



**ISRAEL AEROSPACE INDUSTRIES LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2021**

**This English version of the financial statements has been prepared  
solely for the convenience of the reader.  
The Hebrew version of the financial statements is the binding  
version.**



**ISRAEL AEROSPACE INDUSTRIES LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2021**

**IN U.S. DOLLARS IN MILLIONS**

**INDEX**

	<u>Page</u>
<b>The Board of Directors' and Management's Report of Internal Control over Financial Reporting pursuant to the Government Companies Regulations</b>	<b>2</b>
<b>Officers' Certification</b>	<b>3 – 5</b>
<b>Auditors' Report of Internal Control over Financial Reporting</b>	<b>6 - 7</b>
<b>Auditors' Report of the Financial Statements</b>	<b>8</b>
<b>Consolidated Statements of Financial Position</b>	<b>9 – 10</b>
<b>Consolidated Statements of Profit or Loss</b>	<b>11</b>
<b>Consolidated Statements of Comprehensive Income (Loss)</b>	<b>12</b>
<b>Consolidated Statements of Changes in Equity</b>	<b>13</b>
<b>Consolidated Statements of Cash Flows</b>	<b>14 – 15</b>
<b>Notes to Consolidated Financial Statements</b>	<b>16 - 123</b>
<b>Separate Financial Information</b>	<b>124 - 141</b>

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**The Board of Directors' and Management's Report  
Regarding the Effectiveness of Internal Control over Financial Reporting  
Pursuant to the Israeli Government Companies Regulations  
(Additional Reports regarding the Effectiveness of Internal Control over Financial Reporting), 2007**

Management, with the supervision and approval of the board of directors of Israel Aerospace Industries Ltd. ("the Company"), are responsible for establishing and maintaining adequate internal control over financial reporting in the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards ("IFRS"), the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010 and the provisions of the Israeli Government Companies Law, 1975. Because of its inherent limitations, internal control over financial reporting is not designed to provide absolute assurance that misstatements in the financial statements will be prevented or detected.

The board of directors and management tested and evaluated the internal control over financial reporting in the Company and its effectiveness based on the COSO criteria. Based on this evaluation, the Company's board of directors and management concluded that the internal control over financial reporting in the Company for the period ended December 31, 2021 is effective.

Date: March 15, 2022



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Amir Peretz  
Chairman of the Board of Directors

Date: March 15, 2022



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Boaz Levy  
CEO

Date: March 15, 2022



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Eran Anchikovsky  
CFO

**GOVERNMENT COMPANIES REGULATIONS  
(ADDITIONAL REPORT REGARDING ACTIONS TAKEN AND  
STATEMENTS MADE TO SECURE THE ACCURACY OF  
THE FINANCIAL STATEMENTS AND DIRECTORS' REPORT), 2005**

I, Amir Peretz, certify that:

1. I have reviewed the periodic report, as defined in Chapter B to the Israel Securities Regulations (Periodic and Immediate Reports), 1970 of Israel Aerospace Industries Ltd. ("the Company") for 2021 ("the reports").
2. To the best of my knowledge and after reviewing the reports, they do not contain any untrue statement of a material fact or omit to state a material fact necessary not to make the statements made, in light of the circumstances under which such statements were made, misleading with respect to the period covered by the reports.
3. To the best of my knowledge and after reviewing the reports, the financial statements and other financial information included in the directors' report fairly present, in all material respects, the financial position, results of operations, changes in equity and cash flows of the Company as of and for the periods presented in the reports.
4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures in the Company as required in the reports. Accordingly, we have designed such controls and procedures, or had such controls and procedures established under our charge, designed to ensure that material information relating to the Company, including its subsidiaries, is made known to us by others in the Company and in the subsidiaries, particularly during the period in which the reports were prepared.
5. The Company's other certifying officers and I have disclosed to the Company's auditors and the Company's board of directors, based on our most recent evaluation:
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information;
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of anyone else, pursuant to any law.

March 15, 2022



Amir Peretz  
Chairman of the Board of Directors

**GOVERNMENT COMPANIES REGULATIONS  
(ADDITIONAL REPORT REGARDING ACTIONS TAKEN AND  
STATEMENTS MADE TO SECURE THE ACCURACY OF  
THE FINANCIAL STATEMENTS AND DIRECTORS' REPORT), 2005**

I, Boaz Levy, certify that:

1. I have reviewed the periodic report, as defined in Chapter B to the Israel Securities Regulations (Periodic and Immediate Reports), 1970 of Israel Aerospace Industries Ltd. ("the Company") for 2021 ("the reports").
2. To the best of my knowledge and after reviewing the reports, they do not contain any untrue statement of a material fact or omit to state a material fact necessary not to make the statements made, in light of the circumstances under which such statements were made, misleading with respect to the period covered by the reports.
3. To the best of my knowledge and after reviewing the reports, the financial statements and other financial information included in the directors' report fairly present, in all material respects, the financial position, results of operations, changes in equity and cash flows of the Company as of and for the periods presented in the reports.
4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures in the Company as required in the reports. Accordingly, we have designed such controls and procedures, or had such controls and procedures established under our charge, designed to ensure that material information relating to the Company, including its subsidiaries, is made known to us by others in the Company and in the subsidiaries, particularly during the period in which the reports were prepared.
5. The Company's other certifying officers and I have disclosed to the Company's auditors and the Company's board of directors, based on our most recent evaluation:
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information;
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of anyone else, pursuant to any law.

March 15, 2022



Boaz Levy  
CEO

**GOVERNMENT COMPANIES REGULATIONS  
(ADDITIONAL REPORT REGARDING ACTIONS TAKEN AND  
STATEMENTS MADE TO SECURE THE ACCURACY OF  
THE FINANCIAL STATEMENTS AND DIRECTORS' REPORT), 2005**

I, Eran Anchikovsky, certify that:

1. I have reviewed the periodic report, as defined in Chapter B to the Israel Securities Regulations (Periodic and Immediate Reports), 1970 of Israel Aerospace Industries Ltd. ("the Company") for 2021 ("the reports").
2. To the best of my knowledge and after reviewing the reports, they do not contain any untrue statement of a material fact or omit to state a material fact necessary not to make the statements made, in light of the circumstances under which such statements were made, misleading with respect to the period covered by the reports.
3. To the best of my knowledge and after reviewing the reports, the financial statements and other financial information included in the directors' report fairly present, in all material respects, the financial position, results of operations, changes in equity and cash flows of the Company as of and for the periods presented in the reports.
4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures in the Company as required in the reports. Accordingly, we have designed such controls and procedures, or had such controls and procedures established under our charge, designed to ensure that material information relating to the Company, including its subsidiaries, is made known to us by others in the Company and in the subsidiaries, particularly during the period in which the reports were prepared.
5. The Company's other certifying officers and I have disclosed to the Company's auditors and the Company's board of directors, based on our most recent evaluation:
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information;
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of anyone else, pursuant to any law.

March 15, 2022



Eran Anchikovsky  
CFO



**Auditors' Report to the Shareholders of Israel Aerospace Industries Ltd.  
Regarding the Effectiveness of Internal Control over Financial Reporting  
Pursuant to Article 3 to the Israeli Government Companies Regulations  
(Additional Reports regarding the Effectiveness of Internal Control over Financial Reporting), 2007**

We have audited the internal control over financial reporting of Israel Aerospace Industries Ltd. ("the Company") as of December 31, 2021, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("the COSO criteria").

The Company's board of directors and management are responsible for maintaining effective internal control over financial reporting, and for their assessment of the effectiveness of internal control over financial reporting, included in accordance with the Israeli Government Companies Regulations (Additional Reports regarding the Effectiveness of Internal Control over Financial Reporting), 2007 in the reports of the board of directors and management regarding the effectiveness of internal control over financial reporting hereby attached.

Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We did not audit the effectiveness of internal control over financial reporting of ELTA Systems Ltd. and its subsidiaries (a wholly-owned subsidiary of the Company, "the subsidiary") whose assets constitute approximately 24.38% of total consolidated assets as of December 31, 2021 and whose revenues constitute approximately 24.77% of total consolidated revenues for 2021. The internal control over financial reporting of the subsidiary was audited by other auditors, whose findings have been furnished to us, and our opinion, insofar as it relates to the internal control over financial reporting of the subsidiary, is based on the reports of the other auditors.

We conducted our audit in accordance with the Standards of the PCAOB in the United States regarding the audit of internal control over financial reporting. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of the internal control based on the assessed risk. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards ("IFRS"), the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010 and the provisions of the Israeli Government Companies Law, 1975. A company's internal control over financial reporting consists of the policies and procedures which (1) address the management of records that accurately, adequately and reasonably reflect the transactions in the Company's assets and their disposal; (2) provide reasonable assurance that transactions are properly recorded in order to allow the preparation of the financial statements in conformity with IFRS, the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010 and the provisions of the Israeli Government Companies Law, 1975, and that funds are only received and expended by the Company's authorized personnel and subject to the approvals of State authorities as required by law; and (3) provide reasonable assurance of the timely prevention or disclosure of any unauthorized acquisition, use or disposal of Company assets that is liable to have a material adverse effect on the financial statements.



Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audit and the reports of the other auditors, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We have also audited, in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditor's Regulations (Auditor's Mode of Performance), 1973, the consolidated statements of financial position of the Company as of December 31, 2021 and 2020 and the consolidated statements of profit or loss, comprehensive income (loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2021 and our report dated March 15, 2022 expressed an unqualified opinion thereon, based on our audits and the reports of other auditors.

Tel-Aviv, Israel  
March 15, 2022

BDO Ziv Haft  
Certified Public Accountants



## **AUDITORS' REPORT**

**To the Shareholders of**

### **ISRAEL AEROSPACE INDUSTRIES LTD.**

We have audited the accompanying consolidated statements of financial position of Israel Aerospace Industries Ltd. ("the Company") as of December 31, 2021 and 2020, and the related consolidated statements of profit or loss, comprehensive income (loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2021. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries whose assets constitute approximately 24.38% and approximately 21.37% of total consolidated assets as of December 31, 2021 and 2020, respectively, and whose revenues constitute approximately 24.77%, approximately 26.28% and approximately 23.54% of total consolidated revenues for the years ended December 31, 2021, 2020 and 2019, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors. Moreover, the data included in the financial statements relating to the carrying amount of the investments and the Company's share of the business results of investees accounted for at equity is based on financial statements some of which have been audited by other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2021 and 2020, and the results of their operations, changes in their equity and cash flows for each of the three years in the period ended December 31, 2021, in conformity with International Financial Reporting Standards ("IFRS") and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010. Moreover, in our opinion, the financial statements referred to above present fairly, in all material respects, the disclosure provisions required by circulars of the Israel Government Companies Authority.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), as adopted by the Institute of Certified Public Accountants in Israel, the effectiveness of the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2022, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Tel-Aviv, Israel  
March 15, 2022

ZIV HAFT BDO  
Certified Public Accountants

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<u>Note</u>	<u>December 31,</u>	
		<u>2021</u>	<u>2020</u>
		<u>U.S. dollars in millions</u>	
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	4	581	849
Short-term financial assets	5	324	405
Trade receivables	6	958	1,095
Contract assets, net	7	1,272	945
Other accounts receivable	8	623	622
Inventories	9	774	840
<u>Total current assets</u>		<u>4,532</u>	<u>4,756</u>
<b>NON-CURRENT ASSETS:</b>			
Long-term receivables	10	49	82
Investments in associates and joint ventures	11	135	123
Deferred taxes	31	82	66
Property, plant and equipment	12	1,181	1,109
Intangible assets	13	178	121
<u>Total non-current assets</u>		<u>1,625</u>	<u>1,501</u>
<u>Total assets</u>		<u>6,157</u>	<u>6,257</u>

The accompanying notes are an integral part of the consolidated financial statements.


**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	Note	December 31,	
		2021	2020
		U.S. dollars in millions	
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Loans from banks and current maturities in respect of debentures	14	362	572
Short-term financial liabilities		7	13
Trade payables	15	984	1,081
Other accounts payable	16	602	632
Provisions	17	304	258
Dividend payable	23	24	24
Contract liabilities, net	18	2,241	2,167
<u>Total current liabilities</u>		<u>4,524</u>	<u>4,747</u>
<b>NON-CURRENT LIABILITIES:</b>			
Other long-term liabilities		29	58
Employee benefits	20	383	370
<u>Total non-current liabilities</u>		<u>412</u>	<u>428</u>
<b>EQUITY:</b>			
Equity attributable to equity holders of the parent	23	1,178	1,052
Non-controlling interests		43	30
<u>Total equity</u>		<u>1,221</u>	<u>1,082</u>
<u>Total liabilities and equity</u>		<u>6,157</u>	<u>6,257</u>


The accompanying notes are an integral part of the consolidated financial statements.

