts, both local and international. Upon completing the program, teams return to their divisions for further development and

integration of the product, while maintaining the company's values of excellence and innovation.

- An international technological scouting program, designed to discover evolving and disruptive technologies led by startups and academia and to form partnerships for innovative projects while maintaining the company's technological edge.
- ASTRA space program, in partnership with the STARBURST global aviation and space accelerator. Astra serves as a Beta site, where startups can partner with IAI to hone and scale their projects.
- Partnerships to establish innovation centers in Israel's periphery, foster startups, and promote hi-tech in underserved areas of the country. These startups will operate in fields that interface with IAI activities such as robotics, space, AI, renewable energy, and biotechnology.
- Global partnerships: Plans include an accelerator in the United States, the centers for excellence in India and Morocco, and collaboration with academia.
- International and domestic research collaboration on emerging technologies with institutions such as the Technion, Tel Aviv University, Ariel University, MIT, and CMU.

As of the publication date of this report, covering 4 years of activity, 48 innovation initiatives have reached the MVP stage, and 10 patent applications have been filed. Additionally, we work with academia to promote engineering excellence, through student scholarships, excellence programs, and a master's degree in system engineering at the Technion for IAI employees. We also

collaborate on applied research projects with various academic institutes in Israel.

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. To realize these capabilities and support innovation, IAI must manage and maintain its accumulated knowledge in an organization-wide and methodical manner. After decades of business activity, IAI has an extensive, complex, and detailed engineering and technical knowledge base, strategically managed by divisional representatives, while using advanced methodologies and technologies. This guarantees that our knowledge assets are preserved, made accessible, and continue to sustain our business and human capital. As part of the company's strategy, the company appointed a Vice President of Corporate Knowledge Management who is responsible for leading the knowledge management system at the corporate level.

Patents

Limited assurance

Patents are considered an important asset and an indicator of innovation. A company's Research and Development process is risky and expensive, thus requiring a realization of the full economic value of the inventions. By defending our ideas, we ensure freedom of action for using technologies developed by our people, encourage further innovation, and support the continual advancement and expansion of our knowledge base and intellectual property. IAI manages a strategic process of application and registry of patents, both locally and globally. A cross-organizational company lays out 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 have been accepted by the patent registry.

Safety and Quality of Products and Services

3-3 | 403-7 | 417-1 | MT

Customer Service

The quest for continuous improvement lies at the basis of IAI's business core. In 2023, we continued the implementation of our customer support strategy, which allowed a leap forward in customer care and support. The strategy implementation is led by IAI's VP of Operations, purchasing and logistics, and the Head of Customer support administration. 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 coming years. In 2023, we continued implementing a Customer Relationship Management (CRM) system, which is part of our approach to better communication with our customers, development of post-delivery support, and high customer satisfaction for all our products and services. In addition, we continued to develop our relationships with our customers, including utilizing solutions in the customers' countries.

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 ethics, in company and security procedures, and in employee trainings, 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 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.

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 56-

As a part of this commitment, all IAI's engineering, manufacturing and supply chain activities in our groups and divisions own a valid AS9100 certification issued by the Standard Institute of Israel (SII). All IAI's support divisions at the headquarters hold an ISO 9001 certification.

IAI's aviation group also holds certifications from regulatory bodies such as the European Union Aviation Safety Agency (EASA), the US Federal Aviation Administration (FAA) and the Israeli Civil Aviation Authority (CAAI).

Avoidance of counterfeit parts

IAI has set rigorous processes and measures to detect and prevent counterfeit parts from entering into our production and products. All suppliers are required to demonstrate counterfeit avoidance procedures and comply with IAI's processes by contract. Parts are also being regularly validated and recorded for authenticity conformance upon supply.

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 page 77).

Safety Management system ISO 45001:2018

All IAI's divisions hold a valid ISO 45001:2018 certification issued by the Standards institution of Israel (SII). This completes the transition done as part of IAI's 2019-2023 strategic sustainability roadmap. For more details, please refer to the safety management section in this report (see pages 45-46).

Responsible within the supply chain

2-6 | 3-3 | SP | MT

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 and data presents many opportunities for sustainable thinking. A&D Original Equipment Manufacturers (OEMs) play a critical role in setting 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 suppliers 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 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.

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

- A 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 subcontractors 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.

Sustainable Practices in the Supply Chain



UN SDG targets: 8.1 | 8.2

IAI's procurement and logistics organization manages structured processes and mechanisms that ensure that sustainability considerations constantly guide decision-making. In 2023, the procurement and logistics organization continued to lead in-depth processes to bring about excellence, implementing agility and tightening cooperation and transparency between headquarters and the divisions. This included:

- Use of dashboards that allow transparency and standardization of purchasing indicators' measurement and control.

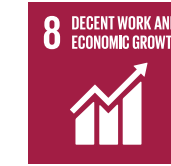
- Developing procurement employees through e-learnings and training that relate to the Code of Ethics and interpersonal communications, with emphasis on interactions with suppliers.
- Implementing a one-stop-shop portal for suppliers management (SRM).
- Use of a central logistics center that promotes the company's Industry 4.0 approach, decreases storage spaces and excess inventory and enables traceability and automation of manual processes.
- Support of local suppliers ("blue and white"), small businesses, and suppliers from peripheral regions in Israel is strategically managed by the company 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 a database system, and preventing the purchasing of items marked as unnecessary.
- IAI is participating in the ESG engagement workgroup in IAEG, aiming to address suppliers' reporting on social, environmental, and governance issues (see page 26).
- Implementing human rights protection as part of our company's human rights statement (in the process of approval), for the establishment of long-term, respectful, and fair relationships with our suppliers.

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

Local Procurement

203-2 | 204-1 | Limited assurance

UN SDG targets: 8.1 | 8.2



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). In 2023, total procurement from local sources increased to 69%.

An important achievement of 2023 was winning the award for excellence and innovation in the supply chain management on behalf of the ISMA (Israeli Supply Chain Management Association) organization.

Suppliers site link
<https://www.iai.co.il/suppliers>



Business Continuity

Limited assurance | SP

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. 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 major fires, earthquakes, and cyber or terror attacks. 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.

As a learning organization, we keep improving the company's business continuity plans, including sustainability aspects as part of our sustainability roadmap. Regarding climate-related risks see page 82.

Performance Scorecards

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

Indicator	2021	2022	2023
Sales (Million \$)	4,477	4,973	5,327
Tax income (Million \$)	0	0	0
Total economic value produced (income) (Million \$)	4,477	4,973	5,327
Operating costs (including salaries and benefits) (Million \$)	4,260	4,657	4,951
Finance expenses (Million \$)	29	31	(29)
Tax expenses (Million \$)	46	77	93
Dividends (Million \$)	0	0	0
Total economic value distributed (Million \$)	4,335	4,765	5,015
Total economic value gained ¹ (Million \$)	142	208	312
Net income (Million \$)	148	213	318
EBITDA	436	560	664
Government support: R&D grants (Million \$)	5	7	5
% Revenues by operating segments: Systems, Missiles and Space	38.3	38.7	41.2
% Revenues by operating segments: Military Aircraft	11.5	10.9	11.3
% Revenues by operating segments: Elta	25.6	24.2	23.6
% Revenues by operating segments: Aviation	24.6	26.2	23.9
% Revenues by operating segments: Other	0.04	0	0
Spend on local procurement (Bn\$)	1.93	2.8	2.96
% local procurement (of total procurement)	61	63	69
Number of patents granted ²	36	48	46
Number of patents applications ²	43	34	33

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

² The data 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 subject to the data collection timing.



פורצים גבולות
70 שנים



GOVERNANCE

Corporate Governance, Ethics and Corruption Prevention

2-9 | 3-3 | Limited assurance | MT

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 (hereinafter - "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 that are applicable to IAI 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 following 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 (hereinafter, 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 communication between the company and the Government Companies Authority as well as for reporting to the Securities Authority on issues relevant to the company secretariat.

IAI's Internal Auditor

IAI's internal auditor manages the internal audit unit under 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 concerning the Securities Law, to respond to possible exposure cases relating to potential breaches of this law. 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

For information on restrictions and supervision over the company see Section 21 in the First chapter (Description of the corporation's business) of the 2023 Financial Statement of the Company (in Hebrew), pages 110- 123.

Prohibition on Financial Contributions and Donations

As a government-owned company, IAI is prohibited from financial contributions or donations under any circumstances, public or otherwise. IAI has 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.

2-9 | 2-10 | 2-11 | 2-14 | 2-15 | 2-16 | 2-17 | 2-18 | Limited assurance

Approval of Financial Statements

IAI's Board of Directors is entrusted with overall control of the company and approval of its financial statements. The company established a Board Committee for financial statements review, investments, and business development (hereinafter - "the committee"), following 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 before providing such approval.

