



Israel Aerospace Industries 2021 Sustainability report



Introduction.....	3
Strategy.....	8
Integrity and ethics.....	22
Value creation.....	34
Innovation.....	46
Employees and communities.....	52
Environment.....	68
GRI Content index.....	82



Our vision

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



Our values

Human excellence

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

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

Technological excellence

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

Israel's defense

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

Responsibility

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



About the report

102-10 | 102-45 | 102-48 | 102-49 | 102-50 | 102-51 | 102-52 | 102-54

Reporting period and cycle

This report presents the Israel Aerospace Industries (IAI) performance on Environmental, Social, and Governance (ESG) issues, as of December 31, 2021. This is the company's seventh consecutive reporting year; IAI published its last report on March 31, 2021. 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 contents were audited for limited assurance by BDO Ziv Haft (see pages 97-98), and professional consultation on the report was provided by KPMG Somekh Chaikin.

No significant changes occurred in size or sites location during the reporting year.

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

UN SDG targets: 12.6



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

For the GRI Content Index Service, GRI Services reviewed that the GRI content index is clearly presented and the references for all disclosures included align with the appropriate sections in the body of the report. The GRI Standards Content Index is located at the end of this report, on pages 84-94.

Reporting scope

IAI has a worldwide business and financial activity, with the majority of its managerial and manufacturing activities taking place in Israel's territory. Relevant financial data specified in this report are in line with IAI's 2021 financial statement and concerns IAI's global activity. Unless otherwise mentioned, all the data (other than financial) included in this report applies to IAI's activities and operational sites in Israel alone. In some cases, relevant information was given for specific sites only. When such cases appear in the report, this fact is explicitly noted.

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

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

Restatements

No restatements of information from earlier reports.

Significant changes to the report

No significant changes were made in the report, compared with earlier reports.



From the Chairman of the board

102-14

In November 2021 I took over as Chairman of the Board of Directors of IAI with a great sense of duty and responsibility to the company's business resilience and growth, and with the understanding that the government and citizens of Israel are expecting us to make the most advanced solutions available, that will serve as a protective wall against all threats – not just in the air, sea, and land, but also from space.

I would like to thank the outgoing Chairman, Mr. Harel Locker, and the Board of Directors for their invaluable contribution to the company's progress and the reinforcement of IAI's sustainability outlook.

As the former Israeli minister of environmental protection, I find caring for the company's sustainability an issue of great importance, not just for meeting environmental needs, but also as part of the company's overall business approach, as it moves towards meeting its economic objectives.

IAI is a success story on all scales, and 2021 has proven to be a historic year for our revenue and sales record. Technologically, we continued our mission to lead in aviation, space, cyber, land, and sea. We have reached new agreements, including collaborations resulting from the "Abraham accords", and we are honored to be recognized by the world's military and civilian markets as a unique company with a wealth of knowledge, know-how, and capacity to deliver innovative products and services.

In 2021, we maintained our "Platinum +" ranking in the Israeli Ma'ala Index for Corporate Responsibility in Business at the Tel Aviv Stock Exchange. We also continued to report on our contribution to the six UN 2030 Sustainable Development Goals (SDGs) that have been found most relevant to our business as part of our 2019-2023 strategic sustainability roadmap. Additionally, we recognize the importance of acting together as an industry. We collaborate locally with NGOs and the authorities in Israel on circular economy

and climate action, and internationally on social, ethical, and environmental issues in the supply chain. We strongly believe that these strategic partnerships are key as we move forward.

IAI's twenty material topics reflect our direct impact as a business, allowing us to foresee, focus and manage environmental and social risks and opportunities that arise. This way, we can offer exceptional business value and growth that consider these implications and seize them as an opportunity. No changes were made to the material topics this year, and we align this report accordingly.

As part of our sustainability approach, we will do all that is possible to invest in the diversity of our human capital and increase the percentage of underrepresented populations – both in employment and in their meaningful inclusion in the company's management and key roles, including women, Israelis of Ethiopian origins, the Ultra-orthodox Jewish community and members of the Druze community.

In closing, I want to extend my appreciation to the workers of IAI, who make all our progress possible. Their talent and dedication are not only felt professionally but also personally, and their collective effort and commitment are what drive us to a better future, especially in these tumultuous times. I look forward to working with our employees, customers, and all other stakeholders in keeping IAI well-positioned for continuous responsible growth.

Amir Peretz
Chairman of the Board of Directors



From the CEO

102-14 | 102-15

I am pleased to present IAI's seventh consecutive Sustainability Report, which presents our environmental, social, and governance (ESG) performance in 2021. These important dimensions are fundamental to the way we do business, and keeping our performance and improvement processes transparent and timely allows our journey to be both reflected upon and shared effectively so that we continuously improve and drive positive progress.

Many of the economic and societal challenges brought about in 2020 had continued to impact us all in 2021. As a new normal keeps forming around us, both locally and globally, IAI remains firmly committed to the social and environmental responsibilities we hold towards our employees, customers and business partners, suppliers, the communities in which we operate, and other stakeholders.

2021 marks our third year of the company's 2019-2023 strategic sustainability roadmap implementation. I am happy to share that we are on track, and in some cases, exceed our sustainability objectives, as we methodically advance our operations, our working environment, our infrastructures, and our solutions as part of our mission as a leading, technologically innovative, and trusted company.

Financially, we continued to deliver excellent products and services to the Aerospace and Defense markets and reached record-high sales of over \$ 4.4 billion and net income of \$148 million. Further, our total spend on local procurement in Israel increased, with "blue-and-white" representing 61% of our total procurement. Environmentally, we have reduced our direct greenhouse gas emissions (scope 1) by 26% since 2018, and starting this year, produced and consumed renewable energy on our own premises as part of our overall climate action efforts. Additionally, 50% of our non-hazardous waste were reused or recycled, and our "Air Salon" project for diverting aircraft conversion waste to community and

other uses had won a special sustainability award. Socially, we continued to expand our diversity and inclusion program and recruited nearly 700 new employees. We also continued to reduce the number of employee safety incidents, and dramatically increased our annual volunteering hours, as part of our new strategic social impact plan.

The impacts of the global pandemic are still unfolding, alongside many other social and environmental challenges that demand our response as a business and a cornerstone company in Israel, and an important technological player internationally. I am encouraged by the powerful force that is IAI people, who work relentlessly to create business value through their dedication and imagination, achieving the truly remarkable, every day. Combined with our strong business stance and our ongoing resolve to meet our sustainability ambitions, I believe we can expect more success and resilience in the coming years.

Boaz Levy
President and Chief Executive Officer





 **IAI** התעשייה
האווירית

STRATEGY



Our business

102-1 | 102-3 | 102-4 | 102-5 | 102-6 | 102-7 | 102-16 | 102-45

Israel Aerospace Industries (IAI) is a global Aerospace and Defense (A&D) company, and the largest governmental Company in Israel, delivering state-of-the-art technologies and systems in all domains: sea, air, land, space, and cyber for defense and commercial markets. We have been developing and supplying comprehensive solutions and services for customers around the world for nearly seven decades, allowing them to meet their unique security and commercial objectives. Established as BEDEK Aviation Ltd in 1953 in Lod, Israel, we became Israel Aircraft Industries Ltd. in 1966 and Israel Aerospace Industries Ltd. In 2007.

IAI's headquarters is located at Ben-Gurion Airport, Lod, overseeing eight operational sites across Israel, IAI is the largest employer of engineers in Israel, 21.3% of which are women. The company sustains over 30,000 households nationwide, across all circles of employment.



Managing sustainability

102-26 | 102-29 | 102-32 | 102-33 | 102-34 | Limited assurance

IAI sustainability management is cross-organizational and includes all groups, divisions, operations, R&D, and subsidiaries. The program starts at the top, with a Board of Directors' Sustainability Committee, overseeing a Senior Management Sustainability Steering Committee, led by the Executive VP of Operations, supervising, in turn, IAI's Sustainability and Corporate Responsibility Directorate. The Board Committee is responsible, among other things, for the approval of IAI's annual sustainability reports. Through these authorities, we form manageable, measurable, and consistent working plans, strategically directing the company's progress in sustainability matters.

Our sustainability management is directly derived from our sustainability policy, which in turn reflects our 20 material topics (see page 17). This policy dictates both the focus of the Senior Management Sustainability Steering Committee and the strategic work of the Sustainability and Corporate Responsibility Directorate, as well as the targets & objectives assigned to the various functional units (i.e. the divisions, HR, P&L, and Finance, etc.). The program supports the company's long-term business objectives and the company's senior management and the board of directors' sustainability committee reviews it annually to ensure its completeness and effectiveness.

To achieve our objectives, and to meet the expectations of the company's stakeholders regarding transparency and access to information, the program relies on a wide array of issues and quantitative targets that are systematically measured throughout the year. Based on the materiality process and the progress of our 2019-2023 strategic sustainability roadmap, we aspire to add additional issues each year, which have reached a level of maturity through intra-organizational monitoring, as the potential for expanding the public reports. Examples of processes and topics added to the company's sustainability reports up until 2021 include the formation and implementation of our 2019-2023 strategic sustainability roadmap and diverse reporting schemes such as CDP Climate, Ma'ala index in Tel Aviv Stock Exchange, and alignment with the UN Sustainable Development Goals (SDGs) 2030.



Link to IAI's sustainability policy

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



Our stakeholders

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

We work proactively to develop trust-based relationships with our internal and external stakeholders, including our employees, customers, business partners, suppliers and contractors, regulatory authorities, civic organizations, and communities in which we operate. In 2021, we continued to engage in 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 (existing and under development)
Israel's government (owners)	External	All materials topics (see page 17)	Annual reports; Meetings
Regulatory authorities (including environmental and social compliance)	External	All materials topics (see page 17)	Annual reports; Meetings; Joint seminars, conferences and seminars; Site visits and audits; Professional forums
Employees, employees' families, our retirees	Internal	All materials topics (see page 17)	Intranet; Internet; Mobile app #weareIAI; Newsletters and emails; Social media posts; Forums and gatherings; Company events; Surveys; Round tables
Board of directors and senior management	Internal	All materials topics (see page 17)	Management reviews; Professional training; Steering committees; Surveys; Round tables

[102-40](#) | [102-42](#) | [102-43](#) | [102-44](#) | [Limited assurance](#)

Customers	External	Corporate governance and business ethics; Product responsibility and customer service; Technological innovation; Compliance; Business development and performance; Energy and emissions; Environmental management; Responsible supply chain; Cyber defense and information security; Anti-competitive behavior prevention; Business continuity	Annual reports; Trade shows and technical conventions; Audits and site visits; Surveys; Meetings; Joint seminars, conferences and seminars; Social media posts; External website
Suppliers and contractors	External	Responsible supply chain; Anti-Corruption and bribery prevention practices; Environmental management; Occupational health and safety; Cyber defense and information security; Business continuity	Internet; Meetings; Joint seminars and conferences; Audits; Supplier training; Surveys
Communities	External	Impact on Israel; Social impact; Energy and emissions; Environmental management; Waste and effluents; Indirect economic impact	Internet; Strategic partnerships; Volunteering and local initiatives; Meetings; Round tables; Surveys; Social media posts
Local and international partnerships and industry associations	External	Technological innovation; Environmental management; Social impact; Compliance; Cyber defense and information security; Energy and emissions; Waste and effluents	Strategic partnerships; Professional committees and forums; Joint seminars and conferences; External website
Civil organizations	External	Impact on Israel; Social impact; Responsible supply chain; Anti-Corruption and bribery prevention practices; Energy and emissions; Environmental management; Waste and effluents; Technological innovation; Diversity, inclusion and equal opportunity	Surveys; Meetings; Joint seminars, conferences and seminars; Social media posts; Internet; Surveys; Round tables
Academia	External	Technological innovation; Impact on Israel	Strategic partnerships; Technical conferences; Internships and higher education training; Joint R&D projects
Future generations	Internal/ External	Impact on Israel; Technological innovation; Employees recruitment and talent management	National-level Long-term outlook forums; Future women engineers of tomorrow project
Media	External	All materials topics (see page 17)	Press releases; Annual reports; Internet; Social media posts; Site visits
Investors and financial stakeholders	External	All materials topics (see page 17)	Annual reports; Meetings; External website



Strategic alliances and memberships

102-12 | 102-13 | Limited assurance

IAI is active in various associations, forums, and alliances, both local and international, which focus on promoting collaborative efforts and knowledge sharing around its 20 material topics. During 2021, we kept strengthening these relationships, both in light of the continued COVID-19 pandemic and as an integral part of our business continuity.

In Israel

As the largest governmental employer in Israel, we take part, and in some cases, lead important efforts to advance both expert-environmental and social-based initiatives and projects. Among our partners are:

The Manufacturers Association of Israel (professional and sustainability groups); the Standards Institute of Israel; The joint government and business forum for a competitive low carbon economy; The association of Engineers, Architects and Graduates in Technological Sciences in Israel (AEAI); The forum for corporate responsibility of the Government Companies Authority; The forum for corporate responsibility of the Israel-America Chamber of Commerce; The voluntary GHG emissions reporting scheme by the Israeli Ministry of Environmental Protection; The socio-economic forum of the Israeli directorate of business organizations, and more.