March 15, 2022

Date of approval of the  
financial statements

  
Amir Peretz  
Chairman of the Board  
of Directors

  
Boaz Levy  
CEO

  
Eran Anchikovskiy  
CFO

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS**

	Note	Year ended December 31,		
		2021	2020	2019
		U.S. dollars in millions		
Sales	24	4,477	4,184	4,108
Cost of sales	25	3,781	3,519	3,531
<b>Gross profit</b>		<b>696</b>	<b>665</b>	<b>577</b>
Research and development expenses, net	26	204	196	191
Selling and marketing expenses	27	101	87	97
General and administrative expenses	28	179	186	172
Other income, net	29	(9)	(6)	(1)
Expenses (income) in respect of early retirement of employees	20	4	7	(3)
		<b>479</b>	<b>470</b>	<b>456</b>
<b>Operating income</b>		<b>217</b>	<b>195</b>	<b>121</b>
Finance income	30	21	29	48
Finance expenses	30	(50)	(50)	(60)
Company's share of earnings of associates and joint ventures, net	11	6	5	4
<b>Income before taxes on income</b>		<b>194</b>	<b>179</b>	<b>113</b>
Taxes on income	31	(46)	(46)	(23)
<b>Net income</b>		<b>148</b>	<b>133</b>	<b>90</b>
<b>Net income attributable to:</b>				
Equity holders of the parent		142	128	87
Non-controlling interests		6	5	3
<b>Total</b>		<b>148</b>	<b>133</b>	<b>90</b>

The accompanying notes are an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

	Note	Year ended December 31,		
		2021	2020	2019
		U.S. dollars in millions		
<b>Net income</b>		<b>148</b>	133	90
<b>Items of other comprehensive income (loss) net of taxes:</b>				
<b>Amounts that will not be subsequently classified to profit or loss:</b>				
Remeasurement of defined benefit plans	32	3	(5)	(23)
<b>Total amounts that will not be subsequently classified to profit or loss</b>		<b>3</b>	(5)	(23)
<b>Amounts that might be subsequently classified to profit or loss:</b>				
Gain (loss) from cash flow hedge	32	(22)	31	45
Foreign currency translation adjustments of foreign operation	32	5	3	2
<b>Total amounts that might be subsequently classified to profit or loss</b>		<b>(17)</b>	34	47
<b>Total comprehensive income</b>		<b>134</b>	162	114
<b>Total comprehensive income attributable to:</b>				
Equity holders of the parent		126	155	110
Non-controlling interests		8	7	4
<b>Total comprehensive income</b>		<b>134</b>	162	114

The accompanying notes are an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Attributable to equity holders of the parent							Total	Non-controlling interests	Total equity	
	Outstanding share capital	Reserve held for dividend distribution*	Capital reserve from cash flow hedge	Capital reserve from cost of CBS hedge	Foreign currency translation adjustments	Capital reserve from re-measurement of defined benefit plans	Capital reserve from transactions with non-controlling interests				Retained earnings (accumulated deficit)*
	U.S. dollars in millions										
<b>Balance as of December 31, 2018</b>	<b>861</b>	<b>24</b>	<b>(37)</b>	<b>-</b>	<b>(5)</b>	<b>1</b>	<b>4</b>	<b>(27)</b>	<b>821</b>	<b>15</b>	<b>836</b>
<b>Changes in the year ended December 31, 2019:</b>											
Net income for the year	-	-	-	-	-	-	-	87	87	3	90
Other comprehensive income (loss)	-	-	44	1	1	(23)	-	-	23	1	24
Total comprehensive income (loss) for the year	-	-	44	1	1	(23)	-	87	110	4	114
Adjustment of retained earnings in respect of 2017	-	10	-	-	-	-	-	(10)	-	-	-
Dividend declared (**)	-	(34)	-	-	-	-	-	-	(34)	-	(34)
Non-controlling interests from business combination	-	-	-	-	-	-	-	-	-	6	6
<b>Balance as of December 31, 2019</b>	<b>861</b>	<b>-</b>	<b>7</b>	<b>1</b>	<b>(4)</b>	<b>(22)</b>	<b>4</b>	<b>50</b>	<b>897</b>	<b>25</b>	<b>922</b>
<b>Changes in the year ended December 31, 2020:</b>											
Net income for the year	-	-	-	-	-	-	-	128	128	5	133
Other comprehensive income (loss)	-	-	29	2	1	(5)	-	-	27	2	29
Total comprehensive income (loss) for the year	-	-	29	2	1	(5)	-	128	155	7	162
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	-	(2)	(2)
<b>Balance as of December 31, 2020</b>	<b>861</b>	<b>-</b>	<b>36</b>	<b>3</b>	<b>(3)</b>	<b>(27)</b>	<b>4</b>	<b>178</b>	<b>1,052</b>	<b>30</b>	<b>1,082</b>
<b>Changes in the year ended December 31, 2021:</b>											
Net income for the year	-	-	-	-	-	-	-	142	142	6	148
Other comprehensive income (loss)	-	-	(20)	(2)	3	3	-	-	(16)	2	(14)
Total comprehensive income (loss) for the year	-	-	(20)	(2)	3	3	-	142	126	8	134
Non-controlling interests from business combination	-	-	-	-	-	-	-	-	-	5	5
<b>Balance as of December 31, 2021</b>	<b>861</b>	<b>-</b>	<b>16</b>	<b>1</b>	<b>-</b>	<b>(24)</b>	<b>4</b>	<b>320</b>	<b>1,178</b>	<b>43</b>	<b>1,221</b>

(\*) The reserve of retained earnings held for compliance with dividend distribution criteria includes the items of income (loss) and reserve held for dividend distribution.

(\*\*) See Note 23c below.

The accompanying notes are an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
<b>Cash flows from operating activities:</b>			
Net income	148	133	90
<b>Adjustments for:</b>			
Depreciation and amortization	219	202	203
Finance expense (income), net	(16)	(37)	(44)
Taxes on income in profit or loss	46	46	23
Company's share of earnings of associates and joint ventures, net	(6)	(5)	(4)
Dividend received from associate	10	4	7
Impairment of property, plant and equipment	-	2	-
Derecognition of intangible asset	-	-	11
Gain from sale of operation	-	-	(12)
Gain from change in holding rate in associate	-	(8)	-
Increase in respect of employee benefits	16	24	26
Changes in value of securities measured at fair value through profit or loss, net	(8)	(17)	(15)
Change in fair value of financial derivatives, net	1	-	(3)
Gain from sale and expropriation of property, plant and equipment	(7)	-	(2)
Movement in accrued interest on debentures	(2)	(1)	(1)
Gain from sale of investment in associate	(2)	-	-
Gain from investment in associate	(1)	-	-
	<u>250</u>	<u>210</u>	<u>189</u>
<b>Changes in asset and liability items:</b>			
Decrease (increase) in trade receivables	144	(307)	(74)
Decrease (increase) in other accounts receivable	(15)	39	(237)
Increase in contract assets, net	(327)	(75)	(119)
Decrease (increase) in inventories	65	(29)	(75)
Increase (decrease) in trade payables	(192)	140	185
Increase in provisions	46	49	52
Increase (decrease) in contract liabilities, net	73	(168)	(70)
Increase (decrease) in other accounts payable	(33)	48	33
	<u>(239)</u>	<u>(303)</u>	<u>(305)</u>
Interest paid	(12)	(16)	(12)
Interest received	10	14	28
Taxes on income received (paid), net	(11)	2	(17)
	<u>(13)</u>	<u>-</u>	<u>(1)</u>
<b>Net cash provided by (used in) operating activities</b>	<u>146</u>	<u>40</u>	<u>(27)</u>

The accompanying notes are an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
<b>Net cash provided by (used in) operating activities (brought forward)</b>	<b>146</b>	40	(27)
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment	(177)	(217)	(208)
Proceeds from sale and expropriation of property, plant and equipment	7	-	2
Investment in intangible assets	(63)	(49)	(33)
Proceeds from sale of marketable securities, net	14	12	61
Short-term deposits, net	48	47	467
Proceeds from sale of securities at amortized cost, net	-	-	13
Investments in and loans to associates, net	(4)	(13)	(1)
Acquisition of newly consolidated subsidiary (*)	(7)	-	(7)
Proceeds from sale of asset held for sale	2	-	-
<b>Net cash provided by (used in) investing activities</b>	<b>(180)</b>	(220)	294
<b>Cash flows from financing activities:</b>			
Short-term loans from banks, net	(55)	295	-
Proceeds from sale of swap in respect of debenture principal	-	14	7
Repayment of debentures	(138)	(87)	(80)
Repayment of lease liability	(28)	(25)	(19)
Short-term credit, net	(18)	13	8
Dividend paid	-	-	(10)
Dividend paid to non-controlling interests	-	(2)	-
<b>Net cash provided by (used in) financing activities</b>	<b>(239)</b>	208	(94)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(273)</b>	28	173
Cash and cash equivalents at the beginning of the year	849	786	618
Translation differences from balances of cash and cash equivalents	5	35	(5)
<b>Cash and cash equivalents at the end of the year</b>	<b>581</b>	849	786

(\*) See more information in Note 11c(2) below.

**The accompanying notes are an integral part of the consolidated financial statements.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1:- GENERAL**

- a. Israel Aerospace Industries Ltd. ("the Company") was founded in 1966 and is a "wholly-owned government company", as this term is defined in the Israeli Government Companies Law, 1975 ("the Government Companies Law"). The Company's debentures were issued and listed for trade on the Tel-Aviv Stock Exchange ("the TASE") effective from May 2007 whereas the Company's shares are not listed for trade on the TASE. Accordingly, the Company is a government company that is subject to the provisions of the Israel Securities Law, 1968 as a reporting entity.

The Company operates in four main operating segments through the following groups: the Missiles and Space Systems Group, the Military Aircraft Group, the Military Electronics Group (through ELTA Systems Ltd., a wholly-owned subsidiary of the Company) and the Aviation Group.

- b. As a government company, the Company is subject to the Israeli Government Companies Authority's profit allocation policy. The Government Companies Law states that the Board's decisions regarding the Company's profit allocation requires the approval of the Government Companies Authority. If the Government Companies Authority ("the GCA") disagrees with the Board's decision, the Company (as long as it is not a company under privatization process) will act in accordance with the GCA's resolution, as approved by the Israeli Government. According to the GCA's current policy (which is liable to change from time to time), 50% of the annual current net income, before any bonuses are paid to employees, are distributed as a dividend.

In the context of the Company's engagement with several banks and financial institutions and its engagement in a deed of trust in respect of debentures (series D), the Company has undertaken to meet certain financial covenants which are liable to affect its ability to distribute a dividend. See more details in Notes 23c and 21b below.

- c. Issuance or sale of the Company's shares to the public:**

On October 5, 2014, a decision was made by the Ministerial Committee for Social and Economic Affairs (the Socio-Economic Cabinet) to approve a multiannual plan for carrying out minority offerings of government companies. According to the plan, in government companies in which the State has an interest in retaining long-term government control, a portion of the State's holdings will be sold by means of public offering or offerings, individually or in combination with raising capital for the company, by way of issuing securities to the public on the TASE according to a prospectus, at an overall rate ranging between 25% and 49% of the company's share capital on a fully diluted basis. It was also decided that this course of action will apply to specific government companies, including the Company.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1:- GENERAL (Cont.)****c. Issuance or sale of the Company's shares to the public (Cont.):**

On November 19, 2020, the Ministerial Privatization Committee ("the Committee") approved the privatization of the Company through the sale of its minority shares ("the privatization decision"). Among others, the privatization decision consists of the following: (1) sale of up to 49% of the Company's share capital (on a fully diluted basis) through one or more public offerings on the TASE according to a prospectus which will include an offer for sale by the State and/or an offer for sale in combination with a capital raising in the Company ("the offering" or "the offerings", as applicable), whereby any offering of more than 35% of the Company's share capital (on a fully diluted basis) is subject to the Committee's approval in a different decision; (2) the offering(s) will be based on the scope, distribution method and dates as prescribed by the GCA and the Ministry of Defense.

The rates underlying the capital raising in the Company and the offer for sale regarding each offering will be determined by the GCA subject to the advance approval of the Ministry of Defense and Ministry of Finance; (3) the offering(s) will not be executed without reinforcing and protecting the State's vital interests in the Company and in ELTA; (4) subject to its provisions, the privatization decision also represents the privatization of ELTA; (5) according to Article 59B(h) to the Government Companies Law, the method of the Company's privatization as stipulated in the privatization decision requires the approval of the Israeli Parliament's Finance Committee. In keeping with the aforesaid, the Company and ELTA now constitute "companies under privatization", as this phrase is defined in the Government Companies Law.

In July 2021, the process of appointing the underwriters that will accompany the offering was completed.

As of the date of the financial statements, the Company, in collaboration with the GCA, are preparing to promote the offering in accordance with the privatization decision.

It should be clarified that as of the date of the financial statements, there is no certainty that the offering of the Company's shares to the public will be completed, whether in the format described in the privatization decision or in a different format, and there is no certainty regarding the date of the offering of shares to the public insofar as the planned steps in respect of the offering are actually performed.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 1:- GENERAL (Cont.)**
**d. The Coronavirus pandemic ("the pandemic"):**

1. In view of the guidelines issued by the various Israeli Government ministries to the public due to the continued spread of the Coronavirus (COVID-19) pandemic ("the Coronavirus crisis") in 2020, the Company operated in two shifts which restricted the physical attendance of employees at the Company's facilities to 60% until February 11, 2021. From that date through the date of publication of the financial statements, the Company has resumed full operation.

During the period of partial restrictions imposed on the Company's operation, the Company chose to prioritize critical and urgent projects to minimize the impairment to its productive activity. Since the Company generally focuses on the performance of long-term projects whose revenues are recognized over time, the implications of the Coronavirus crisis on the majority of its business segments in the reporting period were immaterial.

2. In accordance with a special collective agreement signed in January 2021, the Company provided employees who were involuntarily absent from work in 2020 due to the State imposed restrictions as a result of the Coronavirus crisis a quota of vacation hours paid by the employer based on a distribution formula that allowed employees to utilize vacation days at the Company's expense effective solely in the third quarter of 2021. The outstanding quota that had not been utilized by that date was canceled.
3. In accordance with the matters discussed in Note 2h below, the Company's management analyzes on an ongoing basis the critical accounting estimates used in the preparation of the financial statements. Accordingly, in the context of preparing these financial statements, the Company analyzed the potential implications of the Coronavirus crisis on the most material estimates underlying the presentation of the following assets and liabilities:

- (a) Contract assets and liabilities:

The Company analyzed whether there was a material adverse effect on its potential compliance with its obligations in a manner that is expected to materially modify the profits of projects or that would require increasing the allowance for expected credit losses recognized so far, if any. The Company also analyzed the need to modify the estimated existence or amount of revenues due to the crisis.

- (b) Employee benefits:

The Company prepares an actuarial calculation to substantiate its employee benefit liabilities. As a result of the pandemic and its potential effects on global and local economies, in the reporting periods, the discount interest rates underlying the Company's employee benefit liabilities experienced extreme fluctuations.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1:- GENERAL (Cont.)**

**d. The Coronavirus pandemic ("the pandemic") (Cont.):**

(c) Property, plant and equipment and intangible assets:

The Company analyzed the economic benefits which it expects to produce from assets whose forecasted (timing and scope of) benefits has changed due to the potential implications of the Coronavirus crisis, including the assets used by the Aviation Group.