The Board and its Committees

The Board of Directors sets company policy and oversees management activity, including decision-making on ESG-related impacts. The company's management is responsible for implementing this policy in practice and reporting to the Board of Directors. In 2023, the following committees convened:

(I) Financial Statements Review, Investments and Business Development Committee, (II) Audit Committee, (III) Remuneration Committee, (IV) Corporate Governance, Sustainability, Women's Advancement and Diversity Committee, (V) Risk Management Committee. In 2023, the company's Board of Directors and its committees held 57 meetings.

Prevention of Conflict of Interest

Members of the Board of Directors sign a declaration verifying non-conflict of interests, and also undertake to refrain from conflicts of interest between their activities in the Company and elsewhere. The prevention of conflict of interest is also included in the company's procurement policy and code of ethics (see page 54) and supported by internal procedures. The Chairman of the Board does not serve in a managerial role at IAI.

Board Nomination, Composition & Tenure

As a governmental company, IAI's Directors are appointed by the government ministers responsible for the company, namely the Minister of Defense and the Liaison Minister between the Government and the Knesset, in consultation with the Committee for Appointments Review at the Government Companies Authority. Generally, directors are selected from the Israel Board of Directors Team. Under the Government Companies Law, the Nominations Review Committee approves the nomination of candidates and reviews their qualifications. Directors undergo further professional reviews, including for ESG impacts, as part of their tenure at IAI. Directors' performance evaluation is not conducted at IAI.

Accounting and Financial Expertise

Under Section 92 (a) (12) of the Companies Law, the Board of Directors determined, at its meeting on May 27, 2015, that the minimum number of Directors with Accounting and Financial Expertise required by the company is one (1). For the Directors' expertise see Section 14 in the Fourth Chapter of the 2023 Financial Statement of the Company (in Hebrew), pages 12-14.

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". In addition, an independent director also serves on the Board.

The Diversity of the Board of Directors

UN SDG targets: 5.5



In 2023, four out of eight members of our board members were women. Board diversity is achieved subject to the approval of relevant regulatory authorities.

The Board of Directors ESG Responsibility

The Board Committee for Corporate Governance, Sustainability, Diversity, and the Advancement of Women was established in 2012 (under the name "the Corporate Governance and Sustainability Committee"). The committee oversees the following aspects of EGS management: corporate responsibility; corporate governance; sustainable development; and internal enforcement of the securities laws. This committee discusses IAI's material topics and ESG performance quarterly. The committee also discusses the annual sustainability reports and chooses whether to accept and approve their publication or seek further information, commentary, and/or revisions before approval.

IAI's ESG Codes and Policies

IAI operates subject to cross-company policies which dictate our expectations from managers and employees and require accountable and responsible business conduct. These policies cover a range of topics -- environmental, social, and ethical -- such that our impacts are understood and internalized. ESG-related topics are also covered in our sustainability policy and in our human rights policy statement, which is in the process of completion and approval. These policy commitments are overseen by the Board and implemented by the Senior Management Sustainability Steering Committee and the

Sustainability and Corporate Responsibility Directorate, including periodic reviews and updates.

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 Managers 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. An updated reward policy was approved by the Board of Directors in May 2023, based on the recommendations of the remuneration Committee.

Compliance

2-25 | 2-27 | 205-2

IAI is uncompromising in its commitment to comply with all laws and regulations governing our operations. We make every effort to guarantee compliance with both existing and emerging rules. 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 and our bribery and corruption prevention program. If a failure to comply is identified, senior management is notified and corrective action is taken. When appropriate, the event is reported to our Board of Directors and/or external auditors and, if the relevant criteria are met, disclosed to the public. For further details, see Section 21 in the Fourth part of the 2023 Financial Statement of the Company (in Hebrew), pages 107- 119. For environmental compliance, see page 54, for health and safety compliance see page 45, and for competitiveness see page 38.

Internal Compliance Program

IAI manages its business activities in strict 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. Throughout its operations, IAI has integrated a compliance program for the prevention of corruption and bribery of foreign public officials. This program is regularly updated in line with current regulations and subject to the company's risk assessment. To ensure implementation of the program, the Board of Directors has appointed an Executive Vice President level Compliance Officer. She reports directly to the CEO. She also makes biennial reports to the Board and quarterly reports to the Audit Committee regarding this risk, one of ten material risks facing the company.

The comprehensive anti-corruption and bribery prevention compliance program reflects the State of Israel's adherence to the OECD's Convention on

Combating Bribery in International Transactions. It also reflects IAI's core values which maintain zero tolerance for such violations. To implement this program, the company applies analysis, supervision, and control measures in relevant areas and strictly records all the program's processes. These efforts are based on principles of risk management that take into account regional, industry level, and activity-related exposure, and due diligence.

IAI publishes the main elements of the implementation program on its website, along with its Code of Ethics. Website users may also access an anonymous whistleblower procedure to report on corruption or bribery. IAI has been a member of the International Forum on Business Ethical Conduct (IFBEC) since 2021.

IAI provides regular training for employees who conduct business on behalf of the company on the prevention of corruption and bribery of foreign public officials. Training is given to employees at all levels of seniority and authority. Learning may take place online or in person, depending on the degree of interaction the employee has with third parties. These training sessions highlight IAI's strict anticorruption policies, lay out the potential risks and exposure the company faces, and outline additional regulations in fields such as marketing, contracts, and finance.

In 2022, IAI conducted a wide-ranging risk management survey to evaluate the capacity of the compliance program and its controls to content with company exposure. This survey was carried out with the assistance of external advisors. The company also purchased a new internal software to facilitate independent due diligence, to widen the population monitored by the compliance unit.

Export Control

IAI operates under Israel's laws and regulations governing defense exports. The Defense Export Control Law, 5766-2007 (hereinafter "The Export Law") regulates the export of defense-related equipment, knowledge, and services through the Israeli Defense Export Controls Agency (hereinafter "DECA") in the Israeli Ministry of Defense (IMOD). Among other things, the Export Law requires that companies obtain licenses for marketing and exporting, or an exemption therefrom, prior to any defense export deals. In addition, IAI must appoint a senior employee as the Chief Defense Export Control Officer, subject to approval by DECA. As the person charged with supervising defense exports, this officer must embed export laws, rules, and regulations in company operations, remain knowledgeable and up to date regarding any changes in regulation or DECA policy, serve as an expert in these matters, and ensure the operation of an appropriate training program with regards to the Export Law. IAI carries out a designated e-learning on export controls, alongside an annual training program that is conducted within IAI's divisions and groups. For further information, see Section 21.3 in the Fourth part of the 2023 Financial Statement of the Company (in Hebrew), pages 113-116.

Business Ethics

2-16 | 2-23 | 2-24 | 2-26 | 205-2 | Limited assurance | SP

Code of Ethics

IAI Code of Ethics expresses the fundamental values that guide the behavior of IAI employees -- towards one another and those external to the company, including customers, suppliers, and other stakeholders. As a leading technology company and a major player in Israel's economy and national defense effort, IAI is committed to ethical behavior rooted in the values of mutual respect, integrity, fairness, professionalism, and excellence.

IAI seeks to create a work environment based on trust and open communication, where employees feel free to report ethical violations if they arise. IAI's Code of Ethics is built on the key principles that make for acceptable and fair behavior, and we expect our managers and employees, at all levels to behave accordingly.

We convey this expectation through training, work regulations, and supervision. Our Code of Ethics and related instructional material are available internally on the company's intranet, and the code can also be found on the company website (in Hebrew and English). We encourage our employees to raise their ethical concerns with representatives from Human Resources or with their direct supervisors, especially in cases where the law makes no clear determination. The code addresses a wide variety of issues. Among other things, these include domestic and international law, the compliance program for the prevention of bribery and corruption, gender equality, the work environment, individual responsibility to expose ethical violations, fairness in trade, customer service, permits and licenses, avoiding conflicts of interest and inappropriate personal gain, government-community relations, data security, protecting the assets and information of the company and of others, occupational health and safety, and environmental issues. Publication, accessibility, and distribution of the code and related materials help embed its values in the organizational culture of Israel Aerospace Industries.

At the end of March 2023 our Board of Directors and senior management revalidated IAI's Code of Ethics.

Employees' Ethics Training

As part of their onboarding process, all new employees receive an orientation booklet containing a summary of our Code of Ethics with a link to the full document. Once every two years all employees must study a mandatory syllabus on ethics. The syllabus covers a variety of topics from the code and illustrates some of the ethical dilemmas that may arise in practice. To date, 79% of IAI employees have completed the syllabus for 2023-24.