Maala

Maala is a nonprofit organization promoting corporate social responsibility in Israel. Founder of Maala index at the Tel Aviv Stock Exchange, it is considered the CSR standards-setting organization in Israel. In 2021, IAI maintained its "Platinum +" ranking, the highest-ranking available.

International Aerospace Environmental Group (IAEG)

A trade association formed by major international aerospace and defense companies, focusing on compliance with future laws and regulations regarding health and the environment. The association is advancing mutual efforts to aid the A&D value chain to become more sustainable, reduce potential risks, and drive continual improvements to help companies in making 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 and replacements, environmental qualifications of suppliers, ISO 14001 and EMS implementation, Greenhouse Gases (GHG) sector-specific guidelines and most recently, ESG engagement.

CDP

An independent not-for-profit organization, gathering information on climate change, water, and forests from companies, investors, cities, and countries, through a global disclosure system. IAI has been reporting its Greenhouse Gases (GHG) emissions to the CDP climate since 2017.

International Forum on Business Ethical Conduct (IFBEC)

An international forum of major member companies in the aerospace and defense industry, 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.



Environmental, Social and Governance (ESG) risk management

102-11

Environmental, social, and governance (ESG) risks are included in the company's periodic risk review (see page 29) and reported on regularly to the senior management sustainability steering committee, and in relevant cases, to the board of directors' committee on corporate governance, sustainability and the advancement of diverse populations, in order to ensure they are addressed and prepared for in a timely manner. The Sustainability and Corporate Responsibility Directorate carries out ongoing monitoring and evaluation of all of the risks that derive from the material topics with respect to the company's business activity, leads improvement and preparedness processes with respect to group and division managers, and leverage opportunities for shared value with respect to internal and external stakeholders.

Information on all key corporate risks is located in section 29 of the Fourth Chapter in the 2021 Financial Statement of the Company (in Hebrew), pages 126-138. The table below presents the main ESG risks that could potentially affect our business activity. In addition, we expect to initiate climate change risk assessment in 2022, as part of our sustainability risks management.

Risk area	Potential impact	Organizational mechanisms for managing and reducing risk
Coping with crises and emergency events	Harm to people and equipment, disruption of business activity, failure to meet objectives and deliveries, loss of opportunities	Risk management (see page 29) and Business continuity (see page 37)
Cyber defense and information security	Disruption of business activity, shutdown of systems, loss of information, security breach, information leakage to competitors	Cyber defense and information security (see page 32)
ESG-related regulatory developments (local and international)	Infrastructure investment for the purpose of meeting regulatory requirements, prohibition or limitation on the use of specific raw materials in the company's products	Compliance with laws and regulations on environmental issues (see page 71) and socioeconomic issues (see page 30)
Human capital management vis-a-vis the current and developing labor trends	Competitiveness in recruiting and maintaining human capital in accordance with the company's needs	Career at IAI (see page 56)



Materiality

102-46 | Limited assurance

IAI's matrix of material topics was updated in a full methodological process in 2019 (see the 2019 sustainability report available on IAI's website), some three years after our first materiality analysis process. The company's material topics are reflected in the company's sustainability policy and constitute the basis that guides the company's 2019-2023 strategic sustainability roadmap. However, due to the COVID-19 pandemic, the company's management carried out a validation process for the matrix in 2020 (see the 2020 sustainability report available on IAI's website). The validation process has yielded our current materiality matrix, which reflects the changes in ratings made for the existing material topics and the addition of a new material topic (business continuity).

The Senior Management Sustainability Steering Committee have approved the current matrix for 2021, as the company's core products, markets, activity, and the essence of its business strategy, whose implementation began in 2019, remained unchanged in 2021.

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.



102-46 | 102-47 | Limited assurance

These are IAI's top material topics, all are included and managed in the company's 2019-2023 strategic sustainability roadmap (see page 18).





2019–2023: Our sustainability roadmap

Limited assurance

In 2019, the company had initiated the implementation of its 2019-2023 sustainability roadmap that was created based on an extensive number of resources and following a methodological process, to ensure our focus coordinates with important national and international sustainable development roadmaps and initiatives. The roadmap is divided into three levels of implementation and monitoring of the annual derivatives, as well as for each of the material topics (see page 17).

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 five strategic objectives (see table).

Look for the mark!

This mark stands for "Strategic Progress", and is placed throughout this report wherever progress in our 2019-2023 strategic sustainability roadmap is discussed.

2023 Vision (KPIs and sample actions)	2021 Update	Additional information (pages)
10% cross-organizational electricity savings	Progress is according to plan	72-73, 79
Diversify our electricity consumption to include renewable energy sources	Progress is according to plan	72,79
100% of new strategically-managed suppliers or vendors are evaluated for sustainability performance	Progress is according to plan	42-43
35% women intake of all new employees hiring (core technological professions)	Progress is according to plan	57
30% women intake of all employees hiring (all professions)	Annual target met, to be maintained each year until 2023	57
5% annual increase in hiring of diverse work populations	Annual target met	57
Transitioning from OSHAS 18001 to ISO 45001:2018	Target met	60
10% annual decrease in safety accidents rate	Annual target met	60-61, 67



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

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

UN SDGs

UN Targets

Our alignment and contribution



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

Target 4.3: By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university.

Target 4.4: By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.

Our social impact strategy focuses on developing future technological human capital in the fields of aviation and space, with an emphasis on promoting gender equality. This strategy is implemented, among other things, in joint activities with 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.



Achieve gender equality and empower all women and girls

Target 5.1: End all forms of discrimination against all women and girls everywhere.

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

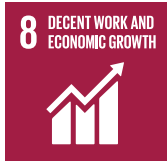
IAI promotes a diverse and inclusive work environment and equal opportunity employment. Our gender equality plan was built in order to increase the percentage of our women employees in both core and general professions. In addition, our social impact programs such as "Women Engineers of tomorrow", and "Women Engineers for Industry" aim at empowering girls and young women to pursue STEM professions.



UN SDGs

UN Targets

Our alignment and contribution



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

Target 8.1: Sustain per capita economic growth in accordance with national circumstances.

Target 8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and 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.

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.



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

Target 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.

Target 9.5: Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending.

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



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.

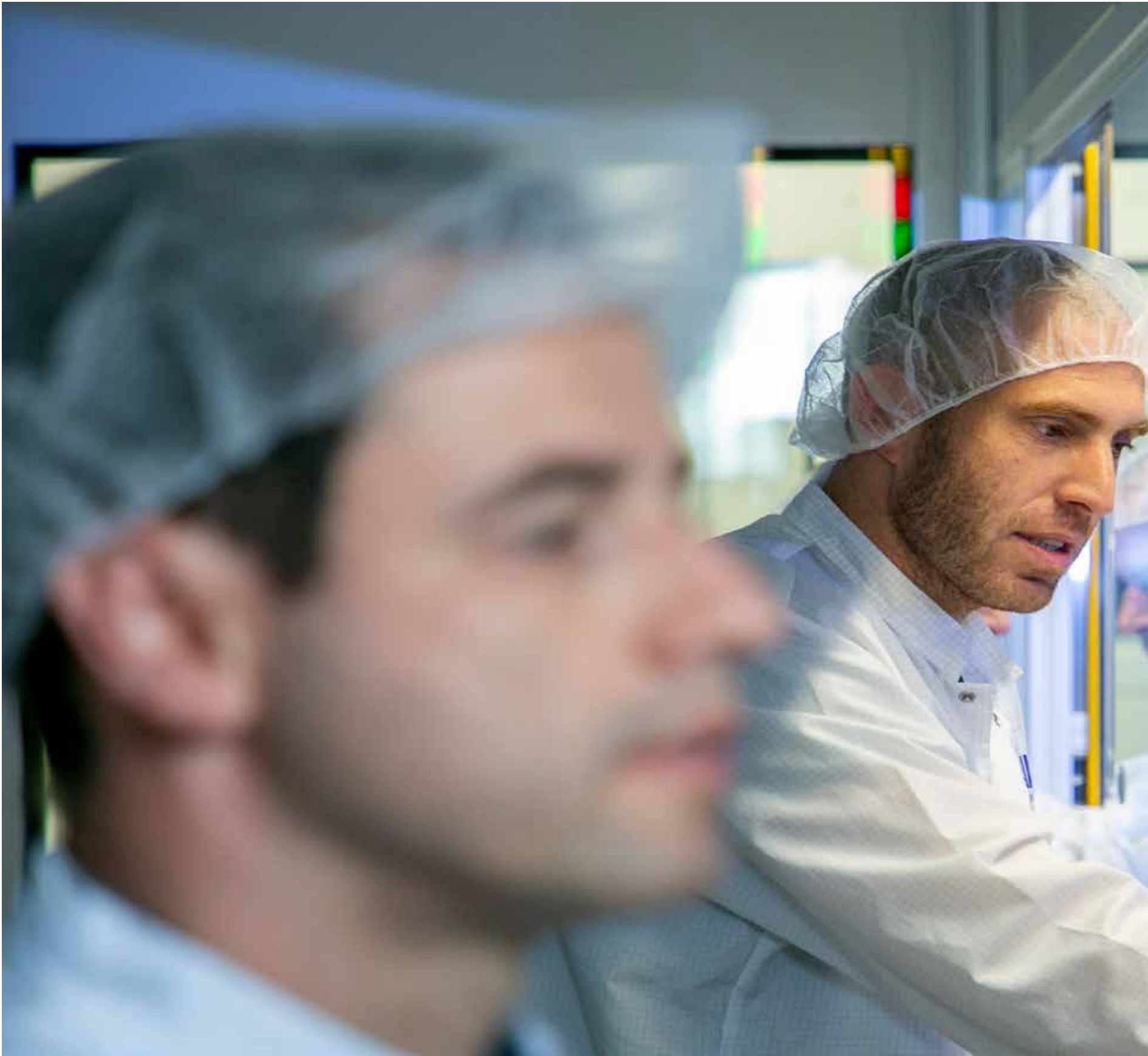
IAI continually invests in minimizing the environmental footprint of its production lines, and in environmental R&D (Clean sky, Green labeling) We look to expand the implementation of “Design for sustainability” principles in our processes as part of our 2019-2023 strategic sustainability roadmap, and 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 VENUS research Nano-satellite.



A blurred photograph of a laboratory or hospital setting. In the foreground, a person wearing a white lab coat and a hairnet is looking down. In the background, other people in white coats and hairnets are visible, along with a person lying on a table. The scene is brightly lit, and the overall atmosphere is professional and focused.

**INTEGRITY
AND ETHICS**



Corporate governance

102-18 | 102-22 | 103-1 | 103-2 | 103-3 | 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 (hereafter - "the Government Companies Law")). In 2007 IAI conducted its first public offering of debt and became a reporting corporation. The Government Companies Law stipulates various instructions and corporate governance regulations which are applicable for the Company as a Government Company, including, inter alia, instructions regarding the composition of the Board of Directors and its work, the powers of the Board of Directors, qualifications of the Directors and the process of their appointment, Directors' compensation, and regulations ensuring the accuracy of the financial statements and the Director's Report. Similar and additional corporate governance provisions appear in the Companies Law -1999 (hereinafter - "the Companies Law") and the provisions thereof apply to the Company, subject to the regulations of the Government Companies Law. The Articles of Association of the Company are included in a prospectus published on December 29, 2011 (Document No. 2011-01-379344). Being a "Reporting Corporation" the Company is also subject to the regulations of the Securities Law - 1968. IAI applies corporate governance principles in accord with its standing as a global company, active in the defense and international aviation sectors. The regulatory entity to which IAI is subordinated is the Government Companies Authority (hereafter, the "Authority"). IAI maintains current communications with the Government Companies Authority, inter alia, through a representative of the Authority, present at meetings of the Board.

Company secretary

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

IAI's internal auditor

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

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

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



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

Limitations and supervision over the company

With respect to the restrictions and supervision over the Company see Section 21 of the First Chapter of the 2021 Financial Statement of the Company (in Hebrew), pages 106-117.

Prohibition on financial contributions and donations

IAI is prohibited by the Government Companies Authority, from any financial contributions or donations in all circumstances, public or otherwise. IAI had established an internal procedure to ensure this requirement is met, and all senior managers are required to review and approve the procedure on an annual basis.

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

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

information, commentary, and/ or revisions before providing such approval.

The Board of Directors and its committees

The Board of Directors is responsible for defining company policy and overseeing management activity. The company's management is responsible for implementing this policy in practice and reporting to the Board of Directors. In 2021, the following committees convened:

(I) Financial Statements Committee, (II) Audit Committee, (III) Remuneration Committee, (IV) Sustainability, Corporate Governance and Diversity Committee, (V) Risk Management Committee, (VI) Investments and Business Development Committee; as a rule, Issues of investments and Business Development are addressed by all directors in the general meetings. In 2021, the company's Board of Directors and its committees held 48 meetings.