(d) Inventories:

Since as of the date of publication of these financial statements the Company is not aware of any material contracts that have been cancelled or of a possible reduction of the material considerations determined with its customers due to the Coronavirus crisis, there was no change in the Company's valuation of the inventories presented in its books.

(e) Trade receivables:

The Company applies the provisions of IFRS 9 and recognizes a general allowance for expected credit losses arising from possible default events. In view of the potential implications of the Coronavirus crisis on customer debts, the Company reassessed the potential implications of credit default events in the Aviation Segment as well as the specific allowance for doubtful accounts in this segment and updated the allowance for doubtful accounts accordingly. See also Note 6.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS****a. Adoption of International Financial Reporting Standards ("IFRS"):**

The financial statements have been prepared in conformity with the provisions of IFRS.

**b. Principles of preparation of the financial statements:**

1. The annual financial statements include the additional disclosure required by Israeli Securities Regulations (Annual Financial Statements), 2010.
2. The financial statements comply with the guidelines of the Government Companies Authority in accordance with accounting and finance circular - financial statements 2020-5-1.
3. The accounting policies disclosed herein have been consistently applied in all reporting periods presented in these financial statements.
4. The financial statements are presented in U.S. dollars with all the values rounded up to the nearest million, unless stated otherwise.
5. The financial statements have been prepared using the cost principle, excluding financial assets and liabilities which have been presented at fair value.
6. The financial statements were approved for publication by the Company's Board on March 15, 2022.

**c. The functional currency and presentation currency:**

The presentation currency of the financial statements is the U.S. dollar ("dollar"), which is also the Company's functional currency (see also paragraph e below).

**d. Foreign currency transactions:**

Transactions that are not conducted in the functional currency are accounted for as follows:

1. A transaction denominated in foreign currency is recorded upon initial recognition in the functional currency using the immediate exchange rate between the functional currency and the foreign currency on the transaction date.
2. At the end of each reporting period, monetary items denominated in foreign currency are translated at the immediate exchange rate at the end of the reporting period.
3. At the end of each reporting period, non-monetary items denominated in foreign currency and measured at historical cost are translated at the exchange rate on the transaction date.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)****d. Foreign currency transactions (Cont.):**

4. Exchange rate differences arising from the settlement of monetary items or from the translation of monetary items at different exchange rates than those used in the translation upon initial recognition during the period or than those used in the translation of previous financial statements were recognized in profit or loss in the period in which they incur, excluding exchange rate differences which are carried to capital reserve from hedges that are recognized for accounting purposes.

**e. Foreign operation:**

1. The functional currency of each Group member is determined according to the functional currency in the economic environment in which it operates. When an investee's functional currency differs from the Company's functional currency, that investee represents a foreign operation whose financial statements are translated into the Company's functional currency so that they can be included in the consolidated financial statements as follows.

- a) Assets and liabilities of the foreign operation (including comparative figures), including goodwill and fair value adjustments created in the acquisition, are translated at the closing rate at each reporting period end.
- b) Income and expenses of the foreign operation are translated at average exchange rates in the month in which the transactions were conducted.
- c) All resulting exchange rate differences are recognized as other comprehensive income and presented in equity (in "foreign currency translation adjustments").

2. Disposal of foreign operation:

Upon the disposal of a foreign operation, other comprehensive income in respect of exchange rate differences attributable to the foreign operation is recognized in profit or loss in the same period as the gain or loss from the disposal of the foreign operation is recognized.

**f. Linkage:**

Assets and liabilities that are linked to the changes in the Israeli Consumer Price Index ("CPI") are included at the relevant index for each asset or liability in each reporting period. Linkage differences arising from the above adjustment are carried to profit or loss.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 2:- BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)

## g. Details of foreign currency exchange rates and the CPI:

Below are data of the exchange rates of the U.S. dollar, the Euro and the Israeli CPI and the rates of changes therein in the reporting periods:

	December 31,		
	2021	2020	2019
Israeli CPI (in points)	102.6	100.1	100.8
U.S.\$ (in NIS per U.S.\$ 1)	3.11	3.21	3.45
Euro (in NIS per € 1)	3.52	3.94	3.87

	Year ended December 31,		
	2021	2020	2019
	%		
Israeli CPI	2.80	(0.70)	0.6
U.S.\$	(3.27)	(6.97)	(7.79)
Euro	(10.76)	1.70	(9.63)

## h. Factors of uncertainty regarding material estimates:

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and use assumptions regarding forward looking events. The Company's management monitors these estimates on an ongoing basis while relying on past experience and other factors such as reasonable assumptions of circumstances underlying future events. Actual results could differ from management's estimates. The estimates and assumptions in respect of which there is a significant risk of making material adjustments to the carrying amount of assets and liabilities in the next reporting period are specified below:

- Contingent liabilities - in assessing the chances of legal claims filed against the Company and its investees, the Company and the investees relied on the opinions of their internal and external legal counsel. These estimates are based on the legal counsel's best professional judgment, taking into account the stage of proceedings and legal precedents in respect of the different issues. Since the outcome of the claims will be determined in courts, the results could differ from these estimates.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)****h. Factors of uncertainty regarding material estimates (Cont.):**

2. Employee benefit liabilities – the costs, assets and liabilities in respect of defined benefit plans are determined using the projected unit credit method which takes into account actuarial assumptions such as discount rate, rate of future salary increases etc. These assumptions may be affected both by macroeconomic factors and by factors that are specific to the Company. Any change in these variables is likely to cause a significant change in the value of the liabilities and actuarial gains (losses) recognized by the Company. The actuarial calculations are made by an outside actuary and based on various assumptions as detailed in Note 20 below.
3. Contracts with customers - the Company's operations are based on a large number of contracts whose accounting treatment requires use of contract performance estimates and evaluations and risk assessment. The forecasts and estimates include assessing expected costs to contract completion, including labor, materials, subcontractors etc. Among others, these costs affect the determination of the percentage of completion from which total revenues and gross profit for the period are derived, and, if applicable, the recording of an allowance for expected losses in respect of the contract. Any change in these evaluations is likely to lead to a material change in revenues and gross profit deriving from these contracts. In contracts with variable consideration, the Company estimates the variable consideration amount and recognizes revenue in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of revenue recognized will not occur.
4. Inventories - the net realizable value of inventories is reviewed at the end of each reporting period. Factors that might affect selling prices consist, among others, of existing market demands for the Company's inventories, competition and technological effects.
5. Useful life of property, plant and equipment and intangible assets with a definite useful life - the useful life is based on management's evaluations for the period in which the assets are expected to yield revenues which are tested every period for examining their adequacy. Changes in management's evaluations may lead to material changes in the carrying amount of these assets and in the depreciation expenses carried to profit or loss.
6. Fair value of financial instruments - the fair value of financial instruments that are not quoted in an active market is determined using model-based valuation techniques. These techniques are significantly affected by the assumptions that underlie the calculation such as discount interest rates and estimated future cash flows, see also details in Note 22 below.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 2:- BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)**
**h. Factors of uncertainty regarding material estimates (Cont.):**

7. Taxes on income - the Group is subject to different tax laws and tax authority positions in several jurisdictions. Extensive discretion is required when determining the current and deferred taxes of each Group member. The Group recognizes liabilities in respect of tax results based on management's estimates, which rely, among others, on professional counsel, regarding the timing and amount of the tax liability arising from its transactions. The tax results of its transactions could differ from management's estimates. The Company recognizes a deferred tax asset in respect of tax losses (if any) based on expected future taxable income against which carryforward losses can be offset.

**i. Fair value:**

The Company measures fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When the price of an identifiable asset or liability is not observable (has no quoted market price in an active market), the Company measures fair value using a different technique that is more appropriate for the relevant circumstances and which relies on sufficient obtainable data for fair value measurement through the optimal use of relevant observable data and the minimized use of non-observable data. Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market for the asset or liability accessed by the Company.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

- |         |   |
|---------|---|
| Level 1 | - quoted prices (unadjusted) in active markets for identical assets or liabilities.   |
| Level 2 | - inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.                                |
| Level 3 | - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data). |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES****a. Operating cycle:**

The Company operates in diverse areas of activity and therefore its ordinary operating cycle mostly exceeds one year, particularly with respect to work according to construction contracts and orders whose performance spans several years. As a result, the Company estimates that its operating cycle is three years. Accordingly, current assets and current liabilities include items that are held for disposal within the operating cycle as above.

**b. Investments in subsidiaries, associates and joint ventures:**

## 1. Control and consolidated financial statements:

When the Company is exposed or holds rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee, then control is exercised by the Company over that investee and the investee is classified as a subsidiary. The Company reassesses its control over a subsidiary in the occurrence of changes in facts and circumstances.

The consolidated financial statements present the Group's financial statements as a single economic entity effective from the date of obtaining control until the date that such control ceases. Accordingly, significant intragroup balances and transactions and unrealized gains resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

The financial statements of subsidiaries are prepared using uniform accounting policies as those of the Company with respect to similar transactions and events under similar circumstances. Moreover, the financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods.

## 2. Non-controlling interests:

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company.

Changes in interests after control is obtained that do not involve loss of control are accounted for as equity transactions. The difference between the fair value of the consideration paid or received and the amount of adjustment of non-controlling interests is carried directly to equity. In the event of changes in such interests, the Company reattributes amounts in respect of balance of other comprehensive income and non-controlling interests.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****b. Investments in subsidiaries, associates and joint ventures (Cont.):**

## 3. Loss of control:

When the Company loses control over a subsidiary, it derecognizes the subsidiary's assets (including any goodwill allocated to the subsidiary) and liabilities and the non-controlling interests in the subsidiary (including other comprehensive income attributed thereto) according to their carrying amount as of the date of loss of control. In addition, the Company classified to profit or loss or directly carries to retained earnings any amounts recognized in the past in other comprehensive income relating to said subsidiary on the same basis as would have been required had the Company itself directly disposed of the related assets or liabilities.

The proceeds received and any remaining investment in the subsidiary are recognized at fair value on the date of loss of control. Any difference from the disposal is recognized as gain or loss in profit or loss.

## 4. Business combinations:

When the Group obtains control over one or more businesses, the resulting business combination is accounted for using the acquisition method. According to this method, the Company identifies the buyer, sets the acquisition date and recognizes the identifiable assets acquired and liabilities assumed at fair value. The Company measures the consideration delivered based on the fair value of the assets delivered, the liabilities assumed and the equity instruments issued. When the consideration consists of contingent consideration arrangements, the Company measures the contingent consideration on the purchase date at fair value and in subsequent periods, the changes in fair value are carried to profit or loss.

Any costs that can be attributed to the business combination are recognized as an expense when incurred, excluding costs of issuance of the Company's equity or debt instruments. The Company recognizes goodwill on the acquisition date as the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed. In subsequent periods, goodwill is measured at cost less accumulated impairment losses.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****b. Investments in subsidiaries, associates and joint ventures (Cont.):**

## 5. Joint arrangements:

Joint arrangements are arrangements in which the Company has joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint arrangements are categorized as follows:

## a) Joint ventures:

In joint ventures the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint ventures are accounted for at equity.

## b) Joint operations:

In joint operations the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The Company recognizes in relation to its interest its share of the assets, liabilities, revenues and expenses of the joint operation.

## 6. Investments in associates or joint ventures accounted for at equity:

Where the Company has the power to participate in but not control (or jointly control) the financial and operating policy decisions of another entity, the Company has significant influence over the entity and the entity is classified as an associate. The Company's investments in associates and joint ventures are accounted for using the equity method, unless when the investment is classified as held for sale.

The financial statements of the associates and joint ventures are prepared using consistent accounting policies with those used by the Company regarding similar transactions and events under similar circumstances.

Under the equity method, the investment in the associate or in the joint venture is presented at cost with the addition of post-acquisition changes in the Company's share of net assets, including other comprehensive income of the associate or the joint venture. Profits and losses resulting from transactions between the Group and the associate or the joint venture are recognized in the Company's financial statements only to the extent of the unrelated investors' share of the associate or joint venture.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****b. Investments in subsidiaries, associates and joint ventures (Cont.):****6. Investments in associates or joint ventures accounted for at equity (Cont.):**

Goodwill attributable to an associate or a joint venture is presented as part of the investment in the associate or the joint venture, measured at cost and not systematically amortized. Goodwill is evaluated for impairment as part of the investment in the associate or in the joint venture as a whole. The Company performs a test of impairment of the net investment in an associate or a joint venture when there is objective evidence of impairment of the investment. The impairment loss is allocated to the investment as a whole.

Other financial instruments in an associate or joint venture which essentially form part of the net investment are initially accounted for pursuant to IFRS 9, including regarding expected credit losses. The Company subsequently recognizes the losses and/or applies the provisions of impairment to the associate or joint venture as discussed herein.

An increase in the holding rate in an associate or joint venture is accounted for using the acquisition method only in respect of the change in holding rate. A decrease in the holding rate in an associate is accounted for as derecognition of the relative share of the investment while recording a gain or loss. The Company also reclassifies the relative amount recognized in other comprehensive income based on the accounting treatment that would have been required had the associate disposed of the related assets or liabilities itself.

On the date of transfer of the operation that represents a business to an associate, the Company recognizes the entire gain from the transfer of the operation.

On the date of loss of significant influence or joint control, the Group measures any remaining investment in the associate or the joint venture at fair value and recognizes in profit or loss the difference between the fair value of any remaining investment plus any proceeds from the sale of the investment in the associate or the joint venture and the carrying amount of the investment on that date.

**c. Cash equivalents:**

Cash equivalents are considered as highly liquid short-term investments with an original maturity of three months or less from the date of investment which are redeemable into cash on demand and are exposed to immaterial risk of changes in value.

Bank overdrafts are not included as a component of cash and cash equivalents for the purpose of presentation of the statement of cash flows.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****d. Financial instruments:**

## 1. Financial assets:

A financial asset is recognized when the Company becomes a party to the instrument's contractual provisions on the transaction date. Financial assets are classified into one of the following measurement categories based on the entity's business model for managing financial assets and based on the financial asset's contractual cash flows:

## a) Debt instruments at amortized cost:

Debt instruments held based on a business model whose aim is to hold the debt instruments to collect the contractual cash flows and whose contractual terms ensure entitlement to solely payments of principal and interest (SPPI) on specific dates are initially measured at fair value with the addition of directly attributable transaction costs, excluding trade receivables which are initially measured at their transaction price. After initial recognition, these assets are measured at amortized cost. Short-term borrowings (such as customer credit and other receivables) are presented according to their terms, usually at nominal value.