Link to the code of ethics

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

Prevention of Harassment and Workplace Abuse

IAI strives to create a respectful, safe, and pleasant workplace environment, free of discrimination, harassment, or abuse. Preventing harassment and abuse is a top priority. We therefore provide tools for our managers and employees of all ranks to identify, report, and contend with such problems if and when they arise.

Every company division has an officer in charge of handling sexual harassment, alongside a professional consultant from outside the company. This external consultant is equipped to investigate complaints in line with the Prevention of Sexual Harassment Law and to run training sessions on the subject for IAI employees. All employees are instructed on how to lodge complaints of misconduct. They also receive contact information for the officer in charge of handling cases of harassment.

If and when a complaint is lodged, the company acts swiftly and effectively, conducting a discreet but exhaustive investigation while protecting the privacy of those involved.

We encourage all of our employees to respond whenever they suspect ethical violations have been committed. At the same time, we continually learn from our mistakes to improve the process. IAI sees any effort to suppress complaints, interfere with their full investigation, or block corrective action as a threat to the very trust our employees place in the company. Israel Aerospace Industries will continue to ensure that employees feel safe to fulfill their duty to report ethical violations without fear.

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 risk management constitutes an integral part of the company's strategy and by that leads to improved operations and the ability to meet its business strategic objectives.

The company's risk management method reflects and embodies the added value originating from the implementation of effective risk management while creating opportunities for leveraging business and strategic opportunities.

For implementing the Enterprise Risk Management process, IAI has adopted and operates according to the international COSO-ERM model (Committee of Sponsoring Organizations – Enterprise Risk Management), which is an acceptable model for managing risks. This model takes into account the company's activities across all units, individually and collectively, and allows the company to manage a "portfolio" of all risks and potentially damaging events, in parallel to the individual risk management defined in each unit.

Among other things, the company is committed to effective Enterprise Risk Management, according to the principles outlined in the Government Companies Authority circular, "Enterprise risk management in governmental companies and governmental subsidiaries" from January 8th, 2020. The company implemented these principles in its Enterprise Risk Management, which is updated periodically.

IAI's Enterprise Risk Management is a managerial tool that manifests as a continuous process that is performed as part of the company's ongoing management, aiming to provide reasonable confidence to prevent risk occurrence by carrying out a systematic process for

assessing potential risk impacts and probabilities, setting mitigation plans and required investment, and monitoring mechanisms.

Once every 4 years, the company conducts a full and comprehensive risk survey process that includes, inter alia, the structure and activities of the company, company strategy, changes in the business environment, review of risks that are managed in other companies and more. The survey examined and included, between The rest, all risk categories defined in the requirements of the Authority Government Companies and of international methodologies (for example operational risks, financial risks, compliance and regulatory risks, reputation, information technology risks, embezzlement and fraud risks, ESG risks, etc.). Following the analysis of the survey's results, the company's key risks were set. These risks are validated and updated as needed by the company's CEO and Board of Directors, on an annual basis.

The company conducted a full survey process in 2020 and began performing an additional full survey in November 2023-a process which is expected to be completed in July 2024.

Project-Level Risk Management

A specific mechanism exists 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 are recorded in an online tool.

Cyber Defense and Information Security

3-3 | Limited assurance | MT

According to the World Economic Forum's global risk report (from January 2023), cyber insecurity constitutes one of the top risks with the highest probability of manifesting in the coming decade. Accordingly, IAI invests considerably in digital transformation and dynamic and tight risk management that encompasses all means, infrastructure, and resources, to ensure resilience and continuity in the face of threats and disruptions.

IAI's IT and computing systems organization, ITC, 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 capabilities of IAI's cyber defense center and processes, including a unique operational methodology, advanced 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 procedures, and Cyber Forensics capabilities, along with regular exercises and internal and external audits.

IAI's expertise in this area is also present in our products and services for cyber defense (see page 38).

Competitiveness

206-1

Most markets in which IAI operates are characterized by intense competition, both from local and international companies. Further restrictions in local contract requirements by both customers and authorities continue to form, 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 aim to support our position in existing markets and allow growth in our market share. For further information on our markets and their development, see Section 8 in the Second part of the 2023 Financial Statement of the Company (in Hebrew), pages 8-16.

IAI is committed to fair competition and refrains 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 concerning competitiveness practices in 2023.

Performance Scorecards

2-9 | 2-12 | Limited assurance

The data represented in this table is based on a cutoff analysis from December, 31st 2023.

Indicator	2021	2022	2023
Number of general assembly Board meetings	20	13	15
Number of Board committees meetings	28	30	42
Number of Board sustainability committee meetings ¹	1	4	4
Number of Senior Management Sustainability Steering Committee meetings	3	4	4
Number of Directors (Total)	10	9	8
Number of Directors in the Sustainability committee	4	3	3
Number of women members of the Board	4	5	4
Number of men members of the Board	6	4	4
Number of independent Directors	3	3	3
Number of Directors with accounting and financial expertise ³	3	2	2
Number of Directors representing a minority ²	1	1	1
Number of Directors, ages 30 and under	0	0	0
Number of Directors, ages between 31-50	2	2	1
Number of Directors, ages 51 and over	8	7	7
Number of reported cases to IAI's hotline: Code of ethics issues	3	3	10
Number of reported cases to IAI's hotline: Sustainability issues	0	0	6

¹ Of the total number of board committee meetings.

² From the Druze community.

³ 2022 value was updated.



פורצים גבולות
70
שנים

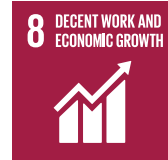


EMPLOYEES AND
COMMUNITIES

Human Capital Management

2-7 | 2-8 | 3-3 | SP | MT

UN SDG targets: 8.5



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 under 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 HR 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 2023, IAI ranked 8th "best place to work" in Israel's BDIcode INDEX, reflecting our long-term commitment to foster a great work environment. From in-house service facilities such as large catering halls, banking, employee 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's overall intake and their promotion to management roles. Further, we seek to create a diverse and inclusive workplace by setting goals for the intake of underrepresented populations: Ultra-orthodox Jewish community, Druze community, Ethiopian origin, and employees with disability.

We continue to provide extensive training and personal

development programs, scholarships, intra-organizational mobility, general well-being activities, and a 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 with employees and managers, and transparently report on our progress through:

- Organizational climate survey and employee satisfaction surveys
- A "speak openly" platform, which enables direct contact and dialogue with the Senior management, and Roundtables with expert leaders at the company and managers from various disciplines
- Weekly and ad-hoc reports via the intra-organizational communication platform and the WeAreIAI smartphone application
- Extensive activities for the employees' wellbeing.
- Annual public reports to stakeholders: BDIcode index, Maala index on the Tel Aviv stock exchange, and our sustainability reports.

Finally, as always, our commitment to Israel's society, through our products and our employees' social involvement and care, continues to serve as the undisputed basis of our value as an organization. This never-ending mission drives us to reach as high as possible.

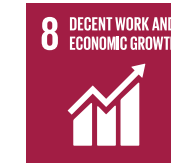
Career at IAI

2-7 | 201-3 | 401-1 | SP

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.



Recruitment

IAI's recruitment and career center is designed to offer an inviting and positive recruitment experience from the candidacy stage to the hiring contract. The center integrates all of the recruitment processes in IAI, enables identifying and duplicating processes, and improves availability vis-à-vis potential candidates in the competitive job market. An emphasis is given to monitoring and controlling the quantity and quality of resumes submitted for the various positions, and combining the locating of the most qualified candidate with a measured process while maintaining a good candidacy experience. The recruitment processes include digital measures that integrate 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. Being a defense and governmentally-owned company, recruitment normally includes a security check. As for "high ranking officers" roles as defined by the Governmental Companies Law - 1975, recruitment and nomination are done based on the regulations - rules for nomination of high ranking officers - 2005, and their entry into office is under the approval of IAI's CEO and Board of directors.

Mobility and Talent Management

IAI's recruitment and career center also supports all mobility and career development processes, to allow the employees to have a solid infrastructure for their development and 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. To promote transparency in the process, the employees who 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 on their ambitions and increase the managers' involvement and support of the employee's career path.

Retirement

IAI offers an extensive program for its retirees, aimed to ensure a smooth transition to their new life phase. The program is based on various workshops and a four-day retreat for retirees and their spouses, which includes lectures on post-retirement relationships and a ceremony that is joined by senior managers in honor of the retiring employees. The workshops cover the impact of retirement on family life, the economic implications taxation issues, etc. In cases of early retirement, employees are entitled to the workshops that are given to all retirees pre-retirement. In addition, a retiree club allows access to specific ongoing guidance, as well as continued well-being activities such as tours, seminars, 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.