Board tenure and composition

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

Accounting and financial expertise

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



102-33 | 405-1 | Limited assurance

Independent directors

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



The diversity of the Board of Directors

UN SDG targets: 5.5

Four out of ten of our board members in 2021 were women. Board diversity is achieved through coordination with the relevant regulatory functions.

The board of directors ESG responsibility

The Sustainability board committee was established in 2012 (under the name "the corporate governance and sustainability committee"). The sustainability committee's areas of responsibility are aspects of corporate responsibility; aspects of corporate governance; sustainable development; internal enforcement of the securities laws. This committee

discusses IAI's annual sustainability reports and chooses whether to accept and approve their publication or seek further information, commentary, and/or revisions before approval.

IAI's ESG codes and policies

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

Senior management' reward policy

IAI has a policy in place for rewarding senior management, based on the company's risk management policy; The Company's size and nature; Components relating to the specific function, and his/her contribution to meeting the company's long-term goals.



[INTRODUCTION](#)

[STRATEGY](#)

[INTEGRITY AND
ETHICS](#)

[VALUE
CREATION](#)

[INNOVATION](#)

[EMPLOYEES AND
COMMUNITIES](#)

[ENVIRONMENT](#)

[GRI CONTENT INDEX](#)



Business ethics

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

Our code of ethics

IAI is committed to creating a work environment that relies on open communication and supports employees in reporting potential violations. The company's code of ethics embodies all of the guiding principles for fair and acceptable conduct, and IAI expects its managers and employees on all levels to comply with the code. This expectation is communicated and practiced through training, company procedures, work instructions, and supervision. The Code is available on IAI's website, and its training materials are available through the company's INTRANET. Concerns can be raised safely through designated HR personnel or threat managers, particularly in cases that are not clear-cut under the law.

The code covers many topics, for example, Marketing and Sales; Quality; Sustainability; Environment, Safety, and Occupational Health; Employment and working relationships; Relationships with customers, partners, suppliers, and authorities; Conflict of Interests and illegal benefits; Protection of assets, privacy, information security, and confidentiality; OECD compliance program; community relations, and more. We plan to expand and deepen the organizational implementation of the new code, for example, with specific campaigns.

The code was last revised, updated, and approved by IAI's senior management and the Board of Directors in 2020, following a rigorous process with both internal and external stakeholders.



Link to the code of ethics

<https://www.iai.co.il/drupal/sites/default/files/2021-06/code-of-ethics.pdf>

Employees' ethics training

All new employees sign the Code upon commencement of employment. A refresher course is then conducted once every two years and is mandatory for all employees. The training covers various topics from the Code and demonstrates real-life dilemmas faced by IAI employees over the years. 89% of our employees have completed the web-based training as part of the 2020-2021 cycle. An updated web-based training is underway, to be released in 2022.

Preventing workplace harassment

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

Each IAI division has a designated sexual harassment prevention officer, as well as an external sexual harassment prevention officer responsible for the program management, including policy, training, a hotline, handling complaints and communications. We encourage all employees to raise any concerns of incidents that violate the company's values in this respect.

All of the company's new employees receive training on harassment prevention during their orientation, along with annual mandatory refresher training for all employees at all levels in the company. As we emphasize in the company's code, IAI sees any attempt to prevent dealing with ethical violations as endangering the trust that our employees, partners, and other stakeholders place in us, and works to learn from failures and to instill our employees with confidence in fulfilling reporting obligations without fear of retaliation.



Sustainable risk management

As part of implementing globally accepted advanced management methods, IAI strives to optimally identify and manage risks with an integrated and corporate-wide perspective, so that 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 objectives.

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

For implementing the Enterprise Risk Management process, IAI has adopted the principles of the international COSO-ERM model (Committee of Sponsoring Organizations – Enterprise Risk Management). This model refers to activities in all of the company's units, individually and collectively, allowing the company to manage a "portfolio" of all risks and potentially damaging events while managing the individual risks 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 from January 2020. The company has implemented these principles in its policy of Enterprise Risk Management and updates them from time to time.

In accordance with these principles, the Company conducts a periodic process to identify and examine the company's key risks. In 2020, the company conducted a full and comprehensive risk survey process that included examination of the company's structure and activities, the company's strategy, changes in the business environment, examination of managed risks in other

companies, etc. The survey reviewed and included, inter alia, all risk categories defined in the requirements of the Government Companies Authority and international methodologies (e.g. Operational risks, financial risks, compliance and regulatory risks, reputation risks, information technology risks, embezzlement and fraud risks, ESG risks, etc.).

Following the results of the survey, 15 risks were prioritized as the company's key risks. IAI integrates the risk management process as part of its day-to-day management, both in the company's annual and multi-year work plans, as well as in its annual and multi-year audit plans. Its purpose is to provide reasonable confidence to prevent risks occurrence by carrying out a systematic process for assessing the risks, setting risks mitigation plans, and monitoring mechanisms.

In July 2021, the Company's CFO was appointed as Chief Risk Officer, periodically reporting to the senior management and the Board of Directors according to an authorized policy.

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.



Compliance

103-1 | 103-2 | 103-3 | 205-2 | 419-1 | MT

Socio-economic compliance

IAI's sustainability program is founded on our uncompromising commitment to comply with all laws and regulations applicable to our operations and businesses. With a multitude of processes, transactions, and company activities, we are required to adhere to numerous legal requirements daily. A variety of compliance mechanisms are in place, to ensure the identification, prevention, control, and minimization of regulatory risks, and their integration into our Code of ethics (see page 28) and our bribery and corruption prevention program.

In any case in which a disparity is identified, the senior management is notified and corrective actions are taken. Whenever appropriate, the event or issue is reported to our Board of Directors and/or external auditors and, if the relevant criteria are met, is disclosed to the public.

For further details, see Section 21 of the First Chapter of the 2021 Financial Statement of the Company (in Hebrew), pages 106-117.

For environmental compliance, see page 71, and for competitiveness, see page 31.

Internal compliance program

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

The company's Board of Directors appointed the company's Compliance Officer. The Compliance Officer is in charge of

the appropriate execution of the compliance program and reports directly to the CEO and every two years to the Board. The comprehensive anti-corruption and bribery prevention compliance program reflects the State of Israel's adherence to the OECD's Convention on Combating Bribery of in International Transactions, and IAI's values, upholding zero tolerance of violations.

Implementation of the compliance program

According to the company's program and as part of its implementation, the company applies analysis, supervision and control measures in relevant areas, as well as strict recording of all the program's processes based on risk management that considers regional, sectorial and activity-related exposures.

IAI is enlisted as a member in the International Forum on Business Ethical Conduct (IFBEC) since 2021 and regularly publishes the main elements of the compliance program, alongside the company's code of ethics and an anonymous hotline for reporting on possible violations.

Furthermore, employees who conduct business affairs on behalf of IAI receive an annual training focusing on the prevention of corruption and bribery of foreign public officials, and communicating IAI's strict policy in this matter.

In 2022, with accordance to the annual work plans, these training sessions will be conducted routinely to all relevant populations in both management and employee levels, either frontal or through web-based learning, depending on the individual level of interaction with third parties in various disciplines – marketing, contacts, finance etc.



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



Competitiveness

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

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.

The impacts of the COVID-19 pandemic on the global aviation market continued in 2021. At the same time, a continued increase in demand for passenger-to-cargo aircraft conversions in light of the online commerce growth during the pandemic was noted, an activity that IAI specializes in and in which it is an important global player. In the defense markets, no significant impacts have been observed, due to their criticality for the national security of countries.

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 in relation to competitiveness practices in 2021.



Cyber defense and information security

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

According to the World Economic Forum's global risk report (from January 2022), information security and cyber defense failures constitute one of the top risks with the highest probability of manifesting in the coming decade. On the other hand, the acceleration in digital transformation in 2020 as a result of the COVID-19 pandemic, had created a work environment based on information sharing and virtual channels of communication on historical scales. Accordingly, IAI invests considerably in dynamic and tight risk management that encompasses all means, infrastructure, and resources, in order to ensure resilience and continuity in the face of threats and disruptions.

IAI's IT and computing systems 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, advance cyber forensics capabilities, enhanced cyber detection and real-time status capabilities, as well as an effective combination of ISO 27032 and ISO 27001 (Cybersecurity standards).

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

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

IAI's expertise in this area is also present in our products and services for cyber defense (see page 39).