## b) Financial assets at fair value through profit or loss:

These assets are initially measured at fair value with changes in fair value after initial recognition carried to profit or loss. Directly attributable transaction costs are recognized in profit or loss when incurred.

The Company has provided a loan to an associate whose terms do not meet the SPPI criteria of the financial instrument and therefore measures the loan at fair value through profit or loss.

Reclassification of financial assets from one category to another after the initial recognition date is not allowed, unless the Company has changed its business model for managing financial assets.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****d. Financial instruments (Cont.):**

## 2. Financial liabilities:

A financial liability is recognized when the Company becomes a party to the instrument's contractual provisions. A financial liability is initially recognized at fair value less transaction costs that can be directly attributable to assuming or issuing the financial liability excluding financial liabilities which are measured at fair value through profit or loss on the date of initial recognition. Financial liabilities are classified into one of the following categories:

## a) Financial liabilities at fair value through profit or loss:

Financial liabilities at fair value through profit or loss consist of financial derivatives that are not used as accounting hedges - this category of financial liabilities is measured at fair value and the changes in fair value are carried to profit or loss. The transaction costs attributable to these liabilities are recognized in profit or loss as incurred.

## b) Financial liabilities at amortized cost:

Financial liabilities at amortized cost are initially measured at fair value less directly attributable transaction costs. After initial recognition, these liabilities are measured using the effective interest method. Short-term borrowings (such as supplier credit and other payables) are presented according to their terms, usually at nominal value.

## 3. Impairment and reversal of impairment of financial assets:

The Company recognizes an allowance for expected credit losses (ECLs) in respect of debt instruments at amortized cost and contract assets. The Company measures the allowance for ECLs at the amount that is equivalent to lifetime ECLs, other than debt instruments that are determined to have low credit risk which has not significantly increased since the initial recognition date. The ECLs in respect of debt instruments, if any, are measured for 12-month default events. When assessing whether the credit risk of a financial asset has significantly increased since the initial recognition date and when assessing ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. The gross carrying amount of a financial assets is fully or partially reduced when there are no reasonable expectations of recovering the financial asset.

## 4. Derivatives:

Derivatives are measured at fair value through profit or loss unless they are designated as cash flow hedges for accounting purposes.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****d. Financial instruments (Cont.):**

## 5. Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

## 6. Derecognition of financial instruments:

## a) Financial assets:

A financial asset is derecognized from the statement of financial position when the contractual rights to the cash flows from the financial asset at the end of the reporting period expire or the Company has transferred the financial assets either by transferring its contractual rights to receive cash flows from the financial asset or by assuming a contractual obligation to pay the cash flows it receives from the financial asset to a third party under certain conditions.

## b) Financial liabilities:

A financial liability is derecognized from the statement of financial position when it is discharged or cancelled or expires. When an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability from the statement of financial position and the recognition of a new liability at fair value. The difference between the carrying amount of the exchanged liability and the consideration paid or the fair value of the new recognized liability is carried to profit or loss.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****d. Financial instruments (Cont.):**

## 7. Hedge accounting:

The Company designates certain financial instruments, generally derivatives, as cash flow hedges. On the date of creating the hedge, the Company documents the hedge relations and the objective of the Company's strategy and risk management when creating the hedge. The documentation consists of identifying the hedging instrument and hedged item, the nature of the hedged risk and the method used by the Company to examine whether the hedge relations meet the hedge effectiveness requirements. The Company examines the effectiveness of the hedging instrument when signing the hedge transaction and on an ongoing basis.

When an instrument is designated as a cash flow hedging instrument, the effective portion of the change in the instrument is recognized in other comprehensive income and retained in equity while the ineffective portion is recognized in profit or loss. Amounts recognized as other comprehensive income are reclassified to profit or loss in periods when the hedged item affects profit or loss, other than a loss which is not expected to be recovered in a future period which is immediately classified in profit or loss as a reclassification adjustment.

The Company discontinues applying the hedge accounting principles when the hedging instrument expires or is sold, terminated or exercised, or if its designation as a hedge is revoked.

In option transactions, the Company designates as a cash flow hedging instrument only the change in the intrinsic fair value of the option whereas the element attributed to the time value is not included in the hedge relations and is treated as the cost of the hedge while carrying the change to the reserve from cost of the hedge.

In swap transactions, the Company designates as a cash flow hedging instrument only the change in the fair value of the spot component and the interest whereas the element attributed to the currency basis swap (CBS) margins is not included as part of the hedge relations and is treated as the cost of the hedge while carrying the change to the reserve from cost of the hedge.

In forward transactions, the Company designates the entire changes in fair value as a hedging instrument.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****e. Assets and liabilities arising from contracts with customers:**

## 1. Trade receivables:

The Company accounts for an unconditional right to receive consideration as receivables from contracts (trade receivables). A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due, even when the amount may be subject to refund in the future. The Company accounts for trade receivables as financial assets at amortized cost. Trade receivables are presented separately from contract assets and cannot be offset against contract liabilities.

## 2. Contract assets:

The Company accounts for a right to consideration in exchange for goods or services that have been transferred to a customer as a contract asset when the right is conditional on a factor other than the passage of time. The Company accounts for the impairment of a contract asset similarly to a financial asset at amortized cost.

## 3. Contract liabilities:

The Company accounts for an obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer as a contract liability.

## 4. Incremental costs of obtaining a contract:

The Company recognizes an asset as incremental costs incurred in obtaining a contract with a customer, unless the Company does not expect to recover these costs and provided that these costs would not have incurred had the contract not been obtained. An asset recognized as above is amortized on a systematic basis which is consistent with the transfer of control of the goods or services to which the asset addresses to the customer. The Company recognizes an impairment loss if the carrying amount of the asset exceeds the balance of the consideration which the Company expects to receive for the goods or services which the asset addresses less the costs directly attributable to the supply of these goods or the provision of these services which have not been recognized as expenses.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****f. Inventories:**

General inventory of raw materials, parts, products and items that is not allocated to a project in progress is estimated at the lower of cost or net realizable value less write downs of inventory held for aircraft maintenance that is reusable. Inventory in process consists of work in progress and is presented at cost but not in excess of net realizable value. Cost includes direct costs of materials, labor and indirect manufacturing expenses. Inventories and inventory of WIP are presented net of provisions for impairment.

**g. Property, plant and equipment:**

1. Items of property, plant and equipment are presented at cost including direct acquisition costs, less accumulated depreciation, less accumulated impairment losses and less any related investment grants and excluding day-to-day servicing expenses. The Company recognizes the cost of certain spare parts of property, plant and equipment as part of the carrying amount of property, plant and equipment when future economic benefits are expected to be received from the item.
2. Items of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately using the component method. Depreciation expenses are recognized in profit or loss for each period unless they are included in the carrying amount of another asset. Depreciation is normally calculated on a straight-line basis over the useful life of the assets at annual rates. The Company examines the residual value, useful life and depreciation method of items of property, plant and equipment at least at each fiscal year-end and any changes are accounted for as a change in accounting estimate. Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term and the expected life of the improvement.
3. An item of property, plant and equipment is derecognized when disposed or when no future economic benefits are expected from its use or disposal.
4. As for impairment, see paragraph m below.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****h. Leases:**

## 1. General:

On the lease engagement date, the Company determines whether a contract is a lease or includes lease components by examining whether the contract terms convey the right to control the use of an identified asset for a period of time in exchange for consideration. In any event of modification of the contract terms, the Company reassesses the existence of a lease.

The Company determines the lease period as the period during which the lease is noncancelable, also given the periods covered by options to extend (or cancel) the lease period, when it is reasonably certain that the lessee will exercise (or will not exercise) the option, pursuant to the provisions of IFRS 16 on leases.

## 2. The Company as lessee:

The Company recognizes on the commencement date of the lease a right-of-use asset and a lease liability, excluding leases whose term is up to 12 months and leases for which the underlying asset is of low value which are recognized as an expense in profit or loss and classified as cash flows from operating activities in the statement of cash flows.

On the commencement date, the lease liability includes all unpaid lease payments discounted at the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Company's incremental borrowing rate. After the commencement date, the Company measures the lease liability by increasing the carrying amount to reflect the interest on the lease liability and reduce the carrying amount to reflect the lease payments made. As lessee, the Company also applies in some contracts the practical expedients of not separating the lease components from the lease contract.

On the commencement date, the right-of-use asset is recognized at cost, comprising the amount of initial measurement of the lease liability plus lease payments already made on or before the commencement date (less any lease incentives and initial direct costs incurred). The right-of-use asset is subsequently measured at cost less any accumulated depreciation and impairment losses.

Right-of-use assets are presented in the statement of financial position in other accounts receivable or in long-term receivables, as applicable. The lease liability is presented in trade payables or in long-term liabilities, as applicable. In the statement of comprehensive income, the Company presented the amortization expenses in respect of the right-of-use asset separately from finance expenses in respect of the lease liability. In the statement of cash flows, payments for the lease liability principal are classified as financing activities and payments for the interest on the lease liability are classified as operating activities.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****h. Leases (Cont.):**

## 3. The Company as lessor in operating lease:

The Company records assets under operating leases in accordance with the nature of the assets and recognizes income from the lease on a straight-line basis over the lease term. Initial direct costs incurred in holding operating lease negotiations are added to the carrying amount of the leased asset and therefore recognized as an expense on the same basis as the lease income. The Company recognizes depreciation expenses in respect of depreciable assets owned by it that are leased under operating leases. The depreciation policy regarding these assets is consistent with the depreciation policy of the depreciable assets owned by the Company.

**i. Intangible assets:**

1. Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Expenditure on an intangible item that was initially recognized as an expense shall not be recognized as part of the cost of an intangible asset at a later date.

2. In subsequent periods, intangible assets are presented at cost less accumulated amortization and less accumulated impairment losses.

## 3. Research and development expenditures:

Research expenditures are recognized in profit or loss when incurred. An intangible asset arising from a development project or from the development phase of an internal project is recognized when the following conditions are met:

- a) The technical feasibility of completing the intangible asset so that it will be available for use or sale can be demonstrated.
- b) The Company intends to complete the intangible asset and use or sell it.
- c) The Company is able to use or sell the intangible asset.
- d) The Company is able to demonstrate how the intangible asset will generate future economic benefits.
- e) There are available adequate technical, financial and other resources to complete the development and use or sale of the intangible asset.
- f) The expenditure attributable to the intangible asset during its development can be measured reliably.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****i. Intangible assets (Cont.):**

4. Amortization period and method:
  - a) The Company assesses for each intangible asset whether it has a definite or indefinite useful life. The Company annually reviews whether the assessment that the asset's useful life is indefinite can be sustained. Changes in the Company's assessments are accounted for as change in accounting estimate.
  - b) The depreciable amount of an intangible asset with a definite useful life is systematically allocated over its useful life. The Company uses the straight-line method and recognizes amortization expenses for each period in profit or loss, unless they are included in the carrying amount of another asset.
  - c) The Company reviews the useful life and amortization method used at least at each fiscal year-end. Changes are accounted for as changes in accounting estimates.
5. An intangible asset is derecognized when disposed or when no future economic benefits are expected from its use or disposal.
6. As for the impairment of intangible assets, see paragraph m below.
7. Regarding goodwill arising from business combinations and investments in companies accounted for at equity, see paragraphs b(4) and b(6) above, respectively.

**j. Government grants:**

1. Government grants, excluding grants from the Israel Innovation Authority, are only recognized when there is reasonable assurance that the grants will be received and the Company will comply with the attached conditions.
2. Government grants received for research and development activity, including grants from the Israel Innovation Authority, are presented net of research and development expenses.

**k. Provisions:**

1. A provision is recognized in the financial statements when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the expense required for settling the existing liability as of the statement of financial position date at its present value (with the effect of the time value being material).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**
**k. Provisions (Cont.):**

2. In connection with the aforesaid, the Company is accountable for the quality of the products sold to customers or of the work performed for customers after supply or completion. In order to cover this liability, a provision is included in the financial statements based on management's estimate in view of past experience. The Company also records specific provisions in respect of certain jobs (onerous contracts), as needed.
3. A provision for restructuring is only recognized when there is a present legal or constructive obligation which means the Company has approved a formal and detailed restructuring plan, including reference to the location and number of employees who will be affected by the restructuring, the estimated related costs and the planned deadlines. Moreover, those affected by the restructuring have a valid expectation that the restructuring will be executed or has already commenced. Costs of termination benefits arising from a business restructuring are presented in a separate item in the statement of profit or loss.

**l. Revenue recognition:**

Revenue from contracts with customers, as detailed below, are recognized when the control over the goods or services is transferred to the customer. Revenue is measured at the amount of the consideration which the Company expects to receive for those goods or services, in conformity with IFRS 15.

**1. Revenue from contracts with customers:**

For the majority of the Company's contracts, revenue is recognized over time, mainly since the contracts do not create an alternative use asset to the Company (among others, due to statutory and/or other limitations that restrict the Company) and the Company has an enforceable right to receive payment for performances completed by said date for these contracts. In other contracts, revenue is recognized over time since the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue produced over time is recognized using the percentage of completion method which in the majority of contracts is based on inputs for measuring the progress of performance according to which the percentage of completion is determined based on the estimated total costs needed to complete the performance obligation since the Company believes that the input method best reflects the manner of transfer of control over the goods and services. Revenues from certain maintenance contracts are recognized when the maintenance services are rendered based on total actual costs incurred in relation to the estimated total costs needed to settle the performance obligation and not based on the use of the asset underlying the maintenance services (for example according to flight hours).

As for contracts which according to IFRS 15 do not meet the criteria of revenue recognition over time, for example in the manufacture and sale of business jets, revenue is recognized at a point in time, namely on the date of supply to the customer.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****1. Revenue recognition (Cont.):****2. Incremental costs of obtaining a contract:**

Incremental costs of obtaining a contract with a customer which are capitalized as an asset are amortized on a systematic basis which is consistent with recognizing revenue from the delivery of the goods or services to the customer and are carried to cost of sales in the statement of profit or loss. Costs of obtaining a contract that would have incurred whether or not the contract has been obtained are recognized as an expense when incurred.