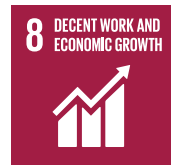


Link to IAI hiring (in Hebrew)
<https://www.iai.co.il/heb/jobs>

Diversity, Inclusion and Gender Equality

2-7 | 3-3 | 405-1 | Limited assurance | SP | MT

UN SDG targets: 5.1 | 8.5



IAI employees are the human power that makes IAI to what it is. We believe in respect and equality without discrimination and equal opportunities in employment and seek to increase the number of underrepresented populations in our workforce, including Israelis of Ethiopian origins, as well as members of the Druze community, the Ultra-orthodox Jewish community, and people with disability. In addition, IAI regularly welcomes new employees over the age of 45. 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 impact projects in accordance with the company's diversity policy. As part of our strategic human capital management, we continuously review and update our diversity and inclusion indicators as they appear in our sustainability reports and internal objectives. 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.

Diversity and Inclusion

We continued to invest considerable efforts in order to increase our recruitment rates from diverse populations, and their retention at IAI. The company manages a diversity and inclusion forum, established in 2021, which strategically manages working plans in this area. These included:

- Developing a diversity and inclusion training program for managers.
- Celebrating diversity and inclusion week.
- Dialogue with our employees for continual improvements.

- Expanding collaborations with multi-sector offices, institutions, and NGOs.
- Celebrating diverse holidays, such as the International Day for people with disability, the Sigd festival, and more.

Gender Equality

IAI seeks to change the traditional management composition of defense and technology companies worldwide by gradually expanding the number of women in 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 maintaining work-life balance. The percentage of women at IAI in 2023 was 24%, and the percentage of women in management (from the level of a unit director and up) rose to 19.6%. In 2023, we continued to pursue our strategic aim of promoting women to positions in core technological and management positions. As part of this strategy, the Board of Directors appointed the position of Executive Vice President for Compliance and Gender Equality. She is leading a strategic, company-wide initiative that includes:

- A series of programs to encourage women to apply for management positions. One of these projects is the Future CEOs Academy which seeks to build a cadre of up-and-coming managers for Israel's defense industry.
- A community forum of women managers to build company-wide network for mutual support and empowerment.
- Dedicated media campaigns for women in recruitment and proactive appeals to encourage women to apply for managerial positions.
- Embedding awareness of gender equality among company managers as part of Diversity Week (T1000).
- Embedding the language of gender equality in the organizational culture of Israel Aerospace Industries, thereby creating inclusive spaces across organizational platforms.
- Collaboration with civil society organizations.



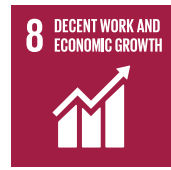
Link to IAI Employment diversity policy
<https://www.iai.co.il/heb/jobs/workplace-diversity>



Occupational Health and Safety

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

UN SDGs targets: 8.8



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, initiates strategic processes, 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 2023 there was an additional decrease in the rate of accidents, a key target in the 2019-2023 strategic sustainability roadmap.

ISO 45001:2018

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 ISO 45001:2018 certification. The scope of the safety management system includes all activities.

Safety Committees

Expert Safety, Health, and Environment committees offer specific guidance and training requirements for issues identified as major aspects of risk assessment processes. The 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.

The following topics are the main focus of the committees: compliance with laws and regulations, environmental management, hazardous materials, contractors' safety, aircraft

work safety, construction safety, ergonomics, personal safety equipment, accessibility, maintenance safety, microwave products development safety, production route card and handling of general hazards.

In addition, each division operates its safety committee, chaired by a senior manager. 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 occupational health management plans, which are written and approved according to work safety regulatory requirements, and based on guidelines of global standards and monitored by safety officers. Each work plan is based on 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 has implemented a tool for health and safety risk assessment, and each employee can view the risks in their workplace. Risk control and reduction is based on the identified level of risk.

Proactive management checks are performed based on an annual plan, aiming to identify new work safety risks and 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 safety incidents, an investigation takes place based on a methodical procedure, including documentation, implementing lessons learned in the work environment, and monitoring corrective actions. Investigations are monitored and recorded in a

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

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" 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 various work safety issues takes place annually for all employees. 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 emergency 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 Safety

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

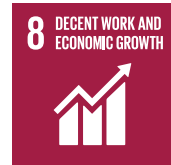
Both the TNUFA division, which is responsible for traffic safety at IAI's sites, as well as Missiles and Space group, hold a valid Israeli standard certification ISO 9301, relating to traffic safety and quality. The major activities in 2023 included:

- Continuation of signage maps to all sites.
- Enforcement actions and handling of violations.
- Year-round campaigns throughout the company, and a special focus during traffic safety week, including internal communications.
- Implementation of a new system - Pointer, for monitoring traffic violations in company cars.

Empowering Workplace

404-1 | 404-2 | Limited assurance | SP

UN SDG targets: 4.4 | 8.2 | 8.5



Our work allows us to express ourselves and our abilities, and find meaning and value through our profession and organizational belonging. Rapid business and technological changes redefine organizational needs, roles, their nature and requirements, and as a result, the ways employees are trained and their career management. The new era of employability requires us to rethink, redesign, and update employee recruitment, development, and retention processes, and to map their skills and talents. 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 and managerial and regulatory certifications, done through various training programs and advanced learning platforms, online and in-class. 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

In addition, the company 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 that IAI holds, including: ISO9001:2015, and AS9100.

Sustainability-Related Training

Our 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 that is based on our material topics (see page 29), and emphasize the importance that the company places on promoting them.

IAI has a mandatory annual web-based training on sustainability for employees and managers, covering many concepts present in our sustainability reports, important initiatives and objectives, as well as expectations and actions required to keep us aligned with our strategic sustainability journey.

Performance Evaluation

We believe that managing a performance evaluation process and feedback conversations allows us to empower our employees and increase their motivation in achieving IAI's business goals while strengthening their organizational engagement. Through feedback conversations, the manager and employee discuss

2-30 | 201-3 | 403-6 | Limited assurance

goals and tasks completed in the passing year, as well as the employee's development and learning, and define targets for the new year. The process includes all IAI employees.

Payroll Service Center

IAI's payroll integrates various activities and can be accessed through multiple communication platforms - a designated website that includes detailed information about payroll and its various components; a designated call center; an internal portal; and a smartphone application for efficient and quick requests and forms submittal, as well as status tracking.

Employees' Wellness and Benefit Plans

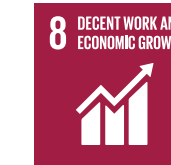
IAI's employee benefit plans and pensions are reported in Section 16 in the First Chapter (corporation business description) of the 2023 Financial Statement of the Company (in Hebrew), pages 96-106. For example: accommodating working mothers; paid vacation; Paid sick days; Paid overtime (by pre-approval); Paid participation in conventions and professional training; Meals and shuttle transportation to and from work; Innovation grants; Sports activities and more.

Medical Care and Coverage

IAI operates internal clinics for occupational health and immediate medical care at its sites, available to all employees (see page 65). In addition, each permanent employee owns extensive medical insurance and has the 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.

Freedom of Association



UN SDG targets: 8.8

At IAI, our employees exercise their rights of freedom of association and collective bargaining. In 2023, 61% of our permanent employees were covered by collective bargaining agreements.

IAI-Spot

To make adjustments to the changes occurring in the new world of work and allow the company's employees the flexibility that exists in hybrid work, work close to where they live, and manage their time efficiently - the company established a new and advanced collaborative work complex near Jerusalem.



Social Impact and Community Engagement

3-3 | 413-1 | Limited assurance | SP | MT

UN SDG targets: 4.3 | 4.4



IAI considers social impact as an important topic, and worked, throughout the years, to strengthen technological education based on a belief that today's investment in youth is paramount for the business and national security leadership of Israel. Moreover, IAI encourages its employees to take an active and meaningful part in various community volunteering activities. The desire of IAI's employees for community engagement is another way in which their everyday work of developing and manufacturing advanced products and systems for Israel's defense, creates value. IAI's social impact strategy focuses on inspiring the next generations' pursuit of STEM (Science, Technology, Engineering, and Mathematics) learning in Israel while emphasizing gender equality. The social impact program is managed by IAI's social responsibility manager, who provides the policy, guidelines, and professional support to the annual work plans of the designated social leaders within the company's groups.

IAI operates numerous partnerships and collaborations year-round with many NGOs and organizations. As part of the company's strategy, the company appointed a VP of Communications, Government, and Community who is responsible for leading the issues at the corporate level.

In 2023, our total volunteering hours reached 25,760 hours, carried out by 3,424 employees.