Performance scorecards

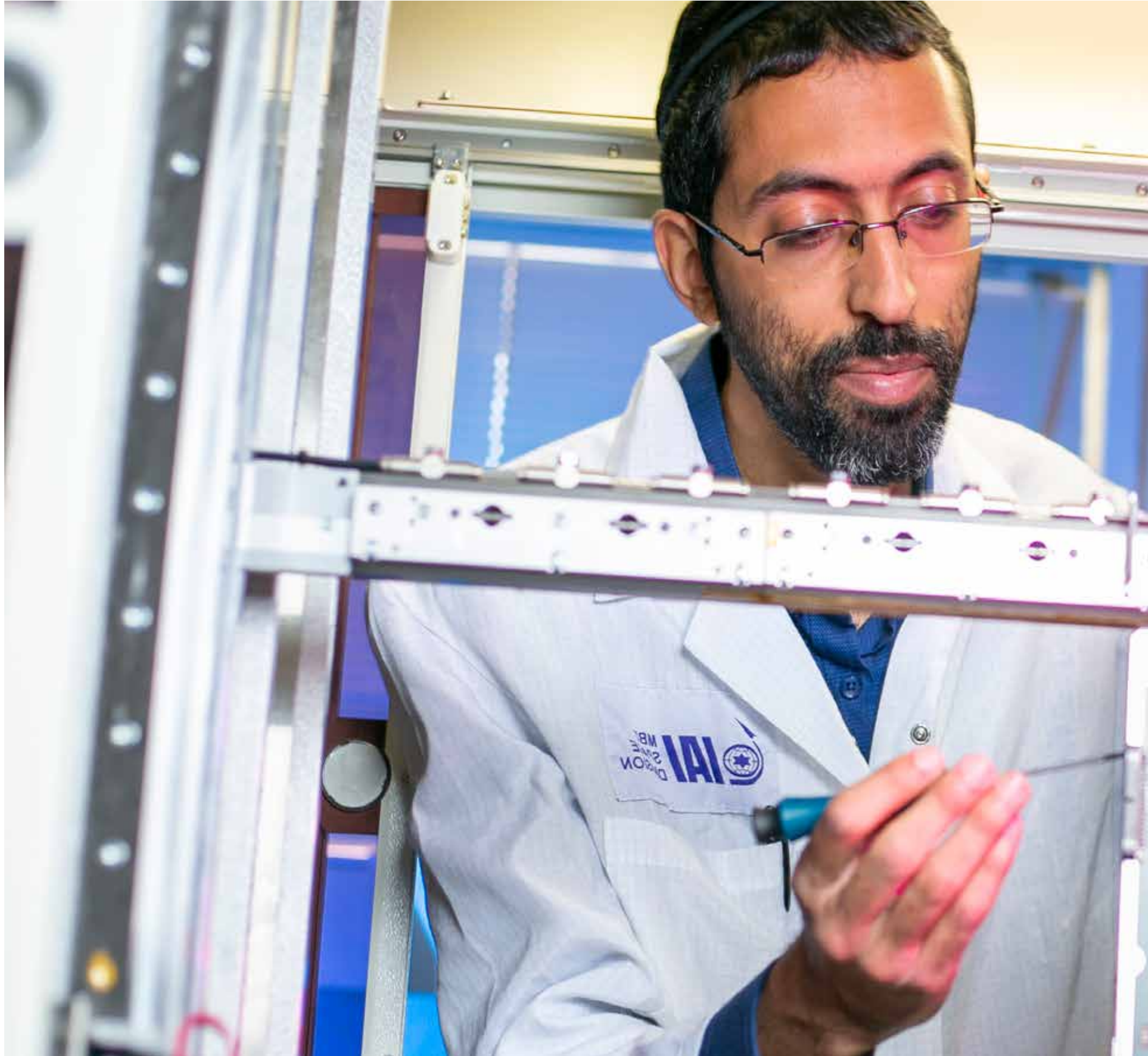
102-22 | Limited assurance

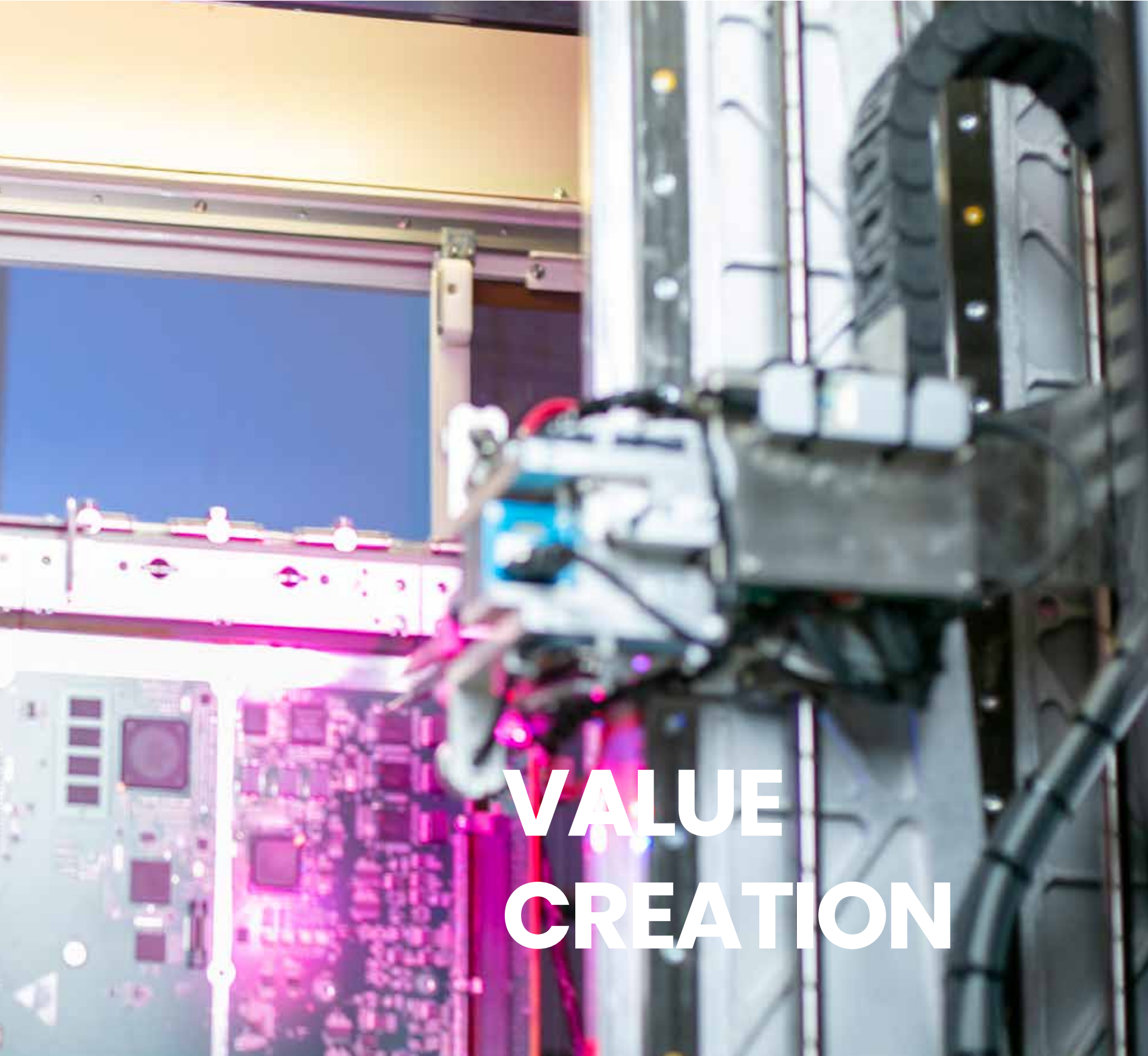
Indicator	2019	2020	2021¹
Number of general assembly Board meetings	20	44	20
Number of Board committees meetings	38	53	28
Number of Board sustainability committee meetings ²	4	5	1
Number of Senior Management Sustainability Steering Committee meetings	4	4	3
Number of Directors (Total)	9	6	10
Number of Directors in the Sustainability committee	3	3	4
Number of women members of the Board	3	3	4
Number of men members of the Board	6	3	6
Number of independent Directors	3	3	3
Number of Directors representing a minority ³	1	1	1
Number of Directors, ages 30 and under	0	0	0
Number of Directors, ages between 31-50	2	0	2
Number of Directors, ages 51 and over	7	6	8
Number of reported cases to IAI's hotline: Code of ethics issues	9	3	3
Number of reported cases to IAI's hotline: Sustainability issues	1	0	0

¹ The data represented in this table is based on a cutoff analysis from December 31st 2021.

² Of the total number of board committee meetings.

³ From the Druze community.





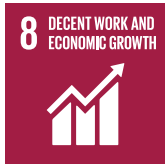
**VALUE
CREATION**



Business development and performance

102-5 | 102-6 | 102-7 | 103-1 | 103-2 | 103-3 | 201-1 | 201-4 | Limited assurance | SP | MT

UN SDG targets: 8.1 | 8.2



Financial performance

IAI is a “wholly-owned Governmental Company”, with Israel's government holding 100% of its shares, as stipulated in the Israeli Governmental Companies Law - 1975. The Company's debentures were issued and listed for trade on the Tel-Aviv Stock Exchange effective May 2007, whereas the Company's shares are not listed for trade. The company's Board of Directors oversees the execution of its policy by the Senior Management - IAI 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, 2021, IAI held a backlog of orders amounting to 13.4 billion US Dollars that equals to 3 years of activity. The



Link to the company's financial statements
<https://www.iai.co.il/annual-financial-2021>

total company equity stands at 1,221 million US Dollars and the total company debt stands at 4,936 million US Dollars.

In 2021, IAI was ranked 37 out of 100 companies in the international A&D sector index by Defense News.

Business development

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

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

Sustainability aspects in business development

In-depth due diligence is done as a part of mergers and acquisitions processes, involving a wide spectrum of business and legal aspects. Sustainability aspects are reviewed in these processes in order to ensure that the risk assessments of potential transactions are up-to-date and complete.



Business continuity

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

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

IAI has embedded clear procedures and work instructions to ensure continuous operations and projects in the event of potential, unexpected and severe incident occurrences, such as 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.

These mechanisms directly contributed to the company's continued resilience in the face of the continued global COVID-19 pandemic. As a learning organization, we keep improving the company's business continuity plans, including sustainability aspects as part of our 2019-2023 sustainability roadmap and leverage the organizational insights accumulated during this global crisis.



Products and services

102-2 | 102-6

Defense

Air

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

Naval

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

Land

IAI develops advanced land defense systems for state-of-the-art battle management, on-the-move broadband communications, and precision targeting and navigation. We also offer a wide range of combat support systems - from guided missiles to obstacle breaching, counter-mine to counter-IED. These solutions are enhanced by our cutting-edge developments in robotics, which integrates modular robotic building blocks for autonomous navigation, sensor fusion, and terrestrial & SATCOM communications throughout our product lines.

Space

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

IAI has proven records in conducting a full space project cycle - from definition-of-mission, through design, manufacturing, integration and testing, to launch and in-orbit delivery.



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



102-2 | 102-6

Commercial

Aviation

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

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

General applications

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

Cyber and Homeland security

Cyber is a strategic sector for IAI. ELTA's Cyber business unit is IAI's center of excellence for Cyber Solutions, addressing “national grade” challenges faced by nation states, critical infrastructures, law enforcement, and defense forces. The Cyber business unit has developed unique solutions for Cyber defense, protection, monitoring, prediction, identification, intelligence and accessibility. Solutions include national-grade Cyber Early Warning centers, Cybersecurity for mission-

critical systems, aviation and maritime cyber security, cyber intelligence, cellular search and rescue system, and critical cyber protection solutions. These advanced capabilities are possible due to the unique technologies developed by the Cyber business unit's R&D and excellence centers in Israel, Singapore and Switzerland.

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

Homeland security

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



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



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



Product responsibility and customer service

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

Customer service

The quest for continuous improvement lies at the basis of IAI's business core. In 2021, we continued the implementation of our customer support strategy, which allow a leap forward in costumer 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 costumer service as one of its most important focus areas for the upcoming years. Our approach will enable the best communication with our customers, develop a post-delivery support, and achieve high customer satisfaction for all our products and services, including the implementation of a Customer Relationship Management (CRM) system, expected in 2022.

As the COVID-19 pandemic impacts remained in 2021, we continued to develop our relationships with our customers via alternative processes such as utilizing solutions in the customers' countries that helped us to keep providing proper and satisfactory support.

The privacy of IAI's customers and stakeholders

IAI respects the privacy rights of its customers and is committed

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

Quality management at IAI

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

We drive continual improvement through:

- Operating a Quality Management System to ensure consistent and continual compliance
- Focusing on customer satisfaction
- Setting measurable quality objectives and targets throughout the company groups and divisions
- Training and developing our managers and employees and cultivating their personal and business skills
- Encouraging processes for incident reporting, investigation, and cross-organizational learning



[103-1](#) | [103-2](#) | [103-3](#) | [403-7](#) | [417-1](#)

- Integrating our suppliers as partners in order to meet our quality goals
- Investing in the implementation of advanced tools and methods that contribute to our products' level of quality, safety, and reliability.
- Joining in mutual efforts as members of professional societies and associations that lead the industry to quality improvements.

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

IAI's aviation group also holds certifications by 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 70).

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 60-61).



Responsible supply chain

102-9 | 103-1 | 103-2 | 103-3 | 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, data, and money presents many opportunities for sustainable thinking. A&D Original Equipment Manufacturers (OEMs) play a critical role in setting the expectations and leading the suppliers and subcontractors in following humane practices, implementing economic values and achieving environmental excellence.

IAI is a unique player in the A&D supply chain, since it serves as the OEM for some of its products and as a Tier 1, 2 and 3 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 TIER 1 suppliers that are certified by our company. These suppliers are obligated to hold valid and current permits, authorizations, and standard certifications relevant to their business. In addition, IAI is investigating their economic stability prior to engagement and continues to track their financial performance throughout the entire business relationship.

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

- A central system for supplier quality assurance management, designed to assure that the quality of the

products supplied meets IAI requirements and includes the implementation of any follow-up requests. Our goal is for all our suppliers to embrace the same standards and commitments that IAI has set for itself as a supplier to other OEMs.

- An online Suppliers' web portal (IAI SupplierNET), containing all the data and information required by suppliers that engage in business with IAI. Through this portal, the suppliers report on any use of sub-contractors and TIER 2 suppliers, thus enabling higher levels of supply chain transparency and control.
- Keeping our Israeli supply base up-to-date through different initiatives regarding requirement changes, supplier delivery schedule, accounting, and billing through e-sources.



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



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

UN SDG targets: 8.1 | 8.2



Sustainable practices in the supply chain

IAI's procurement and logistics organization manages structured processes and mechanisms that ensure that sustainability considerations constantly guide decision-making. In 2021, the procurement and logistics organization continued to lead in-depth processes with the aim of bringing about excellence, implementing the agility and tightening cooperation and transparency between headquarters and the divisions. This included:

- Implementation of designated purchasing dashboards which allow for both transparency and unity of indicators' measurement and control.
- An internal website that allows receiving extensive information on the suppliers, as well as sharing reviews.
- Training procurement employees, including in relation to the Code of ethics and interpersonal communications, with emphasis on interactions with suppliers, for the mutual development of quality products and maintaining long-term, fair and honorable partnerships.
- At the end of 2018, some of our divisions began using a central logistics center that promotes the company's preparedness for Industry 4.0, decreases storage spaces and excess inventory, and enables traceability and automation of manual processes. The transfer of other divisions is expected to complete in 2022.

- Support of local suppliers ("blue and white"), small businesses, and suppliers from peripheral regions in Israel is strategically managed by the company in order to increase their capabilities and their portion of the international aerospace and defense industry.
- Setting annual savings targets, inventory values and distribution targets for raw materials, services and procurement of resources via database system, and preventing the purchasing of items marked as unnecessary.
- In 2021, IAI continued to refine the use of an environmental questionnaire for strategic suppliers in our production operations. In addition, IAI is participating in the new ESG engagement workgroup in IAEG, aiming to address suppliers' reporting on social, environmental and governance issues (see page 14).

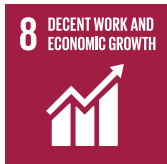
We will continue to expand our sustainable processes in the supply chain as part of the 2019-2023 strategic sustainability roadmap.



Indirect economic impact and impact on Israel

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

UN SDG targets: 8.1 | 8.2



Local procurement

As a government-owned company, IAI contributes to the development of Israel's economy in general, while paying particular attention to purchasing locally (“Blue-and-White”). The majority of our suppliers overseas are engaged based on economic grounds, expertise, and requests of our customers or by the terms of reciprocal trade (offset obligations). Through these same relationships, IAI has also committed its foreign suppliers to further expand their procurement from Israeli sources, a requirement covered by Israel's Mandatory Tender regulations - 2007, in full partnership with The Industrial Cooperation Authority at the Ministry of Economy and Industry.

In 2021, an increase of 20% was noted in the Company's spend on local procurement, and our total procurement from local sources increased to 61%.