**3. Identifying performance obligations:**

On the date of engagement in a contract, the Company evaluates the goods or services promised in the contract with the customer and identifies as a performance obligation any promise of delivering to the customer either of the following: (i) separate goods or service (or a package of goods or services); or (ii) a series of separate goods or services which are essentially identical and share the same customer delivery pattern.

The Company identifies goods or services promised to a customer as separate when the customer can benefit from the goods or services by themselves or jointly with other resources that easily attainable by the customer and the Company's promise to deliver the goods or services can be identified distinctly from other promises in the contract. In order to test whether a promise to deliver goods or services can be identified separately, the Company evaluates whether a significant service is provided which consists of integrating the goods or the services with other goods or services promised in the contract in order to create a hybrid product as defined in the contract with the customer. When such a significant service of integrating the various goods and services in the contract to a hybrid product is provided, the Company identifies a single performance obligation.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****m. Impairment:**

The Company examines at the end of each reporting period whether there are indications of impairment of fixed and intangible assets. If there are indications of impairment, the Company estimates the recoverable amount of the asset. The recoverable amount is the higher of the fair value less costs of sale of the asset (or cash-generating unit) and the value in use. The value in use is the present value of the expected future cash flows from the asset or the cash-generating unit. If the recoverable amount is lower than the asset's carrying amount, the Company recognizes an impairment loss and writes down the carrying amount to the recoverable amount.

The Company recognizes impairment losses immediately in profit or loss. If the recoverable amount of a single asset cannot be estimated, the Company calculates the recoverable amount of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are principally independent of cash inflows from other assets or groups of assets. The Company examines the impairment of a cash-generating unit at the end of each reporting period. For the purpose of impairment testing, goodwill acquired in a business combination is allocated from the date of acquisition to the cash-generating units that are expected to benefit from the business combination. The Company recognizes an impairment loss of a cash-generating unit if and only if the recoverable amount of the unit is lower than its carrying amount. In such event, the Company allocates the impairment loss to a decrease in the value of the unit assets, first against the goodwill allocated to the unit and subsequently to the other assets pro rata to their carrying amount. These losses are carried immediately to profit or loss.

In each reporting period, the Company evaluates whether there are indications that the impairment loss of an asset, excluding goodwill, that had been recognized in previous periods no longer exists or has been reduced. When such indications exist, the Company calculates the asset's recoverable amount. Impairment loss is only reversed when changes have occurred in the estimates used to determine the asset's recoverable amount from the latest date of recognition of the impairment loss. An increase in the carrying amount of an asset, excluding goodwill, as a result of the reversal of an impairment loss will not exceed the carrying amount that would have been determined (less depreciation or amortization) if an impairment loss had not been recognized in previous years. An impairment loss of goodwill is not reversed.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****n. Employee benefits:**

## 1. Short-term employee benefits:

Short-term employee benefits include salaries and other social benefits and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

The Company classifies the benefit as a short-term employee benefit when it is expected to be settled in full before 12 months have elapsed from the end of the annual reporting period in which the employees provide the relevant service.

## 2. Post-employment benefits:

According to labor laws and agreements in Israel and the Group's policy, the Group companies are required to pay severance to employees or are terminated and under certain conditions also to employees who resign or retire. The Company's obligation to pay severance is in the context of Section 14 to the Severance Pay Law. The Company's obligation to pay severance to its employees in accordance with Section 14 to the Severance Pay Law is accounted for as a defined contribution plan. The Company recognizes the amount of contribution as an expense concurrently with the receipt of labor services from the employee. Amounts that have not yet been paid are recognized as a liability. Contributions made in excess of the required amounts reduce the Company's future payments. See also Note 20 below.

Employee benefits in respect of holiday gifts (post-retirement), sick leave, adjustment grants and other benefits (see Note 20 below) are measured at present value using actuarial methods by an independent actuary based on the projected unit credit method. The present value of the benefit liability is determined using the expected future discounted cash flows. The actuarial calculation takes into account future salary increase and employee turnover rates based on the evaluated timing of payment. The amounts are presented based on the expected future discounted cash flows at the interest rate applicable on the reporting date to the yield on high-quality indexed corporate bonds which are denominated in the currency underlying the obligation and bear terms that are consistent thereto.

The current service cost, past service cost, gain or loss from the settlement and net interest on the net liability (asset) in respect of the defined benefit are recognized in profit or loss.

Actuarial gains and losses in respect of post-employment employee benefits in the context of a defined benefit plan are carried to other comprehensive income as incurred. Remeasurements of the defined benefit liability recognized in other comprehensive income are not reclassified to profit or loss in subsequent periods.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****n. Employee benefits (Cont.):**

## 2. Post-employment benefits (Cont.):

The plan assets are funds deposited by the Company in certain institutions in respect of its liabilities to pay severance to some of its employees on an ongoing basis such as pension funds and qualifying insurance policies.

## 3. Other long-term employee benefits:

The Company classified a benefit as a long-term employee benefit when the benefit was not classified as either short-term employee benefit, post-employment employee benefit or termination benefit. A provision for vacation pay which management has decided is redeemable upon employee retirement was recorded based on an actuarial evaluation and was classified as a long-term liability when its remeasurement was recognized in profit or loss.

Actuarial gains and losses on long-term employee benefits are carried to profit or loss when incurred.

## 4. Termination benefits:

The liability in respect of employee termination benefits is recognized as the sooner of the date when the Company can no longer cancel offering the termination benefits and the date when the Company recognizes business restructuring costs that include payment of termination benefits. See more details in paragraph k(3) above and in Note 20 below.

**o. Taxes on income:**

1. The financial statements comprise deferred taxes in respect of temporary differences between financial reporting and tax reporting including carryforward tax losses.

2. Deferred tax assets and deferred tax liabilities are measured at the expected applicable tax rates in the period during which the asset is realized or the liability settled based on the tax rates that have been enacted or substantively enacted by the reporting date.

3. The Company and subsidiaries create a deferred tax asset in respect of all the offsettable temporary differences if taxable earnings are expected against which the temporary differences can be offset.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****o. Taxes on income (Cont.):**

4. The Company did not create a deferred tax liability in respect of temporary differences created for investments in investees. These temporary differences may be taxable if the Company realizes the investments in the investees since these investments were purchased for the purpose of holding and development and the Company has no intention of realizing them.
5. The Company may be subject to additional tax in the event of dividend distribution by investees. This additional tax has not been accounted for in the financial statements in respect of subsidiaries since the Company's policy is not to cause a taxable dividend distribution.
6. Current taxes and deferred taxes are carried directly to equity if the tax relates to items that were recognized in the current period or in previous periods directly in equity.
7. The Company recognizes and measures current or deferred tax assets and current or deferred tax liabilities in conformity with the criteria of IAS 12 based on the components for calculation of current and deferred taxes stipulated in IFRIC 23, as detailed below, including the assumption that the relevant tax authority is aware of uncertain tax treatments and will handle them accordingly. When the tax authority is not expected to accept uncertain tax treatments, the accounting treatment will be as prescribed in Note 2m(7) above. When the relevant tax authority is expected to accept uncertain tax treatments, the accounting treatment is consistent with the Company's tax returns.
8. All deferred tax assets and liabilities are presented in the statement of financial position as noncurrent assets and noncurrent liabilities, respectively, and are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

**p. Operating segments:**

The Group's operating segment reporting framework is based on the manner in which the information is reviewed by the Company's Chief Operating Decision Maker. The accounting policies underlying the operating segments are consistent with the accounting policies applied in the consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****q. Earnings per share:**

Earnings per share were computed pursuant to the provisions of IAS 33 according to which, among others, the Company calculates basic earnings per share for the income or loss attributable to equity holders of Ordinary shares of the Company. Basic earnings per share are computed by dividing the income or loss attributable to equity holders of Ordinary shares of the Company by the weighted average number of outstanding Ordinary shares during the period.

**r. Statement of cash flows:**

1. Taxes paid are classified under cash flows from operating activities and disclosure is provided to the overall amount of taxes paid.
2. Dividends paid are classified in cash flows from financing activities.
3. Dividends received are classified in cash flows from operating activities.
4. Interest paid and interest received are classified under cash flows from operating activities.

**s. New standards issued in the period before their adoption:**

Following is information of international financial reporting and accounting standards, amendments to standards and interpretations issued which are not yet in effect, whose initial adoption is likely to affect the Company's financial statements. Unless stated otherwise, all standards, amendments or interpretations described below can be adopted early by providing proper disclosure and the Company plans to adopt them for the first time on the mandatory adoption date:

1. Amendment to IAS 37 (Provisions, Contingent Liabilities and Contingent Assets—Onerous Contracts—Cost of Fulfilling a Contract):

According to the revised IAS 37, in classifying a contract as a onerous contract, the costs of fulfilling the contract that should be taken into account are costs that are directly attributable to the contract that consist of incremental costs and the allocation of other costs that are directly related to fulfilling the contract. The amendment is to be retrospectively applied from January 1, 2022 to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. The adoption of the amendment is not expected to have a material effect on the Company's financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

#### s. New standards issued in the period before their adoption (Cont.):

2. Classification of liabilities as current or noncurrent - Amendments to IAS 1, "Presentation of Financial Statements" ("the Amendments to IAS 1"):

The Amendments to IAS 1 set forth the classification of liabilities in the statement of financial position as current or noncurrent. The Amendments to IAS 1 clarify various aspects of one of the classification criteria based on the existence of a right to defer settlement of a liability for at least 12 months. They also define the term "settlement" in the context of classification of liabilities as current or noncurrent.

The right to defer settlement must exist at the end of the reporting period. If the right is contingent on compliance with certain conditions, it only exists if the Company meets these conditions at the end of the reporting period, even if the lender only verifies the Company's compliance with the conditions on a later date.

The Amendments to IAS 1 are to be applied retrospectively, following a one-year deferral of the of their original effective date, to annual reporting periods beginning on or after January 1, 2024.

The Company is evaluating the possible impact of the Amendments to IAS 1 on its financial statements but is presently unable to quantify such impact.

3. Amendment to IAS 12, "Income Taxes" – deferred tax in respect of assets and liabilities arising from a single transaction:

The Amendment narrows the scope of the exemption from recognizing deferred taxes resulting from temporary differences created on the initial recognition of assets and/or liabilities and clarifies that it does not apply to the recognition of equal taxable and deductible temporary differences.

As a result, entities will be required to recognize a deferred tax asset or liability in respect of these temporary differences on the date of initial recognition of transactions creating equal taxable and deductible temporary differences.

The Amendment applies for annual reporting periods beginning on or after January 1, 2023.

The Company is evaluating the possible impact of the Amendment on its financial statements but is presently unable to quantify such impact.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 4:- CASH AND CASH EQUIVALENTS****a. Composition:**

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>U.S. dollars in millions</b>	
Cash	<b>282</b>	292
Short-term deposits (b)	<b>299</b>	557
<b>Total</b>	<b>581</b>	849

**b. Additional information:**

1. NIS and USD deposits, see also Note 22f below regarding linkage bases.
2. The average annual interest rate of NIS deposits in 2021 and 2020 is 0.09% and 0.17%, respectively.
3. The average annual interest rate of USD deposits in 2021 and 2020 is 0.5% and 0.32%, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 5:- SHORT-TERM FINANCIAL ASSETS

## a. Composition:

	December 31,	
	2021	2020
	U.S. dollars in millions	
<b>Hedging instruments:</b>		
Interest rate swaps (b(1))	7	2
Forwards (b(2))	11	45
Options (b(2))	23	25
Designated deposits (b(2))	13	-
	<u>54</u>	<u>72</u>
<b>At fair value through profit or loss:</b>		
Government bonds (b(3))	84	81
Corporate debentures (b(4))	117	131
Derivatives not designated as hedging instruments	2	2
Other	20	15
	<u>223</u>	<u>229</u>
<b>At amortized cost:</b>		
Deposits (b(5))	7	64
Debentures (b(6))	40	40
	<u>47</u>	<u>104</u>
<b>Total</b>	<u><u>324</u></u>	<u><u>405</u></u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 5:- SHORT-TERM FINANCIAL ASSETS (Cont.)****b. Additional information:**

1. NIS-USD swap in respect of debentures, see more details in Note 19 below.
2. NIS forward, options and deposits mainly for hedging changes in exchange rates in respect of expected salary payments.
3. Government bonds with average life of 5 years bearing stated interest of about 0.5%-6% per annum.
4. Marketable corporate debentures with average life of 5 years bearing stated interest of about 0.5%-6% per annum.
5. NIS deposits bearing average interest of about 1.2%. The deposits mature over a period of up to 12 months from the financial statement date.

The Company received bank loans in an aggregate of \$ 175 million which were placed in short-term deposits in the lending banks and accrue net interest of about 0.25%. The Company has an immediate right to settle the loans against the deposits and intends to settle them on a net basis in the future. Accordingly, the carrying amount of the deposits was offset in the statement of financial position against the carrying amount of the loans and they are presented on a net basis.