Here are some examples of our social impact initiatives:

Space Evnts

In partnership with the Israel Space Agency and the nonprofit organization SPACEIL, Israel Aerospace Industries helped launch an outreach event entitled "From Yuri to Beresheet." As part of the project, IAI employees helped pique the fascination and curiosity about space for children and adults around Israel, lecturing on topics ranging from satellites to space exploration, and from the pioneering cosmonaut Yuri Gagarin to the Israeli moon mission Beresheet. Some 100 IAI professionals took part, reaching 10,000 people.

Sparks for Education

For several years running, Israel Aerospace Industries has been working with a unique nonprofit organization, Nitzotzot-Shiur Acher, which matches volunteers with school children who need just a little extra help. Some 85 IAI employees reach over 2000 schoolchildren annually, helping them with math, English, and subjects related to space and aviation. IAI's Future Generation Club, for employees 45 years old or younger, plays a growing role in the program.

Babada

Haredi (ultra-Orthodox) youth have fewer opportunities to experience science and technology than their peers. With the help of volunteers from IAI, Babada helps expose haredi children to STEM subjects while promoting the spirit of excellence and teamwork – all while upholding the values of religious observance their community holds dear. Babada exposes them to robotics, entrepreneurship, and multidisciplinary science activities. Each year the project focuses on a central theme – this year's topic is green energy. As part of the effort, Haredi employees from IAI serve as mentors to participating children, acting as role models, running workshops, and serving as judges in robotics competitions.

Community Engagement Month

During May and June, IAI employees observe the company's annual tradition – Community Service Month. More than 1,400 employees joined our dedicated professionals to initiate volunteer projects in nearby communities. Activities range from establishing creative learning spaces in schools to helping farmers harvest their crops, from building community gardens to helping senior citizens and distributing food packages to the needy.



Performance Scorecards

2-7 | 2-8 | 202-2 | 401-1 | 405-1 | Limited assurance

Details regarding our HR information in 2023 are specified in footnotes to this table. The data represented in this table is based on a cutoff analysis from December, 31st 2023.

Indicator ¹	2021	2022	2023
Number of employees (women, permanent and personal contract)	-	2,908	3,105
Number of employees (women, temporary)	-	64	59
Number of employees (women, students)	-	306	283
Number of employees (women, total)	3,187	3,278	3,447
Number of employees (men, permanent and personal contract)	-	10,079	10,446
Number of employees (men, temporary)	-	334	228
Number of employees (men, students)	-	181	211
Number of employees (men, total)	10,538	10,594	10,885
Number of employees (Total) ²	13,725	13,872	14,332
Number of engineers	6,489	6,614	6,971
Number of managers (women)	89	95	112
Number of managers (men)	481	493	457
Number of managers (Total) ³	580	604	569
% managers from local communities	100	100	100
% women at top 10% salary-level	11	11.5	12
% employees from Ethiopian origins	2.2	2.3	2.34
% employees from the Druze community	0.2	0.2	0.19
% employees from the Ultra-orthodox community	2.4	2.4	2.53

¹ As of 2020, these indicators include employees under employment relations (permanent, personal contract, temporary and students).

² The number of employees is counted according to the actual number of employees and not the number of jobs

³ As of 2020, this indicator includes managers from the level of unit directors and up.

Performance Scorecards

2-7 | 401-1 | 405-1 | Limited assurance

Details regarding our HR information in 2023 are specified in the footnotes to this table. The data represented in this table is based on a cutoff analysis from December 31st 2023.

Indicator ¹	2021	2022	2023
% employees with disabilities ²	2.4	3	4.4
% employees, ages 30 and under	10	11	11.68
% employees, ages between 31-50	55	55	55.03
% employees, ages 51 and over	35	34	33.29
% managers, ages 30 and under ³	0	0	0
% managers, ages between 31-50 ³	37	36	35
% managers, ages 51 and over ³	63	64	65
Number of new employees (Total)	698	1,335	1,231
% new employees (women, in all professions)	33	34	32
% new employees (women, in core professions)	30	30	28.4
% new employees (men)	67	66	68
% new employees from Ethiopian origins	3.7	1.4	2
% new employees from the Druze community	0.7	0.15	0.4
% new employees with disabilities ³	0.6	1	0.9
% new employees from the Ultra-orthodox community	1.9	2.5	3
% new employees, ages 30 and under	50	45	46
% new employees, ages between 31-50	44	49	46
% of new employees, ages 51 and over	6	6	8

¹ As of 2020, these indicators include employees under employment relations (permanent, personal contract, temporary and students).

² The number of employees with disabilities as percentage of total employees refers to employees with permanent disability.

³ As of 2020, this indicator includes managers from the level of unit directors and up.

Performance Scorecards

2-7 | 2-21 | 2-30 | 403-9 | 404-1 | Limited assurance

Indicator	2021	2022	2023
Annual total compensation ratio ¹	-	4	4
Number of training hours (frontal) ²	497,717	443,479	430,733
Number of training hours (non-mandatory)	18,360	84,468	78,326
Average Number of training hours per employee (incl. e-learning) ²	32	34	32
% employees completing sustainability-related training	80	80	75
% employees covered by collective bargaining agreements	64	63	61
Number of absence days : Aviation ³	1,045	877	783
Number of absence days: Elta systems ³	239	257	140
Number of absence days: Systems, missiles and space ³	334	148	117
Number of absence days: Military aircraft ³	101	99	193
Number of absence days: Supporting units ³	152	8	95
Number of absence days: Management ³	5	0	2
Number of absence days (Total)	1,876	1,389	1,330
Number of absence days (Total per 1000 employees)	136	100	93

¹ For further information on employee compensation, see Section 16 in the First chapter (description of the corporation's business) of the 2023 Financial Statement of the Company (in Hebrew), pages 96-106.

² The number of training hours is normalized per the company's total number of employees. It excludes seminar days, compulsory learning, and online platforms. It includes morning courses, factory and external training.

³ The presented values are according to the data collection date for each reported year, 2021 data has been updated accordingly.

Performance Scorecards

2-7 | 403-9 | Limited assurance

Indicator	2021	2022	2023
Number of accidents :Aviation ¹	32	34	25
Number of accidents: Elta systems ¹	12	11	6
Number of accidents: Systems, missiles and space ¹	6	6	5
Number of accidents: Military aircraft ¹	4	3	4
Number of accidents : Supporting units ¹	6	1	4
Number of accidents: Management ¹	1	0	1
Number of accidents (Total) ¹	61	55	45
Number of accidents (Total per 1000 employees) ¹	4.4	4	3.14
Number of accidents (Total per working hours)	-	0.39	0.31
Number of accidents: contractors	4	8	16
Number of fatalities	0	0	0
Number of traffic accidents	20	24	24
Number of pedestrian injured	2	4	2
Volunteering hours ²	10,214	12,912	25,760

¹ The presented values are according to data collection date for each reported year, 2021 data has been updated accordingly.

²Data include hours by volunteering employees under employment relations (permanent, personal contract, temporary, and students) and retirees.



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ENVIRONMENT

Resource Management and Environmental Efficiency

2-25 | 2-27 | 3-3 | 306-2 | SP | MT

UN SDG targets: 8.4 | 9.4 | 12.2

Environmental Management and Compliance

All IAI's production Divisions are certified to the ISO 14001:2015 standard. This allows us to define the authority and responsibility and implement procedures, reporting and control systems, and targets and measurement indicators for consistent performance, and proactively identify possible gaps and achieve constant improvement in environmental vision at the Divisional level. Infrastructures for treatment and end-solutions are embedded to support compliance with legal requirements and resource optimization processes.



At the IAI Headquarters level, there is management responsibility for both the EHS (Environmental, Health, and Safety) and Corporate Sustainability and Responsibility Directorates, whose role is to outline policy and provide tools, information-gathering infrastructure, and professional support to the Divisions, while helping reduce risks at the corporate level and ensure compliance with the strategic environmental goals of the whole company as part of its 2019-2023 Strategic Plan for Sustainability. In addition, a strategic view of environmental issues is integrated into a wide variety of processes in the company, such as development processes (page 83), merger and acquisition procedures (page 36), and supply chain issues (page 43).

Environmental management at the various levels of the company also includes a structured and detailed reference to emergency-related activities using defined emergency teams, response procedures, action plans, dedicated equipment, and periodic exercises, the purpose of which is to allow the company to continue to protect both people and the environment even in those cases where operational routines may be affected.

IAI's sustainability plan is based on our uncompromising commitment to comply with all laws and regulations applicable to

our activities and businesses. Due to our multiple processes, transactions, and other activities, we must meet many legal requirements on an ongoing basis. For this reason, the company operates the following procedures:

Monitoring Legislative Requirements and Environmental Standards in Israel

IAI subscribes to a daily update service regarding environmental issues in Israel. This allows us to receive timely updates on existing legal requirements to ensure company compliance with their most updated versions. This service also covers evolving future requirements so that we can implement plans prepared in advance. Beyond that, aspects of environmental regulations and public policy, as well as publications of environmental initiatives at the national level are also included, used by the company to promote internal strategic goals, and within the various frameworks for discussion with environmental stakeholders in Israel.