Performance scorecards

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

Indicator	2019	2020	2021
Sales (Million \$)	4,108	4,184	4,477
Tax income (Million \$)	0	0	0
Total economic value produced (income) (Million \$)	4,108	4,184	4,477
Operating costs (including salaries and benefits) (Million \$)	3,987	3,989	4,260
Finance expenses (Million \$)	12	21	29
Tax expenses (Million \$)	23	46	46
Dividends (Million \$)	10	0	0
Total economic value distributed (Million \$)	4,032	4,056	4,335
Total economic value gained ¹ (Million \$)	76	128	142
Net income (Million \$)	90	133	148
Government support: R&D grants (Million \$)	10	7	5
% Revenues by operating segments: Systems, Missiles and Space	31	35.7	38.3
% Revenues by operating segments: Military Aircraft	11	11	11.5
% Revenues by operating segments: Military Electronics	24	27	25.6
% Revenues by operating segments: Aviation	32	26	24.6
% Revenues by operating segments: Other	2	0.3	0.04
Spend on local procurement (Bn\$)	1.9	1.6	1.93
% local procurement (of total procurement)	55	51	61
Number of patents granted ³	40 ³	54 ³	37⁴
Number of patents applications ^{2,4}	43 ³	50 ³	37⁴

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.

³ From the 2020 annual report of Israel's patents office (latest report available in March 2022).

⁴ Internal data only.





INNOVATION



Technological innovation

103-1 | 103-2 | 103-3 | MT



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 the innovation leaders, the active entrepreneurs and alumni. The program is open to all IAI employees, who are invited to contribute and develop their ideas and grow it to POC or MVP for our innovation center.

Innovation system

An open tool for all company employees, in order to encourage submitting and advancing innovative ideas. Ideas uploaded to the system are reviewed by the division innovation team with the guidance of external content experts. Ideas that can be pursued are presented to the innovation committee in order to approve a development budget and integrated in the division 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, in order to maintain our position as a leading technology-based solutions provider.

In Israel, IAI takes an active part in the iHLS startup accelerator and global innovation platform. IAI's international collaborations are vast, as it is a corporate partner of the international accelerator Starburst - the only one in the world that specializes in European aerospace and defense. In addition, IAI was a member of the New Space consortium of the Techstars in the US, along with the US Air Force, NASA, Lockheed- Martin, Arrow Electronics, and SAIC until the end of 2021.

IAI's innovation center

The Innovation center is at the core of IAI's overall innovation strategy, which seek to foster organic and open innovation, while also training and grooming innovation champions.

The company's innovation center was established at the heart of the ecosystem for startup companies in Israel, powered by Starburst, a global Aerospace-- Accelerator, which specializes in advanced technologies.

We use innovation methodologies to encourage technological diversity and internal entrepreneurship, alongside cooperation with potential partners. During 2021 employees from all the divisions, took part in three cross-division innovation cohorts. The participants submitted innovative proposals for the accelerated development of advanced technological initiatives in early-stage.



[103-1](#) | [103-2](#) | [103-3](#)

The participants also took part in an intensive training program that included accelerated development methods such as putting together and managing teams, storytelling / pitching skills, and creating collaborations.

We also run based on open innovation, hybrid teams of IAI and startup founders. The program is supported by the accelerator infrastructure, by professional mentors & experts from within IAI and external ones. This enables a startup to prove its concept within 3 months and relies on the capabilities of IAI as a large and well-established company.

Managing IAI's knowledge assets

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

Patents

Limited assurance

Patents are considered an important asset and an indicator of innovation. A company's Research and Development process is highly expensive and risky, thus requiring a realization of the full economic value of the inventions. By defending our ideas, we

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

IAI is conducting a strategic process of application and registry of patents, both locally and globally. A cross-organizational company procedure is dictating the steps for executing an effective invention and patent application. In addition, a rewards system is in place for compensating employees based on successful inventions that were accepted for the patent registry.



Environmental R&D

201-2 | SP

UN SDG targets: 9.4 | 12.2 | 13.1



Design for Sustainability (DFS)

Design for sustainability methodology supports design and manufacturing perspectives which consider the whole environmental life cycle of a product or service and integrates both environmental risk management and opportunity leveraging from the earliest stage of definition. Adopting DFS practices allow the developed products and services to become more flexible in a tightening regulatory atmosphere, reducing short-term and long-term risks throughout the life cycle, and systematically contributing to overall cost reductions. The expansion of our innovative DFS program is part of our 2019-2023 strategic sustainability roadmap.



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

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

- Ground control station: Design for low energy consumption.

In 2021 we continued our internal activities along with external collaborations on developing environmentally-friendly materials substitutes for products, and our collaborations for circular economy (see page 70).

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.

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

IAI 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. This consortium develops a set of new technologies



201-2

(materials, manufacturing processes, and methods, recycling operations, etc.) to reduce the environmental footprint of aircraft production from a global life-cycle perspective while using life cycle assessment methodologies. In the final stage of the project, key enabling technologies will be used to manufacture four demos (Thermoplastics, Thermoset, Metallic, and Biomaterial) to verify the novel technologies. Expected accumulating results from EcoTech airframe are: over 50% reduction in manufacturing effluents, manufacturing waste, and Greenhouse Gases (GHG) emissions.

In 2021, IAI joined the CLEAN AVIATION framework, partnering with major European aeronautics companies, academia, research centers, and SMEs in a mission towards climate-neutral aviation in the EU by 2050. The framework will allow the development of disruptive technologies for aircraft that will enable a significant portion of the global fleet to transition into low-to-zero CO₂ emissions flights.





**EMPLOYEES AND
COMMUNITIES**



HR management

103-1 | 103-2 | 103-3 | SP | MT

UN SDG targets: 8.5



Israel aerospace industries: employer of choice

IAI is proud to have an exceptional team of employees, whose enthusiasm and professionalism promote our business value through demonstrable innovative achievements and outstanding products. Our “can do” spirit lies at the basis of all our invaluable relationships - employees, retirees, customers, contractors, suppliers, and the communities we live and operate in. IAI operates in accordance with Israel's labor laws, respects the human rights of its employees, and implements organization-wide procedures and processes for managing the excellence of our human capital.

The responsibility for managing the HR organization and carrying out strategic plans for all aspects of employment is vested with the IAI's HRVP, 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 2021, IAI ranked 3rd "best place to work" in Israel's BDIcode INDEX, reflecting our long term commitment to foster a great work environment. From in-house service facilities such as large catering halls, banking, employee shuttle transportation, gyms and synagogues, through health care offered by our 24/7 occupational health clinics and social workers, to processes and training programs to advance active listening and enhance internal communications.

Strategic focus is placed upon the advancement of women through all echelons of the organization by setting specific goals for women overall intake and their promotion to senior management roles. Further, we seek to create a diverse and inclusive workplace by setting goals for intake of underrepresented populations: Ultra-orthodox Jewish community, Druze community, Ethiopian-origin and employees with disabilities (see page 57).

We continue to provide extensive training and personal development programs, scholarships, intra-organizational mobility, innovation hubs and general wellbeing 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 employee 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.



103-1 | 103-2 | 103-3

- Annual public reports to stakeholders: BDIcode index, Maala index on Tel Aviv stock exchange, and our sustainability reports.

We are proud of the way the HR teams in all groups and divisions within the company continued to assist our employees and their families through another year of the COVID-19 pandemic. Maintaining and strengthening the interpersonal connections within work teams, units and management staffs, as well as protecting the health and wellbeing of our employees and stakeholders remained a pivotal task in 2021.

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



Career at IAI

103-1 | 103-2 | 103-3 | 201-3 | 401-1 | SP | MT

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 intake. The center integrates all of the relevant processes as a one-stop-shop, enables identifying and canceling duplicate processes, improving availability vis-à-vis potential candidates, and the quantity and quality of CVs that are submitted to the company, as well as the digital recruitment measures that maintain human-based dialogue. The center's teams hold recruitment events in cooperation with universities and colleges, and specific recruitment events and special collaborations for diversity and inclusion, in order to promote the recruitment of qualified employees from diverse populations.

Mobility and talent management

IAI's recruitment and career center also supports all mobility and career development processes, in order to allow the employees to have a solid infrastructure for their success, in light of the wide variety of roles and positions available at IAI. This abundance of opportunities allows employees to pursue internal transfers as part of a flexible career path, and to learn, advance and expand their expertise and skills. In order to promote transparency in the process, the employees that seek to change positions within IAI are required to inform their direct managers. The purpose of this step is to allow all employees to reflect their ambitions and increase the managers' involvement and support of the employee's career path. The center is operating according to internal mobility goals.

Retirement

IAI has an extensive program for its retirees, covering both early- and age-based retirement, aimed to ensure a smooth transition to their new life phase. The program includes a four-day retreat for retirees and their spouses, with lectures and workshops on the impact of retirement on family life. Senior management join some of the sessions for Q&A.

In addition, a retiree club allows access to specific ongoing guidance, as well as continued wellbeing 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.



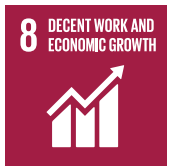
Link to IAI hiring (in Hebrew)
<https://www.iai.co.il/heb/jobs>



Diversity, inclusion, and equal opportunity

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

UN SDG targets: 5.1 | 8.5



IAI employees are the human power that makes IAI into what it is. We believe in respect and equality without discrimination and equal opportunities in employment, and seeks to increase the number of underrepresented populations in our workforce, including Israelis of Ethiopian origins, as well as members of the Druze community, Ultra-orthodox Jewish community, and people with disabilities. In addition, IAI 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 (see pages 62-63). As part of our strategic HR 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.

Women at IAI

IAI is striving to change the traditional management composition that typically characterizes A&D and technology companies worldwide, by gradually expanding the number of women in its Senior Management roles. This requires long-term investment in training and advancing women from junior management roles, as well as encouraging women to advance while implementing work-life balance. The percentage of women at IAI in 2021 was 23.2%, and the percentage of women in management (from the

level of a unit director and up) was 18%. In 2021, we continued many activities that support our strategic aim to advance women to positions in core technological professions and management positions. For example:

- Dedicated media campaigns for women in recruitment
- Collaboration with NGOs
- Advertising positions for graduates of our social impact projects

In addition, IAI's compliance officer was also nominated as the company's gender equality officer, and will lead IAI's strategic efforts in this important mission.

Diversity and inclusion

We continued to invest considerable efforts in order to increase our recruitment rates among members of the Druze community, people with disabilities, people of Ethiopian origin and members of the Ultra-orthodox Jewish community. These included:

- Development and deployment of a diversity and inclusion course for managers
- Year-round campaigns, based on stories of employees from diverse populations
- Expanding collaborations with multi-sector offices, institutions, and NGO.



Empowering workplace

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

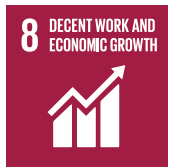
UN SDG targets: 4.4 | 8.2 | 8.5



Career development and the future of employability

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

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



Professional training and certification

IAI greatly invests in its managers and employees training. Our training infrastructure is one of the leading in Israel, responsible, among other things, for the development of advanced technological courses, managerial and regulatory certifications, making external training available in-house and more. These are all important components in our employees' career path and their personal and professional development. Training is done either through frontal classes or online. The COVID-19 pandemic had accelerated remote trainings via a virtual platform, a trend which continued in 2021. Our training programs are designed to support:

- New employee orientation (including safety, occupational health and ethics)
- Knowledge and skills in various fields of expertise

(technologies, project management and more)

- Annual refreshers on mandatory or regulatory topics
- Managerial level training (for existing and future management)
- Career and professional change
- Retirement readiness and knowledge transfer
- Generic enrichment courses

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

Training within IAI continues to be evaluated by a training effectiveness system. The evaluation of training effectiveness is supported by the certifications which IAI holds, including: ISO9001:2015, and AS9100 (see pages 40-41).

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 17), and emphasize the importance that the company places on promoting them.

In 2021, we have launched a new mandatory web-based training on IAI's sustainability, covering many of the concepts present in our sustainability reports, important initiatives and objectives, as well as expectations and actions required to keep all our employees aligned with our strategic sustainability journey.



102-41 | 201-3 | 403-6 | Limited assurance

Performance evaluation

We aim to focus and empower our employees and increase their motivation in supporting the achievement of IAI's overarching goals. During 2021, we continued to expand our performance evaluation process, based on the tool which directly links IAI's business goals and employees' personal strengths. Starting in 2021, 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 smart phone 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 20 in the Third Chapter of the 2021 Financial Statement of the Company (in Hebrew), pages 52-57. For example:

- Working mothers: in addition to complying with all legal requirements, special attention is given to working mothers returning from their maternity leave, designated working schedules, special shuttle transportations for mothers of children up to 8 years old, and sharing in daycare costs for employees with young children
- Vacation: paid vacation and special vacations on specific occasions (wedding, etc.)
- Paid sick days

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

Medical care and coverage

IAI operates internal clinics for occupational health and immediate medical care at its sites, available to all employees (see page 61). In addition, each permanent employee owns an extensive medical insurance and has an option to insure his family members at discount premiums.