6. USD debentures bearing stated interest of about 4% per annum whose repayment date is about a year from the financial statement date.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 6:- TRADE RECEIVABLES

## a. Composition:

	December 31,	
	2021	2020
	U.S. dollars in millions	
<b>Open debts:</b>		
Unrelated party customers	685	690
Related parties (b(1))	297	428
Total open debts	982	1,118
<b>Less - allowance for doubtful accounts:</b>		
Balance at beginning of year	(23)	(10)
Charge during the year (b(2))	(5)	(14)
Adjustment for expected credit losses	-	(1)
Decrease in respect of collected or written-off debts, net	4	2
Balance at end of year	(24)	(23)
<b>Total</b>	<b>958</b>	<b>1,095</b>

## b. Additional information:

1. See Note 34 below.
2. The addition to the charge in 2021 and 2020 stems from the Company's assessment of expected credit losses in respect of certain customers in the aircraft maintenance, repair and overhaul (MRO) division of the Aviation Group.
3. The average credit term granted by the Company to its customers in 2021 was about 83 days.
4. As for aging of trade receivables, see Note 22d(4)(b) below.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 7:- CONTRACT ASSETS, NET****a. Composition:**

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>U.S. dollars in millions</b>	
Gross contract assets	<b>1,730</b>	1,332
Less - progress billings	<b>(458)</b>	(387)
Contract assets, net	<b><u>1,272</u></b>	<u>945</u>

**b. Additional information:**

1. The Company presents a right to receive consideration for goods or services transferred to customers as contract assets when the right is conditional on a factor other than the passage of time. If the right becomes unconditional (unless only the passage of time is required before payment of that consideration is due), the balance of the contract asset is classified in trade receivables. In 2021, a balance of approximately \$ 452 million was reclassified from the balance of contract assets at beginning of the year to trade receivables. In 2020, a balance of approximately \$ 226 million was reclassified from the balance of contract assets at beginning of the year to trade receivables.
2. The Company accounts for the impairment of contract assets consistently with the accounting treatment of financial assets at amortized cost.
3. See additional information of related party balances in Note 34 below.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 8:- OTHER ACCOUNTS RECEIVABLE****a. Composition:**

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>U.S. dollars in millions</b>	
Government authorities	<b>40</b>	14
Employees	<b>4</b>	8
Deferred charges and advances to suppliers (b(1))	<b>546</b>	562
Right-of-use assets (b(2))	<b>32</b>	34
Other	<b>1</b>	4
<b>Total</b>	<b>623</b>	622

**b. Additional information:**

1. Includes incremental costs of obtaining contracts with customers. In 2021 and 2020, the Company recognized amortization expenses in respect of an asset for costs to obtain a contract totaling approximately \$ 63 million and approximately \$ 61 million, respectively.
2. The Company leases a vehicle fleet generally for a period of three years. Total additions to right-of-use assets in 2021 and 2020 amounted to \$ 24 million and \$ 27 million, respectively. In 2021 and 2020, the Company recognized amortization expenses in respect of right-of-use assets totaling approximately \$ 26 million and \$ 24 million, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 9:- INVENTORIES

## a. Composition:

	December 31,	
	2021	2020
	U.S. dollars in millions	
Raw materials, parts and auxiliary materials	380	366
Inventories of contracts in progress (b(1))	517	583
Less - provision for write down of inventories and inventories of contracts in progress	(123)	(109)
<b>Total</b>	<b>774</b>	<b>840</b>

## b. Additional information:

1. Performance costs of signed contracts for which revenue has not yet been recognized or when the contracts are performed prior to signing contracts with customers.

## NOTE 10:- LONG-TERM RECEIVABLES

## a. Composition:

	December 31,	
	2021	2020
	U.S. dollars in millions	
Government bonds at amortized cost (b(1))	15	15
Other long-term assets (b(2))	34	67
<b>Total</b>	<b>49</b>	<b>82</b>

## b. Additional information:

1. The Company holds Government bonds bearing stated annual interest at a rate of about 3%. The Government bonds mature in 2026.
2. Includes long-term right-of-use assets and incremental costs of obtaining contracts with customers, see also Note 8b(1) above.

The Company, through its subsidiaries, leases real estate assets for periods of 4-11 years. Total additions to long-term right-of-use assets and the related depreciation in 2021 were in immaterial amounts.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 11:- INVESTMENTS IN ASSOCIATES, JOINT VENTURES AND INVESTEES

## a. Condensed financial data of investees accounted for at equity:

	Holding rate 31.12.2021	Carrying amount of the Investment as of December 31,		The Company's share of earnings (losses) in the year ended December 31,	
		2021	2020	2021	2020
		U.S. dollars in millions			
<b>Associates:</b>					
ISI (b(1))	38%	74	61	2	1
Growings (b(2))	45%	14	19	(5)	(3)
Other (b(3))		14	10	-	1
<b>Total associates</b>		<b>102</b>	<b>90</b>	<b>(3)</b>	<b>(1)</b>
<b>Joint ventures:</b>					
TSG (b(4))	50%	24	24	-	-
M&B Conversions Limited (b(5))	50%	7	6	10	7
Other		2	3	(1)	(1)
<b>Total joint ventures</b>		<b>33</b>	<b>33</b>	<b>9</b>	<b>6</b>
<b>Total</b>		<b>135</b>	<b>123</b>	<b>6</b>	<b>5</b>

## b. Additional information:

1. Investment in ImageSat International N.V. ("ISI"):
  - a) As of the financial statement date, the Company holds about 38% of the issued and outstanding share capital of ISI which markets satellite images taken by electro-optical observation satellites in high resolution.
  - b) The Company has a right to receive an outstanding loan of approximately \$ 34 million (principal only) granted to ISI. The contractual cash flows of the loan do not give rise to payments on specified dates that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Therefore, the loan is measured at fair value through profit or loss (FVPL). Moreover, according to the investment agreement signed in 2017 between the Company and FIMI, a private equity fund, the parties agreed that the Company will be entitled to receive a contingent consideration provided that certain prerequisites are met.
  - c) In 2021, the effect of the fair value remeasurement of the loan and contingent consideration component mentioned above amounted to approximately \$ 11 million and was carried to finance income.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 11:- INVESTMENTS IN ASSOCIATES, JOINT VENTURES AND INVESTEEES (Cont.)****b. Additional information (Cont.):**

## 1. Investment in ImageSat International N.V. ("ISI") (Cont.):

## d) Capital raising in 2020:

On July 15, 2020, the Company and the FIMI Fund, as the main shareholders in ISI, signed an agreement according to which Discount Bank will invest in ISI an amount of \$ 32 million (through the Bank's investment arm, Discount Capital).

Following the investment that was made on the closing date, Discount Capital holds about 17% of ISI's share capital. After said dilution, the Company holds about 38% of ISI's share capital and the remaining 44% are held by the controlling shareholder, FIMI, and several managers and other parties.

The above investment will serve ISI for completing its new satellite system (EROS Next Generation) and for enhancing and extending its R&D activities in various fields.

As a result of the investment in ISI based on an enterprise value of \$ 187 million after the money, the Company recognized comprehensive income of approximately \$ 16 million deriving from the decrease in its holdings in ISI, from a loan previously granted to ISI and from the contingent consideration which are all measured at fair value. The income was allocated to other income, finance income and the Company's share of earnings of associates in accordance with the income recognition criteria applicable to each component.

## e) See details of ISI's IPO in February 2022 in Note 35 below.

## 2. In the first half of 2019, the Company entered into an engagement with a private unrelated company ("the partner") for founding a joint venture that will develop and provide agricultural solutions and services ("the joint venture"). The Company and the partner hold 45% and 55% of the joint venture's share capital, respectively. On the date of the joint venture's foundation, the Company transferred to the joint venture various assets and rights as well as several employees (transfer of business operation in keeping with the accounting treatment of business combinations). Concurrently, the partner transferred to the joint venture a cash contribution of \$ 14.5 million. The Company accounted for the investment in the joint venture at equity. Accordingly, in 2019, the Company recognized a gain of approximately \$ 12 million which was carried to other income. In the fourth quarter of 2020, the Company invested another amount of approximately \$ 11 million in the joint venture concurrently with the partner's investment pro rata to its interests in the joint venture. Accordingly, the Company's interests in the joint venture remained unchanged.

## 3. In 2021, the Company, through ELTA, completed the acquisition of 30% of the issued and outstanding share capital of Polaris Solutions Ltd., which develops, manufactures and markets camouflage and concealment products, in consideration of approximately \$ 4 million.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 11:- INVESTMENTS IN ASSOCIATES, JOINT VENTURES AND INVESTEES (Cont.)**
**b. Additional information (Cont.):**

4. TSG IT Advanced Systems Ltd. ("TSG"), which operates, among others, in the command and control and crisis management, intelligence and knowledge management and homeland security systems markets, is equally held by the Company and Formula Systems (1985) Ltd. ("Formula"), an unrelated party. The shareholders' agreement signed between the Company and Formula determines, among others, a profit split mechanism based on TSG's future results for a predetermined period stipulated in the agreement.
5. Joint venture in the aircraft conversion industry incorporated in Ireland and equally held with a foreign partner.

**c. Major subsidiaries:**

1. Composition:

	<b>Rate of equity and voting rights</b>	
	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>%</b>	
ELTA Systems Ltd.	100	100
IAI North America Inc.	100	100
Stark Aerospace Inc.	100	100
ELTA North America Inc.	100	100
I.A.I. ASIA Pte Ltd.	100	100
European Advanced Technology S.A.	100	100
Mardan Holdco Pte Ltd.	100	100
Israel Aerospace India Pte Ltd.	100	100
Lardosa Investment B.V.	100	100
Custodio Pte Ltd.	100	100
Eltel Technologistics Ltd. (2b)	50	50
Elbatech Ltd.	50	50
Bluebird Aero Systems Ltd. (2a)	50	-
Tamuz F.T.K. Solutions Ltd.	44	44

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 11:- INVESTMENTS IN ASSOCIATES, JOINT VENTURES AND INVESTEES (Cont.)****c. Major subsidiaries (Cont.):**

## 2. Initial consolidation of subsidiaries:

## a) Initial consolidation of Bluebird Aero Systems Ltd.:

- 1) In March 2021, the transaction for the acquisition of 50% of the issued and outstanding share capital of Bluebird Aero Systems Ltd. ("Bluebird") by the Company was completed. Bluebird is an Israeli company which designs, manufactures, markets and operates Tactical Unmanned Aerial Systems (UAS) for use in local and international commercial and military markets.
- 2) According to the transaction terms, the Company will purchase 50% of Bluebird's issued and outstanding share capital in consideration of approximately \$ 8 million, which was paid to Bluebird's shareholders upon closing. The transaction also consists of a contingent consideration of up to \$ 1.5 million based on the terms and conditions determined in the agreement between the parties ("the contingent consideration").
- 3) From March 31, 2021, and despite the fact that the Company does not directly or indirectly hold more than half of the voting rights in Bluebird, the Company consolidates Bluebird's financial statements since it exercises effective control in Bluebird as it is exposed to the variable returns from its involvement with Bluebird and has rights conferring it the ability to use its power over the investee to affect the amount of the investor's returns.
- 4) Bluebird's contribution to consolidated revenues from the business combination date through December 31, 2021 amounted to approximately \$ 23 million.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 11:- INVESTMENTS IN ASSOCIATES, JOINT VENTURES AND INVESTEES (Cont.)

## c. Major subsidiaries (Cont.):

## 2. Initial consolidation of subsidiaries (Cont.):

## a) Initial consolidation of Bluebird Aero Systems Ltd. (Cont.):

- 5) Following are Bluebird's net identifiable assets as measured and consolidated in the Company's interim condensed consolidated financial statements as of March 31, 2021:

	<b>Value recognized on acquisition date</b>
	<b>U.S. dollars in millions</b>
<b>Assets purchased and liabilities assumed:</b>	
Cash and cash equivalents	1
Trade and other receivables	5
Inventories	6
Deferred taxes	1
Property, plant and equipment, net	1
Intangible assets (excluding goodwill)	7
Short-term bank credit	(3)
Trade payables	(3)
Other payables and contract liabilities	(3)
Deferred tax liabilities	(1)
<b>Total net identifiable assets</b>	<b>11</b>
<b>Goodwill recognized upon acquisition</b>	<b>4</b>
<b>Non-controlling interests</b>	<b>(5)</b>

- 6) The composition of the consideration for the business combination:

	<b>Value recognized on acquisition date</b>
	<b>U.S. dollars in millions</b>
<b>Composition of consideration for business combination:</b>	
Cash	8
Liability for contingent consideration	2
<b>Total consideration transferred</b>	<b>10</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 11:- INVESTMENTS IN ASSOCIATES, JOINT VENTURES AND INVESTEES (Cont.)**
**c. Major subsidiaries (Cont.):**
**2. Initial consolidation of subsidiaries (Cont.):**
**a) Initial consolidation of Bluebird Aero Systems Ltd. (Cont.):**
**7) The cash flows in respect of the business combination:**

	<u>Acquisition date</u>
	<u>U.S. dollars in millions</u>
Consideration paid in cash and cash equivalents	(8)
Bluebird's cash and cash equivalents on acquisition date	<u>1</u>
<b>Total net cash flows</b>	<b><u><u>(7)</u></u></b>

**b) Initial consolidation of Eltel Technologicals Ltd.:**

- 1) In March 2019, ELTA Systems Ltd. ("ELTA"), a wholly owned subsidiary of the Company, entered into an agreement with Malam Team Ltd. ("Malam Team") for the acquisition of 50% of the issued and outstanding share capital of Eltel Technologicals Ltd. ("Eltel"), a company owned by Malam Team, in consideration of approximately \$ 12 million. Eltel is principally engaged in providing electronic equipment outsourcing and logistic services for the defense and homeland security industries.

In August 2019, following the fulfillment of the entire suspending conditions underlying the transaction, it was completed, as a result of which ELTA and Malam Team currently each holds 50% of Eltel's issued and outstanding share capital.

- 2) Concurrently with the above agreement, the parties signed a shareholders' agreement which became effective on the transaction consummation date and which consists of various provisions for the management of Eltel following the acquisition, including in the issue of appointing directors and other senior officers.

The Company consolidates the financial statements of Eltel despite the fact that it does not directly or indirectly hold more than half of the voting rights in Eltel since it has effective control, being exposed to variable returns from its holdings in Eltel, and having existing interests that grant it the ability to affect those returns through power over Eltel.