Monitoring Legislative Requirements and International Environmental Standards

The production, operation, maintenance, and scrapping of existing aviation and defense technologies all produce a considerable environmental footprint. In addition, global shortages of materials pose a growing risk to continuous production, alongside stricter regulations, which lead to many raw materials in the industry no longer being used. As members of the IAEG (page 26), we regularly monitor the updates of legislation on those materials in international markets which have a direct impact on their use in the aviation and defense sectors. IAI uses these updates as part of its reporting processes with its customers and in the development of environmentally friendly substitutes.

Environmental Enforcement Program in the Divisions

Whenever gaps are identified, senior management is informed, and corrective actions are taken. Furthermore, there are times when the event or issue is reported to our board of directors and/or external auditors, and if the relevant criteria are met, such events or issues are also reported to the public. To the best of our knowledge, and up until the date of issuing this report, no sanctions or fines were imposed in 2023 on IAI in relation to our

Environmental Risks Management

The company's board of directors and management are committed to sustainable development and establishing a corporate culture that promotes corporate responsibility. As part of this commitment, and following the instructions of the Government Companies Authority in this matter, the company's management holds regular discussions regarding the planning and implementation of these issues. In addition, specific management reports on environmental issues are discussed by the sustainability committee of the board of directors.

For more on environmental risks (including statutory regulations related to decision-making) see Section 20 in the First chapter (Description of the cooperation's business) of the 2023 Financial Statement of the Company (in Hebrew), pages 109-110.

Soil and Groundwater Surveys and Treatment

Based on the requirement of the governmental unit for licensing defense companies, IAI conducted phase 1 of a historical land survey in 2011, which included the collection of relevant information regarding potential areas of environmental concern from historical use of the company's real estate assets at each of its locations. A detailed multiyear plan for additional surveys and soil and water treatment prioritized according to the scope of operations at each location, was submitted to and approved by the relevant authorities.

For additional site investigations and treatment of soil and groundwater, which are prioritized, based on the extent of operations in each site. For up-to-date progress, see Section 13 in the First Chapter (Description of the cooperation's business) of the 2023 Financial Statement of the Company (in Hebrew), pages 91-95.

Water and Effluents

303-1 | 303-2 | 303-5 | Limited assurance

Israel is located in a geographical area that suffers from a shortage of water, therefore many companies in Israel show leadership at an international level in the development of water-related technologies. IAI considers its water consumption to be a valuable resource that must be managed efficiently. The total amount of water consumed in 2023 was 794 megaliters, including all water sources at each of the company's sites. All water consumption data is based on internal and external monitoring and billing information.

Effluent Treatment

The vast majority of the company's industrial wastewater is discharged from the company's site next to Ben Gurion International Airport to a nearby treatment facility under a regulated wastewater quality agreement, and to specific streams, after pre-treatment to remove hazardous substances. All wastewater discharge data is based on internal and external monitoring and billing.

Waste Management

306-1 | 306-2 | 306-3 | 306-4 | 306-5 | Limited assurance | SP

UN SDG targets: 12.5



Raw materials are becoming scarcer. This reality necessitates responsible waste management – both economically and environmentally – beyond pollution-prevention processes. IAI is focusing its efforts on finding waste management opportunities, along with:

- Efficient raw material consumption in production.
- Investment in the development of environmentally friendly raw materials as an alternative to hazardous materials in products.
- Adopting the principles of a circular economy.
- Maximizing processes with waste contractors to avoid the need for landfill.

The company's activities produce hazardous waste which includes chemicals, paints, and mineral oils, and IAI works with licensed contractors to divert this waste for reuse, recycling, and return to energy or approved landfills. In 2023, a rate of 21.1% of the hazardous waste was transferred by the hazardous waste subcontractor directly to a landfill and 77.4% were transferred to treatment procedures that are under his responsibility, like physicochemical separation, chemical neutralization processes, and disposal by incineration. Therefore, the hazardous waste report was separated to landfill and treatment components for the years 2021-2023.

Most of IAI's non-hazardous waste streams are separated at source to allow reuse or recycling, including office waste (such as paper, cardboard, and plastic), and operational waste (such as wood, metals, used cooking oil, and scrapped parts). In 2023, some 53% of the company's waste did not reach landfill due to reuse and recycling processes. At the end of 2023, a steering team was appointed to examine improvement measures in waste management as part of the new Strategic Plan for Sustainability. At the end of 2023, the company initiated a steering committee to examine improvement steps within waste management as part of the new sustainability strategic plan.

Circular Economy

A circular economy offers an innovative concept of how companies

can create sustainable business value by moving from linear to circular patterns of production, consumption of raw materials, and waste. The principles of the circular economy are already implemented by IAI in some of its business activities, for example, in passenger-to-freighter aircraft conversion – one of the company's prominent lines of business in the aviation sector – as a process that both preserves and extends the life cycle of the aircraft.

IAI has adopted cooperative business models for the drones it produces. Technologies such as 3D printing and visualization and simulation processes using virtual reality (VR) tools are an integral part of the development processes of the company's innovative and most advanced technological systems in fields such as satellites and missiles.

In addition to the benefits to the environment, by promoting circular economy principles IAI sees an opportunity for both technological innovation and business efficiency and savings. There is potential for adopting substitution processes in product design, using digital means as an infrastructure that replaces the need to use physical resources, and considering the development of additional cooperative business models and the possibility of sharing intra-organizational assets such as buildings, inventories, and knowledge. Expansion of circular economic applications is carried out in IAI within the framework of its 2019-2023 Strategic Plan for Sustainability. The process includes extensive mapping of the potential of circularity in the company's business activities to identify opportunities for implementation, while at the same time building intra-organizational expertise in the various disciplines.

The "Air Salon" Project

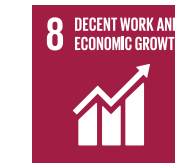
IAI is a world leader in passenger-to-freighter aircraft conversion. In the process of converting an aircraft, a large number of usable parts of the plane that are not required for its new purpose are dismantled and removed. These parts, which typically include chairs, storage compartments, and textiles, would normally be scrapped. To minimize the amount of waste and encourage reuse while also contributing to the community, IAI initiated the Air Show project, which also took place in 2023, in which designers from all fields were invited to collect discarded aircraft parts, free of charge, and use them to design items for their personal use. In exchange for the special and high-quality raw materials they were able to use, the designers were asked to donate at least one of their finished designs to the community.

Climate Change Related Activities

3-3 | 302-1 | 302-4 | Limited assurance | SP | MT

Energy Management

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 the consumption of the dwindling quantities of non-renewable energy sources, responsible for air pollution and climate change. We strive to operate our infrastructures in optimal conditions, maximum economic efficiency, and eco-friendliness. Each IAI division and some of the supporting units have an Energy Officer, responsible for energy management, including data collection and reporting. Energy use is constantly monitored in all our facilities. The data is made available to our managers and energy officers. Division managers conduct programs

for energy efficiency, including the replacement of inefficient HVAC, lighting, and manufacturing processes. The divisions also train Energy Trustees to monitor and follow up on designated facilities, promoting employees' awareness and ensuring preventive maintenance.

The following divisions hold a valid certification of ISO 50001:2018 standard for energy management in operations: the Military Aviation Group, the Missiles,

and Space Group, and TNUFA, which are responsible for the company's overall energy infrastructure management.

Electricity Consumption

IAI's electricity consumption is mostly based on a private supplier, which produces electricity based on Natural gas, and the rest from direct renewable energy production and consumption in-house.

As of 2007, IAI established a continuous working plan to implement cross-organizational efficiency and saving measures. Since 2007, 942 GWh has been saved in relation to the "business as usual" scenario. Savings were achieved alongside a rise in total electricity consumption in 2023, due to new buildings being populated and new processes implementation.

IAI did not sell any energy (electricity, cooling/heating, or steam) during 2023.

Renewable Energy

In 2023, IAI continued to utilize renewable energy sources based on solar panels. These were installed at some of our facilities for purposes of energy savings and as part of the 2019-2023 sustainability roadmap for the reduction of greenhouse gases. All renewable energy produced thereby was consumed by IAI operations.

Fuel Consumption for Industrial Use

Due to a major increase in production, IAI increased its consumption of liquefied petroleum gas (LPG) and diesel fuel in 2023.