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

UN SDG targets: 8.8



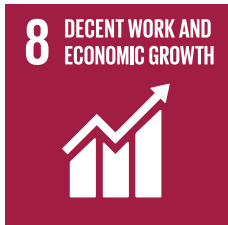
Freedom of association

At IAI, our employees exercise their rights of freedom of association and collective bargaining. In 2021, 64% of our permanent employees were covered by collective bargaining agreements.



Occupational health and safety

103-1 | 103-2 | 103-3 | 403-1 | 403-2 | 403-3 | 403-4 | 403-5 | 403-7 | 403-9 | [Limited assurance](#) | 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, the company's emergency plans, and provides professional guidance to division- or group-level safety officers.

In 2021 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 by 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.

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 plans, based on guidelines of global standards and monitored by safety officers. Each work plan is based on a professional risk management relevant to the division, including risk factors and their level (probability and severity), and analyzes methods for monitoring and reducing the risks. IAI had implemented a tool for 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, and the highest-ranking risks are managed directly by the division managers.

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

Safety incidents prevention and response

In cases of a safety incidents, an investigation takes place based on a methodical procedure, including documentation, implementing lessons learned in the work environment and monitoring corrective actions. Investigations are monitored and recorded in a web-based system. The division investigation process is accompanied by a professional expert from the EHS directorate, in order to fully explore all aspects of the incident. In addition, the company's



procedure includes a structured “before-action review” in order to assess potential risks and preventable future failures.

Safety and health training

All our employees are trained in general safety issues upon their intake. Refresher training on safety issues takes place annually for all employees. In 2021, 80% of employees completed the annual refresher training. 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, and follow up on traffic accidents and speeding incidents, and continually improves IAI's transportation systems.

Both TNUFA division, which is responsible for traffic safety at IAI's sites, as well as MALAM division, hold a valid Israeli standard certification ISO 9301, relating to traffic safety and quality. In 2021, IAI's Missiles and Space group was also certified to the standard. The major activities in 2021 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.
- Similar rate of monthly average violations was noted in TRAFFILOG compared with 2020, a web-based system used to document and record exceeding of speed limits.
- A continued decrease in the monthly average of reports submitted through “NOHAL 6” was noted compared with 2020. The system record violations reported anonymously regarding IAI's leased cars outside the company's sites.

During 2021 there was a decrease in the rate of traffic accidents compared with 2020. IAI will continue to invest resources on an annual basis, to ensure this trend continues.



Social impact

103-1 | 103-2 | 103-3 | 413-1 | [Limited assurance](#) | [SP](#) | [MT](#)

UN SDG targets: 4.3 | 4.4



As IAI continues to be committed to the communities in which we operate it, and to Israel's society as a whole. The social impact program is managed by the Chief Relationship Officer (CRO) and IAI's social responsibility manager, who provide the policy, guidelines and the professional support to the annual work plans of the social leaders within

the company's groups. As part of our 2019-2023 sustainability roadmap, IAI has launched a new and extensive process to review how enhance our community engagement activities lead to a true impact, in order to focus our efforts while maximizing the shared value our social impact. As part of this process, IAI's social leaders' forum was established and its members are continuously trained and accompanied by experts. and our current company community engagement goals and measuring methods were reviewed in-depth and included realignment with IAI's business goals and strategies. The process had demonstrated that employees' empowerment and a desire for strong relationships with neighboring communities were top drivers for community engagement in all our operational facilities. As a result, IAI's social strategy was established: inspiring the next generations' pursue of STEM learning in Israel, while emphasizing gender equality. Through this concept, we combine our community outreach with the personal development and skills or our employees (see pages 56-57).

In 2021, our total volunteering hours reached 10,214 hours. Here are some examples of our social impact initiatives:

Women engineers of tomorrow

The "Women Engineers of Tomorrow" project was launched to address a pressing national need to develop and expand Israel's workforce with STEM (Science, Technology, Engineering and Mathematics) skills. One way to reach this goal is to increase the number of female students studying and working in these fields.

During 2021, a strategic review and update was done in the program, compared with earlier years. The participating female students are now chosen from middle schools, to allow a more effective intervention closer to the point in time where these students make a decision on their major in high school.

Students are now also selected for participating on the grounds of their technological interest, rather than academic excellence, to support their drive to use technology for social impact. The students are then mentored by women engineers from IAI. The new format was launched at the beginning of 2022.

Women Engineers for Industry

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

Kids' zone

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

MITCHASHVIM project

The COVID-19 pandemic forced the Israeli education system to transition to distance learning, creating a substantial need for personal computers among students lacking the digital means to be able to continue their education. In order to provide a quick, effective, and environmentally-friendly solution that would help reduce social gaps, the Mitchashvim initiative was launched with sponsorship by Israel's President, with the aim of collecting used computers, refurbishing and distributing them. IAI joined the initiative and runs an in-house



413-1 | Limited assurance

refurbishment laboratory, which takes out-of-service computers from our own operations and from other companies, in order to be refurbished and sent to be used by students. By the end of 2021, more than 600 computers were refurbished.

The “Air salon” project

IAI is a leader in passenger-to-cargo aircraft conversions. As part of these projects, an aircraft's fuselage is taken apart, and is usually destined for scrapping due to the complexity of its structure. In 2021, IAI continued its unique collaboration, in which industrial designers were invited to use these aircraft items to design furniture for donation to NGOs or for sale, with the proceeds going towards charity. Aircraft items were also used for structuring a community playground for kids. The project won the special category of sustainability award in the international contest of beyond awards.

Ort IAI

In 1963, IAI established a vocational school in Lod, in order to realize an educational vision - allowing youth to receive a diploma and gain a profession. The school is part of the national ORT school chain spread throughout Israel. The school's training is based on three specializations: Aircraft Mechanics, Electrical and Electronic Systems and Unmanned Aircraft. These fields of expertise enable the students to smoothly integrate in the Israeli Air Force. IAI fully supports the operational and educational aspects of the school, from arranging daily transportations and catering, to giving frontal lectures, tours and practical lessons in various divisions, as well as assisting students through English and Mathematics private lessons. The students are also being compensated for their weekly employment, including all social benefits.

The socio-economic forum partnership

The socioeconomic forum was established by the directorate of the business sector in 2019. Its purpose is to augment the power

of companies and civil organizations into an integrated strategic action toward solving the challenges facing Israeli society. Within the framework of the forum, the IAI, as a "champion" company, leads an employers' coalition vis-à-vis the IDF and the employers' coalition for advancing women in technology. The activity focuses on providing relevant skills and abilities, developing professional training directed at business needs, and targeting diverse populations in order to leverage military service towards future employment. Furthermore, IAI participates in other initiatives in the forum, such as Mitchashvim and the Israeli business roundtable.

FIRST Israel

A local chapter of the global nonprofit robotics community, in cooperation with the TECHNION (Israel Institute of Technology). Its aim is to inspire and encourage children and teens to become scientific and technological leaders, through taking part in a robotic program that is based on practical learning. The program allows the participants to experience a creative, inclusive and exciting learning environment which exposes them to engineering and software programming, while working collaboratively on an annual robotics challenge. The community includes pupils, mentors, educators, volunteers, alumni and sponsors in 110 countries around the world. IAI employees joined this impact opportunity both as group mentors and as contest judges.



Performance scorecards

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

Details regarding our HR information in 2021 is specified in footnotes to this table.

Indicator	2019	2020 ¹	2021 ¹
Number of employees (women)	3,299	3,298	3,187
Number of employees (men)	11,623	11,033	10,538
Number of employees (Total)	14,922	14,331	13,725
Number of engineers	6,412	6,682	6,489
Number of managers (women) ²	10	94	106
Number of managers (men) ²	56	429	481
Number of managers (Total) ²	66	523	587
% managers from local communities	100	100	100
% women at top 10% salary-level	11.5	11.6	11
% employees from Ethiopian origins	1.7	2.1	2.2
% employees from the Ultra-orthodox community	2.5	2.5	2.4
% employees from the Druze community	0.1	0.2	0.2
% employees with disabilities ³	2.7	2.8	2.4
% employees, ages 30 and under	13	12	10
% employees, ages between 31-50	51	53	55
% employees, ages 51 and over	36	35	35

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

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

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



Performance scorecards

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

Details regarding our HR information in 2021 are specified in the footnotes to this table.

Indicator	2019	2020 ¹	2021 ¹
% managers, ages 30 and under ²	0	0	0
% managers, ages between 31-50 ²	32	33	37
% managers, ages 51 and over ²	68	67	63
% managers with disability ^{2,3}	4.5	2.5	1.5
Number of new employees (Total)	1,306	846	698
% new employees (women, in all professions)	26	31	33
% new employees (women, in core professions)	not reported	26	30
% new employees (men)	74	69	67
% new employees from Ethiopian origins	2.5	0.95	3.7
% new employees from the Druze community	0.3	0.83	0.7
% new employees with disabilities ³	0.6	0.83	0.6
% new employees from the Ultra-orthodox community	not reported	2.6	1.9
% new employees, ages 30 and under	54	48	50
% new employees, ages between 31-50	38	46	44
% of new employees, ages 51 and over	8	6	6

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

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

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



Performance scorecards

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

Indicator	2019	2020	2021
Number of training hours (frontal)	516,714	274,503	382,122
Number of training hours (non-mandatory)	86,628	21,343	18,360
Average Number of training hours per employee (incl. e-learning) ²	35	24	32
% employees completing sustainability-related training	76	86	80
% employees covered by collective bargaining agreements	63	66	64
Number of absence days : Aviation ¹	1,495	1,300	1,045
Number of absence days: Elta systems ¹	610	148	239
Number of absence days: Systems, missiles and space ¹	572	175	334
Number of absence days: Military aircraft ¹	296	149	101
Number of absence days: Supporting units ¹	47	29	152
Number of absence days: Management ¹	18	184	5
Number of absence days (Total) ¹	3,038	1,985	1,876
Number of absence days (Total per 1000 employees) ¹	204	138	136

¹ The data represented in this table is based on a cutoff analysis from February 2022. Since the Israeli law allows 5-year intervals for accident reporting, some of the data appearing in earlier reports may be restated due to late-reporting of events.

² The number of training hours is normalized per the company's total number of employees (not just under employment relations).



Performance scorecards

102-8 | 403-9 | Limited assurance

Indicator	2019	2020	2021
Number of accidents :Aviation ¹	56	49	32
Number of accidents: Elta systems ¹	20	16	12
Number of accidents: Systems, missiles and space ¹	20	9	6
Number of accidents: Military aircraft ¹	10	3	4
Number of accidents : Supporting units ¹	2	2	6
Number of accidents: Management ¹	2	3	1
Number of accidents (Total) ¹	110	83	61
Number of accidents (Total per 1000 employees) ¹	7.4	5	4.4
Number of accidents: contractors ²	11	11	4
Number of fatalities	0	0	0
Number of traffic accidents	26	29	20
Number of pedestrian injured	1	1	2
Volunteering hours ³	9,400	1,260	10,214

¹ The data represented in this table is based on a cutoff analysis from February 2022. Since the Israeli law allows 5-year intervals for accident reporting, some of the data appearing in earlier reports may be restated due to late-reporting of events.

² Data is based on insurance claims only.

³Data include hours by volunteering employees under employment relations (permanent, personal contract, temporary, and students) and retirees.



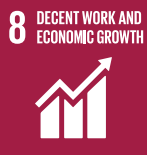


ENVIRONMENT



Environmental management

103-1 | 103-2 | 103-3 | 306-2 | SP | MT



UN SDG targets: 8.4 | 9.4 | 12.2

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



At the corporate level, the Environment, Health, and Safety (EHS) Directorate and the

Sustainability and corporate responsibility Directorate set out policy and provide tools, information gathering infrastructure, and professional support to the divisions, as well as reduce risks at the corporate level and ensure that IAI meets its strategic environmental targets as part of the 2019-2023 strategic roadmap for sustainability. In addition, a strategic perspective of environmental issues is integrated into a wide variety of processes at the company, such as design processes (see pages 50-51), merger and acquisition (see page 36), and in the supply chain (see page 43). Environmental management also includes emergency preparedness activities by means of defined emergency teams, response procedures, action plans, designated equipment, and periodic drills, whose purpose is to enable the company to continue to protect its staff and the environment, including in cases in which the operational routine could be disrupted.

Circular economy

Circular economy offers an innovative concept of the way companies can create sustainable business value by transitioning from linear production and raw materials consumption and waste generation patterns to circular ones. The principles of circular economy are already applied at the company in some of its business activities. For example, converting passenger-into-cargo aircraft is – one of the company's most prominent business lines in aviation – is a process that maintains and extends the life cycle of the product. IAI has also adopted collaborative business models for its UAV production, and technologies such as 3D printing and imaging and simulation processes through VR tools constitute an integral part of the development of our most innovative and advanced satellites, missiles, etc. Another example is our "Air Salon" project (see page 63), which allows for landfill avoidance of non-hazardous aircraft waste.