- 3) From the business combination date to December 31, 2019, Eltel's revenues amounted to approximately \$ 7 million.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 11:- INVESTMENTS IN ASSOCIATES, JOINT VENTURES AND INVESTEES (Cont.)**
**c. Major subsidiaries (Cont.):**

2. Initial consolidation of subsidiaries (Cont.):

b) Initial consolidation of Eltel Technologists Ltd. (Cont.):

4) Following are Eltel's net identifiable assets as measured temporarily and consolidated in the Company's consolidated financial statements:

	<b>Value recognized on acquisition date</b>
	<b>U.S. dollars in millions</b>
Cash and cash equivalents	5
Trade receivables	8
Other accounts receivable	3
Property, plant and equipment, net	2
Intangible assets	3
Trade payables	(7)
Other accounts payable	(3)
<b>Total net identifiable assets</b>	<b>11</b>
<b>Goodwill recognized upon acquisition</b>	<b>7</b>
<b>Non-controlling interests</b>	<b>(6)</b>

The cash flows in respect of the business combination:

	<b>Acquisition date</b>
	<b>U.S. dollars in millions</b>
Consideration paid in cash and cash equivalents	(12)
Eltel's cash and cash equivalents on acquisition date	5
<b>Total net cash flows</b>	<b>(7)</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 12:- PROPERTY, PLANT AND EQUIPMENT

## a. Composition and movement in 2021:

	Land, buildings and service installations	Machinery, systems, equipment and tools	Computers, office furniture and equipment	Total
	U.S. dollars in millions			
<u>Cost</u>				
Balance at beginning of year	1,085	1,179	292	2,556
Acquisitions and in-house manufacturing	59	91	27	177
Disposals	(8)	(48)	(48)	(104)
Initially consolidated company	1	3	1	5
Other additions	-	10	-	10
Translation differences	1	-	-	1
Balance at end of year	1,138	1,235	272	2,645
<u>Accumulated depreciation</u>				
Balance at beginning of year	(545)	(702)	(200)	(1,447)
Additions	(36)	(57)	(20)	(113)
Disposals	8	44	48	100
Initially consolidated company	(1)	(2)	(1)	(4)
Balance at end of year	(574)	(717)	(173)	(1,464)
Depreciated balance at end of year	564	518	99	1,181

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 12:- PROPERTY, PLANT AND EQUIPMENT (Cont.)

## b. Composition and movement in 2020:

	Land, buildings and service installations	Machinery, systems, equipment and tools	Computers, office furniture and equipment	Total
	U.S. dollars in millions			
<u>Cost</u>				
Balance at beginning of year	1,110	1,082	274	2,466
Acquisitions and in-house manufacturing	57	126	34	217
Disposals during the period	(83)	(41)	(17)	(141)
Other additions	-	9	-	9
Translation differences	1	3	1	5
Balance at end of year	1,085	1,179	292	2,556
<u>Accumulated depreciation</u>				
Balance at beginning of year	(591)	(688)	(198)	(1,477)
Additions during the period	(35)	(52)	(19)	(106)
Disposals during the period	81	41	17	139
Translation differences	-	(3)	-	(3)
Balance at end of year	(545)	(702)	(200)	(1,447)
Depreciated balance at end of year	540	477	92	1,109

## c. Additional information regarding real estate held by the Company:

1. The depreciated balance of real estate in the Company's books (freehold and leasehold) as of December 31, 2021 approximates \$ 5 million. As of December 31, 2020, the balance was similar in amount.
2. The Company's Israeli activities and enterprises are performed and located on real estate covering an overall area of some 3,500 thousand sq. m., most of which in the Company's main area of activity in the vicinity of Ben-Gurion Airport.
3. The Company's main real estate rights in Israel are leasehold rights (some of which are settled while others are not, as explained below) for a period of 49 years which are generally renewed for an additional period of 49 years, subject to the limitations and conditions prescribed in the lease agreements. The leases are for periods ending between 2023 and 2041 with an option for extension by another 49 years, subject to the limitations and conditions prescribed in the lease agreements. Lease contracts have not been prepared for some of the Company's rights. The Company has been acting to renew and/or extend the lease contracts vis-a-vis the Israel Land Authority, as applicable.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 12:- PROPERTY, PLANT AND EQUIPMENT (Cont.)**
**c. Additional information regarding real estate held by the Company (Cont.):**

4. The Company also holds real estate properties by virtue of ownership rights (or properties with rights to be registered as owners, as applicable), licenses for use or rent. Most of these rights derive from its agreements with the Israel Land Authority and some based on engagements with others.
5. The Company's rights with respect to some of the real estate properties are not settled and/or have ended with the termination of the lease period, and with respect to some of the real estate properties no lease agreements have been signed at the conclusion of the development agreements underlying these properties. Moreover, most of the Company's leasehold rights in the properties have not yet been registered in the name of the Company and/or subsidiaries (as applicable) at the Land Registry Office.
6. As of the reporting date, the Company is acting to settle its real estate rights.
7. As of the reporting date, the majority of the Ben-Gurion Airport complex area is defined as a regional area (that is not municipally owned by any local or regional authority).

**d. Annual depreciation rates:**

<u>Item</u>	<u>%</u>
Buildings and service installations	2-10 (mainly 4)
Machinery, systems, equipment and tools	10-20 (mainly 15)
Computers, office furniture and equipment	10-17 (mainly 17)

**e. Additional information:**

1. The Israeli Government allows the Company to use the State's buildings, installations and equipment for taking orders from Government authorities and institutions. The Company is entitled to use these assets for performing work for others in return for usage fees. These assets are held at the Company's expense and responsibility and are not presented as assets in its financial statements.
2. In 2021, the Company invested approximately \$ 108 million in inhouse PP&E production.
3. In 2021, the Company derecognized fully depreciated PP&E with an original cost of approximately \$ 57 million.
4. As for compensation for expropriation of an area of the real estate property used by the Company, see Note 29b(1) below.
5. The original cost of fully depreciated properties used by the Company is \$ 838 million.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 13:- INTANGIBLE ASSETS

## a. Composition and movement in 2021:

	<u>Software</u>	<u>Capitalized costs of development in progress (c)</u>	<u>Knowhow</u> U.S. dollars	<u>Customer relations and order backlog</u> in millions	<u>Goodwill</u>	<u>Total</u>
<b><u>Cost</u></b>						
Balance at beginning of year	179	205	23	6	10	423
Acquisitions and in-house development	7	55	1	-	-	63
Initially consolidated company	-	-	3	4	4	11
Impairment/disposals	(3)	-	(1)	-	-	(4)
Balance at end of year	183	260	26	10	14	493
<b><u>Accumulated depreciation</u></b>						
Balance at beginning of year	(144)	(133)	(20)	(3)	(2)	(302)
Additions	(8)	(5)	(1)	(3)	-	(17)
Impairment/disposals	3	-	1	-	-	4
Balance at end of year	(149)	(138)	(20)	(6)	(2)	(315)
<b>Depreciated balance at end of year</b>	<b>34</b>	<b>122</b>	<b>6</b>	<b>4</b>	<b>12</b>	<b>178</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 13:- INTANGIBLE ASSETS (Cont.)

## b. Composition and movement in 2020:

	<u>Software</u>	<u>Capitalized costs of development in progress (c)</u>	<u>Knowhow U.S. dollars</u>	<u>Customer relations and order backlog in millions</u>	<u>Goodwill</u>	<u>Total</u>
<b><u>Cost</u></b>						
Balance at beginning of year	174	164	23	5	10	376
Acquisitions and in-house development	8	41	-	-	-	49
Translation Differences	-	-	-	1	-	1
Impairment/disposals	(3)	-	-	-	-	(3)
Balance at end of year	179	205	23	6	10	423
<b><u>Accumulated depreciation</u></b>						
Balance at beginning of year	(141)	(131)	(18)	(2)	(2)	(294)
Additions during the year	(6)	(2)	(2)	(1)	-	(11)
Impairment/disposals	3	-	-	-	-	3
Balance at end of year	(144)	(133)	(20)	(3)	(2)	(302)
<b>Depreciated balance at end of year</b>	<b>35</b>	<b>72</b>	<b>3</b>	<b>3</b>	<b>8</b>	<b>121</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 13:- INTANGIBLE ASSETS (Cont.)**
**c. Additional information:**

- As of the date of the financial statements, intangible assets in respect of capitalized ongoing development costs mainly include costs in respect of the development and licensing of passenger aircraft conversion into cargo configuration.
- In March 2021, the transaction for the acquisition of 50% of the issued and outstanding share capital of Bluebird Aero Systems Ltd. by the Company was completed. As a result, the Company recognized goodwill of approximately \$ 4 million and other intangible assets of approximately \$ 7 million.
- In 2019, the Company recognized an impairment loss in respect of an intangible asset consisting of development of precision strike weapons systems in the amount of approximately \$ 11 million whose expected economic benefits have been reduced as of that date.

**NOTE 14:- LOANS FROM BANKS AND CURRENT MATURITIES OF DEBENTURES**
**a. Composition:**

	Stated interest rate at 31.12.21	December 31,	
		2021	2020
U.S. dollars in millions			
Loans and credit from banks (b(1))	2%-3%	262	332
<b>Debentures:</b>			
Debentures (series C) (b(2))	4.1%	-	93
Debentures (series D) (b(2))	1.2%	99	144
Interest payable on debentures (series C)		-	2
Interest payable on debentures (series D)		1	1
<b>Total</b>		<b>362</b>	<b>572</b>

**b. Additional information:**

- The loans mature in 2022, see Note 5b(5) above for details of the offset of balances of loans whose funds were placed in short-term deposits in the lending banks and of their presentation on a net basis in the statement of financial position.
- See more details in Note 19 below.
- As for financial covenants, see Note 21b(2) below.
- As for additional information on linkage bases, see Note 22f below.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 15:- TRADE PAYABLES****a. Composition:**

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>U.S. dollars in millions</b>	
Unrelated trade payables (b(1))	<b>912</b>	1,005
Related parties	<b>72</b>	76
<b>Total</b>	<b>984</b>	1,081

**b. Additional information:**

1. Includes lease liabilities, see also Note 22d(5)(c) below.

Total finance expenses in respect of lease liabilities in 2021 and 2020 were immaterial.

**NOTE 16:- OTHER ACCOUNTS PAYABLE****Composition:**

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>U.S. dollars in millions</b>	
Employees and payroll accruals	<b>379</b>	398
Current maturities of employee benefit liabilities (1)	<b>77</b>	75
Other liabilities	<b>146</b>	159
<b>Total</b>	<b>602</b>	632

- (1) See Note 20b below.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 17:- PROVISIONS

a. **Composition:**

	<b>Provision for warranty (b)</b>	<b>Other (c)</b>	<b>Total</b>
	<b>U.S. dollars in millions</b>		
<b>Balance at December 31, 2020</b>	<b>241</b>	<b>17</b>	<b>258</b>
<b>Movement in 2021:</b>			
Charges in the year	52	16	<b>68</b>
Exercised provisions in the year	(22)	-	<b>(22)</b>
<b>Balance at December 31, 2021</b>	<b>271</b>	<b>33</b>	<b>304</b>

b. **Provision for warranty:**

The provision for warranty was recognized with respect to anticipated warranty claims in respect of products sold or jobs performed for which the Company has provided warranty for the quality of the products supplied or the work performed. The provision is based on estimated prepared in accordance with past experience.

c. **Other:**

Includes provisions for legal claims as estimated by the Company's legal counsel.

Several claims and demands have been filed against the Company and subsidiaries in the ordinary course of business in an aggregate of approximately \$ 139 million. Based on the Company's legal counsel, adequate provisions were included in the financial statements in respect of these claims and demands. The provisions in respect of claims relating to employer-employee relations are included in accounts payable. In addition, there are claims pending against the Company which management believes are covered by appropriate insurance policies and are handled by and at the responsibility of the insurance companies.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 18:- CONTRACT LIABILITIES, NET

## a. Composition:

	December 31,	
	2021	2020
	U.S. dollars in millions	
Gross contract liabilities	2,699	2,554
Less - progress billings classified to contract assets	(458)	(387)
<b>Contract liabilities, net</b>	<b>2,241</b>	<b>2,167</b>

- b. In 2021, the Company recognized revenue of approximately \$ 872 million included in the balance of contract liabilities at January 1, 2021. In 2020, the Company recognized revenue of approximately \$ 943 million included in the balance of contract liabilities at January 1, 2020.
- c. See additional information of related party balances in Note 34 below.

## NOTE 19:- DEBENTURES

## a. General:

1. Debentures (series D) in swap transaction:

In July 2014, the Company issued to the public NIS 463,342,000 (approximately \$ 135 million) par value of debentures (series D). The debentures (series D) bear variable interest of the Bank of Israel plus a margin of 0.95% (principal and interest unlinked to any index or currency). The interest is calculated and payable in semi-annual installments on December 1 and June 1 of each calendar year from December 1, 2014 through December 1, 2023 (inclusive). The principal is payable in three equal consecutive installments on December 1 of each of the years 2021 through 2023. As for the interest rate adjustment mechanism in the event of change in the debenture rating, see paragraph c below.

The Company chose to record a cash flow hedge on the exposure to the dollar-NIS exchange rate and to the NIS interest arising from the debenture terms. For the purpose of the hedge, the Company signed a cross currency swap contract with a bank in respect of cash receipts totaling NIS 463.3 million at variable interest (of the Bank of Israel plus a margin of 0.95%), unlinked, against payments of approximately \$ 135 million at fixed interest of 4.1%. The principal and interest cash swap dates are based on the dates set forth in the issuance of the debentures (series D). See details of the hedge in Note 22e. See details of financial covenants in Note 21b(2).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 19:- DEBENTURES (Cont.)****a. General (Cont.):**

## 2. Debentures (series C) in swap transaction:

In January 2013, the Company issued to the public NIS 1,200,000,000 (approximately \$ 318 million) par value of debentures (series C). The debentures (series C) bear fixed annual interest of 4.1% (principal and interest unlinked to any index or currency). The interest is calculated and payable in semi-annual installments on January 1 and July 1 of each calendar year from July 1, 2013 through January 1, 2021 (inclusive). The principal was paid in four equal consecutive installments on January 1 of each of the years 2018 through 2021 (inclusive).

The Company chose to record a cash flow hedge on the exposure to the dollar and the NIS interest arising from the debenture terms. For the purpose of the hedge, the Company signed a cross currency swap contract with a bank in respect of cash receipts totaling NIS 1.2 billion at fixed annual interest of 4.1%, unlinked, against payments of \$ 318 million at fixed interest of 3.098%. The principal and interest cash swap dates were based on the dates set forth in the issuance of the debentures (series C).