302-1 | 302-4 | Limited assurance | SP

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. In 2023, the total distance travelled was 65,370,733 kilometers. This is estimated based on the total consumption of fuel for vehicle transportation, assuming an average fuel efficiency of 12 km per liter per vehicle. IAI continues to invest in the diversification of its fleet of vehicles as part of its strategic sustainability roadmap, by introducing hybrid and plug-in vehicles and replacing in-house operational utility vehicles with electrical-based ones.

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, to deliver the aircraft to overseas customers.

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 to commute easily and efficiently while reducing private vehicle use. The company operates a seat reservation app, which allows employees to reserve seats in advance, and shuttle vehicles are assigned based on real-time capacity to increase efficiency and reduce environmental impact.

Carpooling

Our online carpool system allows our employees to find commuting partners to all of the company's facilities in Israel while accommodating individual scheduling needs. Carpooling reduces the need for private cars, consequently reducing traffic and easing parking scarcity at IAI worksites.

Emissions

305-1 | 305-2 | Limited assurance | SP

Greenhouse Gas Emissions

UN SDG targets: 13.1



The transition to a low-carbon economy has been identified as the central tool for countries to combat climate change while adapting to the anticipated effects of climate-related change.

As part of the company's strategic sustainability roadmap for 2019-2023, IAI seeks to reduce Greenhouse gas (GHG) emissions from operations and production processes, while partnering in the development of additional solutions:

- Aligning our climate change focus with the UN SDGs (Goal 13: Climate action).
- Annual disclosures to CDP (a global, environmental disclosure organization) and the voluntary GHG reporting scheme led by the Israeli Ministry of Environmental Protection. IAI has been reporting to both since 2017.
- Meeting internal targets for reducing greenhouse gas emissions. Measures include in-house production and consumption of renewable energy via solar photovoltaic installations, greener transportation, and effective energy utilization.
- Supporting reductions of GHG emissions in aviation, through our participation in the Clean Sky 2 and Clean Aviation programs.
- Collaborating on climate action and emissions reporting in the A&D supply chain, both locally and internationally (see page 26).

The sources used in our annual emissions calculations included fuels for transportation and industrial use.

They also include the consumption of electricity which is supplied by a private company using 100% natural gas, and by internal electricity production that relies on renewable energy.

Climate-Related Risk Assessment

As part of its strategic plan, IAI performed a climate risk assessment. It examined the impacts of transitioning into a low-carbon economy, both locally and globally, and the potential physical impacts on infrastructure (acute and chronic). The assessment was done for operations in Israel, based on TCFD recommendations and climate-related databases of various Israeli authorities. The main risk it identified was a chronic one: an expected rise in average temperatures in the medium to long run. This is liable to affect the work process in some IAI facilities. The company will continue to monitor the risks of climate change to its operations, identifying and measuring them and taking remedial action.

Air Emissions

UN SDG targets: 12.2



Air pollution emissions are closely linked to impacts on the environment and public health. 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 transportation sources.

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

Environmental R&D

201-2 | SP

UN SDG targets: 9.4 | 12.2 | 13.1

Design for sustainability (DFS) is an approach that considers the entire environmental life cycle of a product or service, integrating environmental risk management and leveraging opportunities from the earliest stage of definition. DFS practices yield more flexible products and services in a tightening regulatory atmosphere, reducing short-term and long-term risks throughout the product life cycle, and systematically contributing to overall cost reductions. IAI's strategic sustainability roadmap for 2019-2023 calls for expanding our innovative DFS program. In 2023 we continued to develop products using substitute, environmentally friendly materials, both at our initiative and in collaboration with external partners, contributing to the emergency of a circular economy.



The Unmanned Aerial Vehicle (UAV) Division of the company holds the following ISO standards: Green label on behalf of the Standards Institute of Israel (SII) compliant with ISO 50,001 and 14,001 for environmental performance and energy efficiency for a range of products such as TACTICAL, GHTP, TP, HERON.

In the design, manufacture, and use of products, our UAV division aims to minimize its ecological footprint. For instance, it uses unleaded or used fuel and un-chromated, environmentally friendly paints. It also instructs users how to extend the shelf-life of products.

Building a Concept to Battle Forest Fires

The method involves two synchronously operated unmanned aerial vehicles. One is a scout plane equipped with an electroscopic payload that scans a wide area, locates fires at large distances, and identifies the source of the fire at an early stage. It then transmits the necessary flight path to the second UAV which then drops fire retardants, without the need for human intervention. IAI plans to

enter its new solution at the XPRIZE Wildfire Competition.

Clean Sky 2 and Clean Aviation

In recent years, IAI has been a significant participant in the European 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, originating 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 emissions and noise levels emitted by aircraft technology today.

In CLEAN SKY 1 IAI addressed the selection, development, and demonstration of materials and technologies, for the reduction of overall aircraft weight (by 10-20%); reducing cost, energy consumption, and the emission of nitrous oxide pollution; eliminating hazardous materials and promoting recycling. IAI continues to lead the ecoTech innovative eco-friendly airframe consortium under the framework of CLEAN SKY 2, alongside partners from Germany, Spain, Greece, and the Netherlands. The consortium promotes the development of new technologies to reduce the environmental footprint of aircraft production 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. IAI now takes part in the recently launched CLEAN AVIATION framework, partnering with major European aeronautics companies, academia, research centers, and SMEs to achieve the goal of climate-neutral aviation in the EU by 2050. The framework seeks to develop disruptive technologies for aircraft that will enable a significant portion of the global fleet to transition into low-to-zero CO2 emissions flights.

Performance Scorecards

302-1 | 302-4 | Limited assurance

Indicator	2021	2022	2023
Built area (m ²)	926,515	927,059	944,512
Electricity consumption: heating/cooling (TJ)	397	385	396
Electricity consumption: lighting (TJ)	95	91	90
Electricity consumption: air compressors (TJ)	45	47	47
Electricity consumption: manufacturing (TJ)	152	154	158
Electricity consumption: other (TJ)	78	76	97
Electricity consumption: Total (TJ) ¹	767	753	795.7
Electricity consumption per built area: Total (GJ/m ²) ¹	0.83	0.81	0.84
Fuel consumption: industrial diesel fuel (GJ) ³	19,770	25,333	28,105
Fuel consumption: liquefied petroleum gas (GJ)	34,800	27,662	33,397
Total fuel consumption for industrial uses per built area (GJ/m ²)	0.058	0.057	0.065
Fuel consumption, automotive: diesel (50) (Mega-liter) ²	0.449	0.448	0.467
Fuel consumption, automotive: gasoline (95) (Mega-liter)	5.0	4.8	4.9
Fuel consumption, aviation: jet fuel (Mega-liter) ⁴	1.05	0.68	1.17
Fuel consumption, aviation: jet fuel (Mega-liter/Aviation group EBIDTA)	953	525	919
No. of hybrid vehicles in company's fleet	1,059	935	842

¹ Including renewable electricity manufactured and consumed in-house.

² Used by operational fleet only.

³ The data collection methodology was improved.

⁴ Data reflects jet fuel that was consumed directly by IAI. The data collection methodology was improved.

Performance Scorecards

305-1 | 305-2 | 305-3 | 305-4 | 306-3 | 306-4 | 306-5 | Limited assurance

Indicator ¹	2021	2022	2023
Stationary fuel sources (CO ₂ e, metric tons)	3,786	3,810	4,383
Mobile fuel sources (CO ₂ e, metric tons) ²	16,289	14,659	16,580
Total scope 1: direct emissions (CO ₂ e, metric tons)	20,075	18,469	20,963
Electricity consumption (CO ₂ e, metric tons)	95,808	93,933	96,987
Total scope 2: indirect emissions (CO ₂ e, metric tons)	95,808	93,933	96,987
Total emissions avoided by renewable energy consumption (CO ₂ e, metric tons)	716	919	949
Total scope 1&2 (CO ₂ e, metric tons)	115,883	112,402	117,950
Total scope 3: employees travel (CO ₂ e, metric tons)	6,022	15,714	17,791
Scope 1 GHG intensity ³	0.022	0.020	0.022
Scope 2 GHG intensity ³	0.103	0.101	0.103
Normalised, total scope 1&2 (CO ₂ e, metric tons/EBITDA) (Mil \$)	266	201	178
Hazardous waste, landfill (metric tons)	51	37	29
Hazardous waste, treatment (metric tons) ⁵	1,689	1,625	1,499
Hazardous waste, recycling/reuse (metric tons)	⁴ 41	245	227
Hazardous waste, waste-to-energy (metric tons)	⁴ 346	198	183
Hazardous waste, total (metric tons)	2,128	2,105	1,938
Hazardous waste, total (metric tons/EBITDA) (Mil \$)	4.9	3.8	2.9
Non-hazardous waste, treatment and/or landfill (metric tons)	3,491	3,588	3,889
Non-hazardous waste, recycle/reuse (metric tons)	3,451	3,768	4,420
Non-hazardous waste, total (metric tons)	6,943	7,355	8,309
Non-hazardous waste, total (metric tons/EBITDA) (Mil \$)	15.9	13.1	12.5

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

² Data collection methodology was improved. ⁴ The sources used for this data were updated during 2021.