Along with the environmental benefit, IAI regards promoting principles of circular economy as an opportunity for technological innovation and business efficiency, and savings. Potential exists in connecting to the processes of material substitutions in product design, in the use of digital means as an infrastructure that replaces the need for the use of physical resources, and in examining the development of additional collaborative business models and the feasibility of sharing intra-organizational assets such as buildings, inventories, and knowledge. Expansion of circular economy application at the company takes place as part of the 2019–2023 sustainability roadmap. It includes extensive mapping of the circularity potential in our business activity in order to identify opportunities for implementation, along with developing intra-organizational circular expertise in the various disciplines.

In 2021, IAI continued its activity in various forums for circular economy promotion: The joint forum for environmental issues of the business sector and environmental NGOs in Israel, and the Circular Economy Forum of the Israel-America Chamber of Commerce. As part of latter, IAI presented a circular economy challenge in the circular innovation competition.



Environmental compliance

103-1 | 103-2 | 103-3 | 307-1 | SP | MT

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

Environmental regulatory watch (Israel)

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

Environmental regulatory watch (International)

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

in the aerospace and defense sector. These updates are used by IAI as part of its reporting processes vis-à-vis customers and the development of environmentally-friendly alternatives (see page 50).

Environmental regulatory enforcement

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

To the best of our knowledge, up to the date of publication of this report, no violation letters, fines, or sanctions were imposed on IAI in relation to our environmental performance in 2021.

Environmental risks management

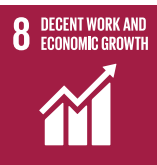
The company's Board of Directors and senior management are committed to sustainable development and to an organizational culture that promotes corporate responsibility. As part of this commitment, and in accordance with the provisions of the Government Companies Authority on this issue, the company's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

For more on environmental risks (including statutory regulations related to decision-making) see Section 20 in the Fourth Chapter of the 2021 Financial Statement of the Company (in Hebrew), pages 104-106.



Energy management

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



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. Division managers conduct programs of energy efficiency, including replacement of inefficient HVAC, lighting, and manufacturing processes. The divisions also train Energy Trustees for monitoring and following up on designated facilities, promoting employees' awareness and ensuring preventive maintenance, as well as reporting on the facility's performance to the division energy officer.

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 infrastructures management.

Electricity consumption

Beginning in 2021, 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, 779 GWh were saved in relation to the "business as usual" scenario. Savings were achieved alongside a rise in total electricity consumption in 2021, due to new buildings being populated and new processes implementation.

IAI did not sell any energy (electricity, cooling/heating or steam) during 2021.

Renewable energy

In 2021, IAI utilized renewable energy sources for the first time, based on three photovoltaic installations on its premises, which were installed as part of the 2019-2023 sustainability roadmap for the reduction of greenhouse gases and our energy savings. All renewable energy produced were self-consumed by IAI operations.



302-1 | 302-4 | Limited assurance





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

Fuel consumption in industrial uses

In 2021, 40% decrease was noted in fuel consumed for industrial uses, compared with 2020. In addition, a decrease of 14% in liquefied petroleum gas (LPG) consumption was noted, as operations returned to normal compared with 2020 (see the 2020 sustainability report available in IAI's website).

Fuel consumption in transportation

IAI operates a fleet of leased vehicles for its employees, as well as a fleet of carpooling vehicles for short trips between its sites. The total of all trips in 2021 was 65,722,872 kilometers. This is estimated based on the total consumption of fuel for vehicle transportation and average usage of 12 km per liter for the vehicles. IAI continues to invest in the diversification of its fleet of leased vehicles as part of the 2019-2023 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, for the purpose of delivering the aircraft to overseas customers. Due to the continued impact of the COVID-19 pandemic on this specific market, no significant change in the overall consumption of jet fuel was noted in 2021, compared with 2020.

Shuttle service

IAI is one of the largest companies in Israel that operates an extensive shuttle service for its employees at all of its sites in Israel. This service enables employees who choose shuttles as their commute, to travel easily and efficiently, while reducing the need for using private vehicles. Starting in 2021, a seat reservation app allows employees to plan their commute, and shuttle vehicles are assigned based on real-time capacity to increase efficiency and reduce environmental impact.

Carpooling

Our carpool online tool allows our employees to find partners for commute on various schedules and locations, who are traveling to all of the company's sites in Israel. This tool enables the use of private vehicles while reducing both traffic and parking impact at the company sites.



Greenhouse gas emissions

103-1 | 103-2 | 103-3 | 305-1 | 305-2 | Limited assurance | SP | MT



UN SDG targets: 13.1

According to the American space agency (NASA), 2021 was measured to be the sixth-warmest year. The transition to a low-carbon economy has been identified as the central tool for countries

to combat climate change along with developing the ability to adapt to the changes expected to occur in the coming decades around the world.

As part of the company's strategic sustainability 2019-2023 roadmap, IAI considers global climate risks, and manages the reduction of Greenhouse gas (GHG) emissions from operations and production processes, while partnering in the development of various solutions:

- Aligning our climate change focus with the UN SDGs (Goal 13: Climate action)
- Annual disclosures to the CDP and to the voluntary GHG reporting scheme led by the Israeli Ministry of Environmental Protection
- Following specific internal goals for emission reductions, including 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 program, and starting in 2021 – the Clean Aviation program
- Collaborating around climate action and emissions reporting in the A&D supply chain, both locally and internationally (see page 14)

The sources included in the annual emissions calculations were fuels for industrial consumption and transportation and electricity consumption, which is based on 100% natural gas use by the electricity supplier.

The annual trend of declining emissions from direct activities (scope 1) continues, with a 6% decline compared to 2020. Our scope 2 emissions were the same as 2020. We expect that with the return to routine activity and increase in renewable energy consumption, it will be possible to continue the reduction trend.



Water and effluent treatment

303-1 | 303-2 | 303-5

Water consumption and efficiency

Limited assurance

Israel is situated in a geographical area that suffers from water shortage, leading to a globally-acknowledged leadership in water technologies. IAI regards water consumption in its operations as a significant resource that needs to be efficiently managed. Total freshwater consumed in 2021 was 767 megaliters, including all water sources in use in all the company's sites. The increase in consumption was due to operational loads. Water consumption data is based on direct internal and external consumption monitoring and billing information.

Effluent treatment

103-1 | 103-2 | 103-3 | 303-4 | Limited assurance

The vast majority of the company's industrial wastewater flows from the Ben-Gurion Airport site to a nearby treatment facility under an organized wastewater quality and composition agreement, and in relevant streams, following a designated pre-treatment for hazardous components. In 2021 the trend of declining amount of wastewater continued, by about 3% in comparison with 2020. All wastewater use figures are based on internal and external monitoring and billing information.

Soil and groundwater surveys

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

detailed multi-annual plan for additional surveys and treatment of known contamination was delivered and authorized by the relevant authorities for additional site investigations, which are prioritized, based on the extent of operations in each site.

For an up-to-date progress, see Section 21 in the Third Chapter of the 2021 Financial Statement of the Company (in Hebrew), page 58.



Waste management

103-1 | 103-2 | 103-3 | 306-1 | 306-2 | 306-3 | 306-4 | 306-5 | Limited assurance | SP | MT



UN SDG targets: 12.5

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

- Efficient raw material consumption in production
- Investing in environmentally-friendly substitute development for hazardous materials in products
- Adopting circular economy principles wherever feasible (for example, our "Air Salon" project on page 63)
- Maximizing landfill avoidance in accordance with the possibilities offered by the waste contractors

IAI's operations generate hazardous waste that mainly includes chemicals, paints and mineral oils, and works with licensed third parties for its end-of-life reuse, recycling and waste-to-energy opportunities or compliant disposal. In 2021, 18% of the hazardous waste generated were diverted from landfill.

Many of our non-hazardous waste streams are separated at the source to allow for effective reuse and recycling, including office waste (such as paper, cardboard, plastic) and operational waste (such as wood, metals, used cooking oil and scraped parts). Due to operational loads, our total non-hazardous waste increased by 4% in 2021. However 48% landfill avoidance was accomplished by reuse and recycling processes.



Air emissions

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

UN SDG targets: 12.5



Air pollution emissions are closely linked to impacts on the health of the public and the environment. IAI works within the framework of the 2019-2023 sustainability roadmap, to reduce the use of hazardous materials in its production processes, and to reduce air pollution emissions from its industrial production processes and from transportation sources. In this framework, there was already a dramatic decline of 75% in emissions of organic compounds (VOC) and sulfur oxides.

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



Performance scorecards

302-1 | 302-4 | Limited assurance

Indicator	2019	2020	2021
Electricity consumption: heating/cooling (TJ)	378	396	397
Electricity consumption: lighting (TJ)	90	94	95
Electricity consumption: air compressors (TJ)	50	50	45
Electricity consumption: manufacturing (TJ)	169	173	152
Electricity consumption: other (TJ)	72	76	78
Electricity consumption: Total (TJ) ¹	759	789	767
Fuel consumption: industrial diesel fuel (GJ)	27,347	29,318	17,492
Fuel consumption: liquefied petroleum gas (GJ)	29,201	40,416	34,800
Fuel consumption, automotive: diesel (50) (Liter)	804,530	523,649 ²	449,830²
Fuel consumption, automotive: gasoline (95) (Liter)	5,539,138	4,898,060	5,027,076
Fuel consumption, aviation: jet fuel (Liter)	4,307,367	2,747,103 ³	2,615,406
Fuel consumption, total: transportation (Liter)	10,651,035	8,168,812	8,092,312
No. of hybrid vehicles in company's fleet	960	1,055	1,059

¹ Including renewable electricity manufactured and consumed in-house.

² used by operational fleet only.

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



Performance scorecards

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

Indicator ¹	2019	2020	2021
Stationary fuel sources (CO ₂ e, metric tons)	4,081	4,932	3,594
Mobile fuel sources (CO ₂ e, metric tons)	28,720	21,537	21,222
Total scope 1: direct emissions (CO ₂ e, metric tons)	32,801	26,470	24,816
Electricity consumption (CO ₂ e, metric tons)	92,291	96,858	95,808
Total scope 2: indirect emissions (CO ₂ e, metric tons)	92,291	96,858	95,808
Total emissions avoided by renewable energy consumption (CO ₂ e, metric tons)	-	-	716
Total scope 1&2 (CO ₂ e, metric tons)	125,092	123,328	120,624
Total scope 3: employees travel (CO ₂ e, metric tons)	16,679	3,560	6,022
Built area (square meters)	876,121	894,635	926,515
Scope 1 GHG intensity ²	0.037	0.029	0.027
Scope 2 GHG intensity ²	0.105	0.108	0.103
Hazardous waste, treatment and/or landfill (metric tons)	1,831	1,749	1,741
Hazardous waste, recycling/reuse (metric tons)	377	280	41³
Hazardous waste, waste-to-energy (metric tons)	254	146	346³
Hazardous waste, total (metric tons)	2,462	2,176	2,128
Non-hazardous waste, treatment and/or landfill (metric tons)	2,615	4,236	3,491
Non-hazardous waste, recycle/reuse (metric tons)	3,901	2,215	3,451
Non-hazardous waste, total (metric tons)	6,516	6,450	6,943

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

² Calculated per built area.

³ The sources used for this data were updated during 2021.



Performance scorecards

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

Indicator	2019	2020	2021
Total water consumption (mega-liter)	671	703	767
Total water discharge (mega-liter) ¹	226	184	179
Total air emissions, NOx (metric tons) ²	20.5	27	21.5
Total air emissions, SOx (metric tons) ²	15.9	2.8	2.4
Total air emissions, VOC (metric tons) ²	3.8	1.97	1.9
Total air emissions, PM (metric tons) ²	1.8	0.85	1.0

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.



Axioscope 7

ng 20



GRI CONTENT INDEX

GRI Content Index

102-55



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

GRI standard	Disclosure	Page	Omissions
GRI 101: Foundation 2016			
General Disclosure: Organizational profile			
GRI 102: General disclosures 2016	102-1	Name of the organization	10
	102-2	Activities, brands, products, and services	38-39
	102-3	Location of headquarters	10
	102-4	Countries of operations	10
	102-5	Ownership and legal form	10, 36
	102-6	Markets served	10, 36, 38-39
	102-7	Scale of the organization	10, 36
	102-8	Information on employees and other workers	57, 64-67
	102-9	Supply chain	42-44
	102-10	Significant changes to the organization and its supply chain	5
	102-11	Precautionary principle or approach	15
	102-12	External initiatives	14
	102-13	Membership of associations	14



102-55

GRI standard	Disclosure	Page	Omissions
General Disclosure: Strategy			
GRI 102: General disclosures 2016	102-14	Statement from senior decision-maker	6, 7
	102-15	Key impacts, risks and opportunities	7
General Disclosure: Ethics and Integrity			
GRI 102: General disclosures 2016	102-16	Values, principles, standards, and norms of behavior	10, 28
General Disclosure: Governance			
GRI 102: General disclosures 2016	102-18	Governance structure	24
	102-22	Composition of the highest governance body and its committees	24-25, 33
	102-26	Role of highest governance body in setting purpose, values, and strategy	11
	102-29	Identifying and managing economic, environmental, and social impacts	11
	102-32	Highest governance body's role in sustainability reporting	11, 25
	102-33	Communicating critical concerns	11, 25-26
	102-34	Nature and total number of critical concerns	11



102-55

GRI standard	Disclosure	Page	Omissions
General Disclosure: Stakeholder Engagement			
	102-40	List of stakeholder groups	12-13
	102-41	Collective bargaining agreements	59, 66
GRI 102: General disclosures 2016	102-42	Identifying and selecting stakeholders	12-13
	102-43	Approach to stakeholder engagement	12-13
	102-44	Key topics and concerns raised	12-13
General Disclosure: Reporting practice			
	102-45	Entities included in the consolidated financial statements	5, 10
	102-46	Defining report content and topic boundaries	16-17
	102-47	List of material topics	17
GRI 102: General disclosures 2016	102-48	Restatements of information	5
	102-49	Changes in reporting	5
	102-50	Reporting period	5
	102-51	Date of most recent report	5
	102-52	Reporting cycle	5
	102-53	Contact point for questions regarding the report	98
	102-54	Claims of reporting in accordance with the GRI Standards	5
	102-55	GRI content index	84-94
	102-56	External assurance	95-97



102-55

GRI standard	Disclosure	Page	Omissions
Material topics:			
Corporate governance : Corporate governance and business ethics			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	24, 28
	103-2	The management approach and its components	24, 28
	103-3	Evaluation of the management approach	24, 28
Material topics:			
Corporate Governance: Anti-corruption and bribery prevention practices			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	30
	103-2	The management approach and its components	30
	103-3	The management approach and its components	30
GRI 205: Anti-corruption 2016	205-2	Communication and training about anti-corruption policies and procedures	28, 30
Material topics:			
Corporate Governance: Compliance			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	30, 71
	103-2	The management approach and its components	30, 71
	103-3	The management approach and its components	30, 71
GRI 307: Environmental compliance 2016	307-1	Non-compliance with environmental laws and regulations	71
GRI 419: Socio-economic compliance 2016	419-1	Non-compliance with socio-economic laws and regulations	30



102-55

GRI standard	Disclosure	Page	Omissions
Material topics:			
Corporate governance : Cyber defense and information security			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	32
	103-2	The management approach and its components	32
	103-3	Evaluation of the management approach	32
Material topics:			
Economic: Business development and performance			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	36
	103-2	The management approach and its components	36
	103-3	The management approach and its components	36
GRI 201: Economic performance 2016	201-1	Direct economic value generated and distributed	36, 45
	201-4	Financial assistance received from government	36, 45
Material topics:			
Economic: Competitiveness			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	31
	103-2	The management approach and its components	31
	103-3	The management approach and its components	31
GRI 206: Anti-competitive behavior 2016	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	31



102-55

GRI standard	Disclosure	Page	Omissions
Material topics:			
Economic: Responsible supply chain			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	42-43
	103-2	The management approach and its components	42-43
	103-3	Evaluation of the management approach	42-43
Material topics:			
Economic: Indirect economic impact			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	44
	103-2	The management approach and its components	44
	103-3	The management approach and its components	44
GRI 203: Indirect economic impacts 2016	203-2	Significant indirect economic impacts	44
GRI 204: Procurement practices 2016	204-1	Proportion of spending on local suppliers	44-45
Material topics:			
Economic: Impact on Israel			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	44
	103-2	The management approach and its components	44
	103-3	The management approach and its components	44



102-55

GRI standard	Disclosure	Page	Omissions
Material topics:			
Economic: Product responsibility and customer service			
	103-1	Explanation of the material topic and its boundaries	40-41
GRI 103:			
Management approach 2016	103-2	The management approach and its components	40-41
	103-3	Evaluation of the management approach	40-41
GRI 417:			
Marketing and labeling 2016	417-1	Requirements for product and service information and labeling	40-41
Material topics:			
Economic: Technological innovation			
	103-1	Explanation of the material topic and its boundaries	48-49
GRI 103:			
Management approach 2016	103-2	The management approach and its components	48-49
	103-3	The management approach and its components	48-49
Material topics:			
Economic: Business continuity			
	103-1	Explanation of the material topic and its boundaries	37
GRI 103:			
Management approach 2016	103-2	The management approach and its components	37
	103-3	The management approach and its components	37



102-55

GRI standard	Disclosure	Page	Omissions
Material topics:			
Social: HR management			
	103-1	Explanation of the material topic and its boundaries	54-56
GRI 103:			
Management approach 2016	103-2	The management approach and its components	54-56
	103-3	Evaluation of the management approach	54-56
GRI 201:			
Economic performance 201	201-3	Defined benefit plan obligations and other retirement plans	56, 59
GRI 201:			
Economic performance 2016	202-2	Proportion of senior management hired from local community	64
GRI 404:			
Training and education	404-1	Average hours of training per year per employee	58, 66
	404-2	Programs for upgrading employee skills and transitions assistance programs	58
Material topics:			
Social: Diversity, inclusion and equal opportunity			
	103-1	Explanation of the material topic and its boundaries	57
GRI 103:			
Management approach 2016	103-2	The management approach and its components	57
	103-3	The management approach and its components	57
GRI 405:			
Diversity and equal opportunity 2016	405-1	Diversity of governance bodies and employees	26, 57, 64-65



102-55

GRI standard	Disclosure	Page	Omissions
Material topics:			
Social: Employees recruitment and talent management			
GRI 103:	103-1	Explanation of the material topic and its boundaries	56
Management approach 2016	103-2	The management approach and its components	56
	103-3	Evaluation of the management approach	56
GRI 401:	401-1	New employee hires and employees turnover	56, 64-65
Employment 2016			
Material topics:			
Social: Occupational health and safety			
GRI 103:	103-1	Explanation of the material topic and its boundaries	60-61
Management approach 2016	103-2	The management approach and its components	60-61
	103-3	The management approach and its components	60-61
	403-1	Occupational health and safety management system	60-61
	403-2	Hazard identification, risk assessment, and incident investigation	60-61
	403-3	Occupational health services	60-61
	403-4	Worker participation, consultation, and communication on occupational health and safety	60-61
	403-5	Worker training on occupational health and safety	60-61
GRI 403: Occupational health and safety 2018	403-6	Promotion of worker health	59
	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	40-41, 60-61
	403-9	Work-related injuries	60-61, 66-67
			Information unavailable – hours worked for the calculation of rate of high-consequence work-related Injuries. Expected to be obtained by 2022. Currently calculated per number of employees.



102-55

GRI standard	Disclosure	Page	Omissions
Material topics:			
Social: Social impact			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	62
	103-2	The management approach and its components	62
	103-3	Evaluation of the management approach	62
GRI 413: Local communities 2016	413-1	Operations with local community engagement, impact assessments, and development programs	62-63
Material topics:			
Environmental: Environmental management			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	70
	103-2	The management approach and its components	70
	103-3	The management approach and its components	70
GRI 201: Economic performance 2016	201-1	Financial implications and other risks and opportunities due to climate change	50-51
GRI 303: Water and effluents 2018	303-1	Interaction with water as a shared resource	76
	303-2	Management of water discharge-related impacts	76
	303-5	Water consumption	76, 81



102-55

GRI standard	Disclosure	Page	Omissions	
Material topics:				
Environmental: Energy and emissions				
GRI 103:	103-1	Explanation of the material topic and its boundaries	72, 74-75, 78	
Management approach 2016	103-2	The management approach and its components	72, 74-75, 78	
	103-3	Evaluation of the management approach	72, 74-75, 78	
GRI 302:	302-1	Energy consumption within the organization	72-74, 79	
Energy 2016	302-4	Reduction of energy consumption	72-74, 79	
	305-1	Direct (Scope 1) GHG emissions	75, 80	
	305-2	Energy indirect (Scope 2) GHG emissions	75, 80	
GRI 305:	305-3	Other indirect (Scope 3) GHG emissions	80	
	Emissions 2016	305-4	GHG emissions intensity	80
		305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	81
Material topics:				
Environmental: Effluents and waste				
GRI 103:	103-1	Explanation of the material topic and its boundaries	76-77	
Management approach 2016	103-2	The management approach and its components	76-77	
	103-3	The management approach and its components	76-77	
GRI 303:	303-1	Interaction with water as a shared resource	76	
	Water and effluents 2018	303-2	Management of water discharge-related impacts	76
		303-4	Water discharge	76, 81
GRI 306:	306-1	Waste generation and significant waste-related impacts	77	
	306-2	Management of significant waste-related impacts	70, 77	
	Waste 2020	306-3	Waste generated	77, 80
		306-4	Waste diverted from disposal	77, 80
		306-5	Waste directed to disposal	77, 80



Legal disclaimer

This document reflects the policy of Israel Aerospace Industries Ltd, which is “beyond compliance”. As such, it reflects the targets, objectives, and milestones the Company has decided on and which it strives to achieve, but which it has no legal obligation to meet. The document is updated as of December 31, 2021. The Company has made efforts to ensure that this document will be correct and accurate and, to the best of the Company’s knowledge, it is correct and accurate, as of such date.

Nonetheless, as in any document, it may contain generalities, misstatements, errors, and omissions, and accordingly, the Company does not accept any liability for the accuracy or completeness thereof, nor does it permit any reliance on, or use made of, the information contained therein, by any person. In addition, the Company is under no obligation to update the information contained herein.

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

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

Reporting process and External Assurance

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

As a governmental company, we see great importance in supplying our stakeholders with accurate and reliable information about the environmental and social impacts of our activity.



Independent Limited assurance

102-56

Independent Independent Limited Assurance Report to the users/readers of Israel Aerospace Industries Ltd. (IAI) 2021 Sustainability Report.

We were engaged by the management of Israel Aerospace Industries Ltd. to provide limited assurance on the Specified Subjects as mentioned in the table below (further referred to as “Specified Subjects”), regarding the information presented on IAI 2021 Sustainability Report for the year ended 31 December 2021 (further referred to as “the Report”).

IAI's management is responsible for A. the preparation and the presentation of the Report in accordance with the Sustainability Reporting Standards (SRS): Core option, of the Global Reporting Initiative (GRI) as described in pages 84-94 of the Report, and the information and assertions contained within it B. for determining IAI'S objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues for reporting C. for establishing and maintaining appropriate performance management and internal control systems from which the information is derived, to be free from omissions and material misstatements whether due to fraud or error.

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

A limited assurance engagement, regarding data and information included in the Specified Subjects on the Sustainability Report, consists of conducting interviews and inquiries, primarily of persons responsible for the preparation of information presented in the report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

- Examination of the Specified Subjects in the Report, for the

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

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

Limited Assurance is less than Absolute Assurance and Reasonable Assurance. Accordingly, the Limited Assurance engagement is

**102-56**

substantially less in scope than a Reasonable Assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the evidence-gathering procedures performed in response to the assessed risks, which vary in nature from and are substantially less in scope than for a Reasonable Assurance engagement.

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

Conclusion

Based on the limited assurance procedures performed and the evidence we have obtained, described in this Report, nothing has come to our attention to indicate that the Specified Subjects as mentioned in the table below, in IAI's 2021 Sustainability Report are not presented, in all material respects, in accordance with the GRI Sustainability Reporting Standards and IAI's reporting criteria.

Our limited assurance is made solely to IAI in accordance with the terms of our engagement. Our work has been undertaken to complete a Limited Assurance process for IAI regarding the Specified Subjects we have been engaged to assess for the Limited Assurance and for no other purpose or in any other context. We do not accept or assume responsibility to anyone other than IAI for our work, for this limited assurance process, or for the conclusions we have reached.



Ziv Haft
Certified Public Accountants Tel Aviv
May 1st, 2022

Subject	Page
IAI's Stakeholders	12-13
IAI's 2021 Materiality Process	16-17
IAI's Managing Sustainability and 2019-2023 Sustainability roadmap	18
IAI's Corporate Governance	24-26, 33
IAI's Business Ethics	28
IAI's Cyber Defense and Information Security	32
IAI's Financial Performance	36, 45
IAI's Business Continuity	37
IAI's Local Procurement	44-45
IAI's Patents	45, 49
IAI's Employees Training and Development	58, 66
IAI's Employees' Diversity ¹	57, 64-65
IAI's Occupational Health and Safety	60-61, 66-67
IAI's Social impact	62-63, 67
IAI's Energy management	72-74, 79
IAI's GHG emissions and Climate Change	75, 80
IAI's Waste and Effluents	76-77, 81
IAI's Water consumption and efficiency	76, 81
IAI's Air emission	78, 81
IAI's Built Area	80

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



102-53

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.

**For the sustainability program:
Inbal Sternberg**

Director, Sustainability and
corporate responsibility

+972-3-935-4869

isternb@iaai.co.il

**For media inquiries, please contact:
Gili May**

Chief relationship officer

+972-3-935-8509

gilimay@iaai.co.il



*Where Courage
Meets Technology*