³ Calculated per built area. ⁵ Treatment procedures and data are under the hazardous waste subcontractor responsibility (outsode of IAI).

Performance Scorecards

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

Indicator	2021	2022	2023
Total water consumption (1,000 m ³)	767	795	794
Total water consumption (1,000 m ³ /EBITDA)	1.76	1.4	1.19
Total water discharge (1,000 m ³) ¹	179	194	189
Total air emissions, NOx (metric tons) ²	21.5	19	18
Total air emissions, SOx (metric tons) ²	2.4	2.2	2.2
Total air emissions, VOC (metric tons) ²	1.9	3.5	3.25
Total air emissions, PM (metric tons) ²	1.0	1.5	1.72

¹ Includes the Ben Gurion airport campus only.

² Emissions are reported on IAI's two operational facilities that were found to be obligated by the Israeli Clean Air Law - 2008 regulations criteria. Those facilities underwent a series of processes to meet all legal requirements, and their performance is in accordance with stack monitoring and calculation methodologies defined in the Israeli Pollutant Release and Transfer Register - 2012.



פורצים גבולות
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שנים



GRI CONTENT INDEX



GRI Index

Universal Standards (In accordance)

For the Content Index – Essentials Service, GRI Services reviewed that the GRI content index has been presented in a way consistent with the requirements for reporting in accordance with the GRI Standards, and that the information in the index is clearly presented and accessible to the stakeholders. The service was performed on the English version of the report

GRI 1: Foundation 2021

Statement of use IAI has reported in accordance with the GRI Standards for the period 1 January 2023 - 31 December 2023.

GRI 1 used GRI 1: Foundation 2021

Applicable GRI sector standards Not currently available

GRI 2: General Disclosures 2021

GRI standard / Disclosure	Page	Omission
The organization and its reporting practices		
2-1	Organizational details 22, 36	Confidentiality constraints: the company does not disclose countries of operations beyond Israel.
2-2	Entities included in the organization's sustainability reporting 14, 22	
2-3	Reporting period, frequency and contact point 14, 101	
2-4	Restatements of information 14	
2-5	External assurance 98-100	
Activities and workers		
2-6	Activities, value chain and other business relationships 14, 22, 36-37, 43	
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GRI standard / Disclosure	Page	Omission
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2-10	Nomination and selection of the highest governance body 50	
2-11	Chair of the highest governance body 50	
2-12	Role of the highest governance body in overseeing the management of impacts 23, 27, 51, 58	
2-13	Delegation of responsibility for managing impacts 23	
2-14	Role of the highest governance body in sustainability reporting 28, 50-51	
2-15	Conflicts of interest 50	
2-16	Communication of critical concerns 50-51, 54	
2-17	Collective knowledge of the highest governance body 50	
2-18	Evaluation of the performance of the highest governance body 50	
2-19	Remuneration policies 51	
2-20	Process to determine remuneration 51	
2-21	Annual total compensation ratio 73	
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2-22	Statement on sustainable development strategy 15-16	
2-23	Policy commitments 51, 54	
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GRI standard / Disclosure		Page	Omission
2-25	Processes to remediate negative impacts	52, 77	
2-26	Mechanisms for seeking advice and raising concerns	54	
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3-3	Management of material topics	39	
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GRI 3: Material Topics			
3-3	Management of material topics	41	
GRI 403: Occupational health and safety 2018			
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	41	
GRI 417: Marketing and labeling 2016			

GRI standard / Disclosure		Page	Omission
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203-2	Significant indirect economic impacts	44	
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204-1	Proportion of spending on local suppliers	44, 46	
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3-3	Management of material topics	49	
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GRI standard / Disclosure	Page	Omission
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403-3	Occupational health services	65-66
403-4	Worker participation, consultation, and communication on occupational health and safety	65-66
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403-6	Promotion of worker health	68
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	65-66
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GRI standard / Disclosure		Page	Omission
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305-1	Direct (Scope 1) GHG emissions	82, 85	
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305-4	GHG emissions intensity	85	
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	86	



Legal disclaimer

This sustainability report (hereafter "the report") presents IAI's activity in 2022, for sustainability and corporate responsibility issues.

The report focuses on integrating sustainability principles in business operations, the economic, social, and environmental values that these principles contribute to IAI and its connections with stakeholders as specified in the report, and more.

This report does not serve as a securities offering of IAI to the public, and should not be interpreted as a public securities offering, and it does not serve as a report as defined by the Securities Law – 1968, and its regulations. A clear indication was noted in places where the report includes quantitative indicators (charts, diagrams, etc.) that do not cover all of IAI's performance.

This report reflects IAI's policy that is "beyond compliance". As such, it shows the targets, objectives, and milestones that IAI has decided on and strives to achieve, but has no legal obligation to meet. IAI has taken all measures to ensure that this document is precise and correct, and to the best of our knowledge, it is precise and correct, as per its publication date. Nonetheless, as in any document, it may include generalizations, inaccuracies, mistakes, and omissions, and as such, IAI does not take any responsibility for the precision or completeness of this document and does not allow reliance or use of the data included by someone. In addition, IAI is not under any obligation to update the information provided in this report.

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>] and/or the Stock Exchange, the information in the public reports on these websites 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.

External assurance

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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.



Independent Limited assurance

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Independent Limited Assurance Report for of Israel Aerospace Industries Ltd. (IAI)

We have undertaken a limited assurance engagement of the accompanying the specified subject matter as mentioned in the table below (further referred to as “**subject matter information**”) of Israel Aerospace Industries Ltd. (IAI) (further referred to as “**the company**”) for the period started on the 1st of January 2023 and ended 31 December 2023.

Other than the information described in the table below, which defines the scope of our engagement, we did not perform assurance procedures on the rest of the information contained in the report and accordingly we do not express any conclusion for this information.

The subject matter is marked as "limited assurance" in the report:

- Managing sustainability in IAI
- Stakeholders
- Strategic alliances
- Materiality
- 2019-2023 sustainability roadmap
- 2030 sustainability roadmap
- Corporate governance
- Business ethics
- Cyber defense and information security
- Business development and performance
- Local procurement
- Business continuity
- Patents
- Occupational health and safety

- Diversity, inclusion and gender equality
- Empowering workplace
- Social impact
- Energy management
- Water and effluents
- Emissions
- Waste management

Management's Responsibility

Management is responsible for the preparation of the subject matter information according to the GRI principles (further referred to as “**the applicable criteria**”).

Management is also responsible for selecting the applicable criteria used.

The preparation of the subject matter information requires management to establish and interpret the criteria, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect the reported information. The selection by management of different but acceptable measurement techniques, estimates or assumptions could have resulted in materially different amounts or metrics being reported. Obtaining sufficient, appropriate evidence to support our limited assurance conclusion does not reduce the inherent uncertainty in the amounts and disclosures.

Management is also responsible for such internal control as management determines necessary to enable the preparation and presentation of the subject matter information that is free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the subject matter information based on the evidence we have

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obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information. This standard requires us to conclude whether anything has come to our attention that causes us to believe that the subject matter information is not fairly stated, in all material respects.

A limited assurance engagement consists of performing procedures (primarily consisting of making inquiries of management and other within the company, as appropriate, and applying analytical procedures) and evaluates the evidence obtained.

Our engagement included, amongst others, the following procedures performed:

- Conducting inquiries to the relevant personnel, who are responsible for providing the information for the report and examining the systems that collect such information.
- Conducting inquiries to the relevant personnel who are in charge of the subject matters, in order to understand the on-going work process and the preparation for the report.
- Comparing the information presented in the Sustainability Report on subject matter, with references from relevant sources, in order to determine whether the relevant information is accurately included in the report.
- Examining the disclosure and presentation of the information in the report.

We believe that the evidence obtained is sufficient and appropriate to provide a reasonable basis for our conclusion.

Our Independence and Quality Control

We are independent in the company in accordance with the legal provision applicable in Israel regarding the independence and prevention of conflict of interest of the auditing accountant in Israel. We fulfill our other ethical obligations in accordance with the Certified Public Accountants Law (1955), and regulations derived from it, which are based on the principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies International Standard on Quality Management 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, and Other Assurance or Related Services Engagements, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the subject matter information of the company for the period started on the 1st of January 2023 and ended 31 December 2023, which is shown in the table above, is not prepared, in all material respects, according to the GRI principles.

Ziv Haft
Certified Public Accountants Tel Aviv

March 31th, 2024

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

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