**b. Additional information:**

1. As of January 1, 2021, the debentures (series C) were fully repaid. On December 31, 2020, an amount of \$ 14 million was received from the swap of the outstanding principal of debentures (series C) on January 1, 2021. Accordingly, as of December 31, 2020, no asset or liability is included in respect of the swap of debentures (series C) in the Company's statement of financial position.
2. On December 1, 2021, the Company paid the first out of three installments on the principal of debentures (series D) in a total of approximately \$ 49 million and received approximately \$ 4 million for the swap of said debentures.
3. The outstanding principal of debentures (series D) is fully classified in current maturities of debentures as of December 31, 2021, see Note 14a above.
4. The debentures (series D) have been rated by Maalot at AA+ from July 2021.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 19:- DEBENTURES (Cont.)****c. Interest rate adjustment in the event of change in debenture rating:**

The trust deeds of the debentures consist of a mechanism for the adjustment of the annual interest rate on the debentures ("the base interest") as a result of the lowering of the rating of the debentures from iLAA according to S&P ("the base rating") as follows: the lowering of two grades from the base rating will result in an increase of 0.25% in the base interest; the lowering of three grades from the base rating will result in an increase of 0.5% in the base interest; the lowering of four grades from the base rating will result in an increase of 0.75% in the base interest; the lowering of five grades from the base rating will result in an increase of 1% in the base interest. In any event, the base interest will not increase by more than 1% as a result of the lowering of the base rating.

If after the lowering of the rating in a manner that affects the interest rate the rating of the debentures is raised, the base interest will be reduced annually by 0.25% for each grade raised above the lowered rating for the period during which the debentures are rated at the higher rating only. It should be clarified that in any event, the interest rate will not be reduced below the base interest. In 2014-2021, the rating was not lowered and therefore the interest rate was not adjusted.

**NOTE 20:- EMPLOYEE BENEFITS****a. Composition:**

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>U.S. dollars in millions</b>	
Employee benefit liability (f)	<b>381</b>	366
Less - current maturities in respect of vacation pay (b)	<b>(18)</b>	(14)
Liability for early retirement and pension annuities (g)	<b>79</b>	79
Less - current maturities in respect of early retirement (b)	<b>(59)</b>	(61)
<b>Total</b>	<b>383</b>	370

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 20:- EMPLOYEE BENEFITS (Cont.)**
**b. Current maturities:**
In respect of vacation pay:

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>U.S. dollars in millions</b>	
First year	7	5
Second year	5	4
Third year	6	5
<b>Total current maturities</b>	<b>18</b>	<b>14</b>

In respect of early retirement and pension annuities:

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>U.S. dollars in millions</b>	
First year	34	32
Second year	15	18
Third year	10	11
<b>Total current maturities</b>	<b>59</b>	<b>61</b>

**c. Defined contribution plans:**

- In June 2006, the Company and its subsidiary and the workers' representatives signed a collective agreement ("the pension agreement") that settles the issue of pension accruals in the Company and applies to all its employees, excluding students and temporary employees who are subject to the expansion order (combined version) regarding mandatory pension of 2011 pursuant to the Collective Agreements Law, 1957.
- The Company makes current contributions as required by applicable labor laws in order to guarantee its entire employees' pension rights according to agreements and/or applicable laws.
- Section 14 to the Severance Pay Law, 1963 ("Section 14") applies to employees who retire, including in the event of demise, and the Company's obligations in their respect are fully covered by the Company's current contributions to provident funds.
- The amounts deposited in the provident funds are subject to Section 14 and are not under the Company's control or management. Accordingly, the financial statements do not reflect such amounts or their respective liabilities.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 20:- EMPLOYEE BENEFITS (Cont.)****c. Defined contribution plans (Cont.):**

5. In 2021, 2020 and 2019 the total amounts was recognized as expense in respect of defined benefit plans was 165, 152, 143 Millions, respectively \$.
6. In respect of termination benefits, the Company makes current contributions accounting for 8.33% of the employees' insured salary based on labor agreements and governed by the following rules:
  - a) With respect to employees who are insured under "Old Mivtachim" Pension Fund, the Company is obligated to pay full severance pay (100%) pursuant to the Severance Pay Law, 1963. Employees who are terminated are entitled to receive the amounts accrued in their respect based on the 6% and 2.33% contribution components and to full severance pay at the least. If the amounts accrued based on the 6% and 2.33% contribution schemes are lower than the severance pay predetermined in the Severance Pay Law, the Company will complete the gap. If the amounts accrued as above exceed 100%, the Company may withdraw the difference only from the 2.33% contribution component. It should be noted that as a rule, the Company does not terminate employees under this category. Such employees terminate their work relations with the Company only when reaching retirement age or under an early retirement plan. Voluntary termination by the employees under circumstances that do not qualify for severance pay entitle the employees to the amounts accrued under the 6% contribution component.
  - b) With respect to employees who are insured under "New Mivtachim" Pension Fund or by the Company's employees' provident fund, they are partially subject to the provisions of Section 14 (only with respect to the 6% contribution component which accounts for 72% of all contributions and not with respect to the remaining 2.33% contribution component). Such employees who are terminated are entitled to the higher of the accrued 2.33% contribution component and supplementation of the difference in respect of the 2.33% component (28%). Voluntary termination by the employees under circumstances that do not qualify for severance pay entitle the employees to the amounts accrued under the 6% contribution component.
  - c) All other employees are fully subject to the provisions of Section 14 and accordingly, in the event of termination, the Company has no obligation to such employees in excess of its current contributions. Voluntary termination by the employees under circumstances that do not qualify for severance pay entitle the employees to the total amounts contributed in their respect on an ongoing basis to be released to them/to their credit.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 20:- EMPLOYEE BENEFITS (Cont.)****d. Defined benefit plans and other long-term employee benefits:**

## 1. Grants and benefits upon retirement:

According to labor agreements in the Company and in a subsidiary ("ELTA"), employees who retire from the Company (under different circumstances) are entitled to the following benefits:

- a) Adjustment grant - employees who retire are entitled to a non-recurring adjustment grant in the amount of one monthly salary. The Company recognizes this benefit liability by measuring it using an actuarial valuation method.
- b) Grant for non-utilization of sick days – such employees are entitled to a grant for redemption of unused sick days that have not been converted into vacation days (in the context of attendance awards) of up to three monthly salaries. The Company recognizes this benefit liability by measuring it using an actuarial valuation method.
- c) Grant due to disability - employees who retire due to 100% disability are entitled to a non-recurring grant of 40% of their insured salary for severance pay calculation multiplied by the number of years of seniority in addition to five monthly salaries. The Company recognizes this benefit liability by measuring it using an actuarial valuation method.
- d) Grant due to demise - the survivors of employees who have passed away are entitled to a non-recurring grant of three monthly salaries. The cost of this benefit is only recognized in the event of the demise of an employee during service.

## 2. Holiday gift to retired employees:

The Company's retired employees are entitled to receive an annual holiday gift (once a year before Passover). The Company's liabilities in respect of these costs are accrued over the employee's years of service. The Company recognizes this benefit liability by measuring it using an actuarial valuation method.

## 3. Liability for vacation pay:

The long-term liability for vacation pay reflects the liability which the Company's management believes is intended to be redeemed upon employees' retirement on a LIFO basis. The outstanding liability in for vacation pay is included in current liabilities. The Company recognized a liability in respect of this benefit and measured it using an actuarial valuation method.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 20:- EMPLOYEE BENEFITS (Cont.)**
**e. Principal actuarial assumptions:**

The principal actuarial assumptions underlying defined benefit plans and other long-term benefit liabilities as of the financial statement date are as follows:

1. The mortality rates and disability rates are based on the rates published in the Ministry of Finance's insurance circular 2017-3-6.
2. The retirement age was calculated based on the Retirement Age Law at 67 years for both men and women.
3. A real salary increase rate - the salary increase rate was separately estimated based on categories of employees with similar features. According to a study conducted in 2021 on salary increases in 2014-2021 and based on management's assessment, the salary increase rates used range between 0.21% and 4.08% based on the types of benefits and category of the employee.
4. The discount rate - the discount rate used in calculating the Company's actuarial liability (excluding the liability for holiday gifts) is determined based on the spot interest curve of the yield to maturity of CPI-linked corporate debentures. The discount rate of accrued holiday gifts is the rate of the yield to maturity of corporate debentures. As of the financial statement date, the discount rate was 1.2%.

Analysis of sensitivity to principal actuarial assumptions:

	<b>Change in actuarial assumption</b>	<b>Increase in assumption</b>	<b>Decrease in assumption</b>
	<b>%</b>	<b>U.S. dollars</b>	<b>in millions</b>
<b>Employee benefit liability</b>	Unchanged	381	381
Discount rate	1%	425	343
Salary increase rate	1%	410	355

The calculation method used in the sensitivity analysis is based on the projected unit credit method, similarly to the calculation of the obligation for the purpose of recognition in the financial statements. The calculation reflects the financial effect on the defined benefit obligation assuming that the other variables remain constant (in reality, this assumption is often not met and there might be a correlation between the assumptions).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 20:- EMPLOYEE BENEFITS (Cont.)

## f. Movement in the present value of defined benefit obligation:

	Sick benefit	Retirement benefit	Holiday gifts	Disability benefit	Other long-term benefits	Total
	U.S. dollars in millions					
Balance at January 1, 2020	99	46	80	26	84	335
Current service cost	6	2	2	2	6	18
Interest cost	3	1	3	1	2	10
Total benefits paid	(7)	(4)	(4)	(2)	(6)	(23)
Actuarial loss (*)	2	1	2	1	-	6
Exchange rate differences	7	3	5	3	6	24
Update due to employee retirement	(2)	(1)	-	(1)	-	(4)
Balance at December 31, 2020	108	48	88	30	92	366
Current service cost	7	3	2	2	9	23
Interest cost	3	1	3	1	2	10
Total benefits paid	(7)	(2)	(5)	(4)	(13)	(31)
Actuarial loss (gain) (*)	(2)	(4)	-	3	6	3
Exchange rate differences	4	1	3	1	3	12
Update due to employee retirement	(1)	(1)	-	-	-	(2)
<b>Balance at December 31, 2021</b>	<b>112</b>	<b>46</b>	<b>91</b>	<b>33</b>	<b>99</b>	<b>381</b>

(\*) Substantially due to changes in discount interest rate.

(\*\*) Arising from changes in financial assumptions.

## g. Early retirement and termination benefits:

- The Company occasionally signs voluntary retirement agreements with employees which are binding to both parties and are subject to the approval of the Ministry of Finance's Director of Wages and the Company's Board. The Company recognizes a liability in respect of early retirement when it incurs a significant obligation without real possibility of cancellation.
- As a rule, employees who retire early are entitled to a monthly allowance until they reach the legally mandatory retirement age or a different pensionary event, and are also entitled to other bonuses and rights.
- In 2021, the retirement age of women in Israel was updated and is expected to gradually increase by several months each year until it reaches 65 in 2032. As of the reporting date, the Company updated its liabilities in respect of annuities of women employees who retired early.
- The Company's liabilities for covering the costs of early retirement of employees before they reach the legally mandatory retirement age are included in the financial statements at present value.
- The retiring employees are granted a guarantee by insurance companies or a bank for payment of the monthly pension allowance until they reach mandatory retirement age or a different pensionary event. As of the date of the financial statements, total guarantees amounted to approximately \$ 60 million. As for the indemnification agreement with financial corporations, see Note 21b(4) below.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 20:- EMPLOYEE BENEFITS (Cont.)**
**h. Collective agreement signed regarding a new enterprise in the Land Group ("the RAMTA agreement"):**

In January 2020, the Company and the Workers' Union signed an agreement regarding the establishment of a new enterprise in the Land Group through the subsidiary, ELTA. In the context of the enterprise's establishment, the entire existing activity in the RAMTA plant (located on the Company's complex in Be'er-Sheva) will be assigned to the new enterprise.

The RAMTA agreement mainly consists of the following: settling the mobilization of Company employees who worked at the RAMTA plant to ELTA; and settling the mobilization, retirement or termination of 87 Company employees who worked at the RAMTA plant under the following terms:

1. Employees who retire under the pension track and meet the following criteria - are at least 50 years old and have at least 10 years of seniority in the Company adding up to 65 at least - will be entitled to the following benefits:
  - (a) Annuity based on the number of years of seniority multiplied by 2%.
  - (b) A monetary bonus of 10% of the severance pay.
  - (c) Six months of adjustment and advance notice.
  - (d) Release of all funds contributed to provident funds or pension fund in favor of the employee.
  - (e) Retention of pension benefits consisting of holiday gifts from the date of termination.

Employees who retire under this track will be provided a guarantee for receiving the annuities until reaching legal retirement age by financial institutions.

2. Employees who are terminated under the severance pay track will be entitled to accrued severance pay and advance notice based on seniority (ranging between 100% severance and two adjustment months and 230% severance and nine adjustment months):
  - (a) The overall amount of the 6% payments contributed by the Company to the terminated employee's provident fund will be deducted from the severance pay.
  - (b) Release of all funds contributed to provident funds or pension fund in favor of the employee.

The RAMTA agreement also consists of obtaining the Workers' Union's undertaking to conclude all claims and maintain industrial rest in all matters pertaining to the issues settled in the RAMTA agreement.

The Company created an adequate provision in its books due to the implementation of the RAMTA agreement.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 20:- EMPLOYEE BENEFITS (Cont.)**
**i. Early retirement agreement in the Aviation Division:**

In July 2021, the Company and the Workers' Union signed an agreement for the voluntary retirement of employees of the Aviation Division. The agreement is binding to both parties. According to the agreement, up to 200 employees of the Aviation Division will retire in return for annuities or increased severance pay. During the year, the agreement was expanded to include the voluntary retirement of additional employees from the Aviation Division. The terms underlying the agreement are as follows:

1. Employees who retire under the early pension track and meet the following criteria - are at least 50 years old and have at least 10 years of seniority in the Company adding up to 65 at least - will be entitled to the following benefits:
  - (a) Annuity based on the number of years of seniority multiplied by 2%.
  - (b) Employees under 63 are entitled to 2.5 adjustment months multiplied by the number of years until reaching the mandatory retirement age (65). If the employee turnover ratio is lower than 50%, they will receive an additional half adjustment month for every year until reaching the mandatory retirement age (65).
  - (c) Employees above 63 are entitled to the higher of the number of adjustment months as prescribed in (b) above and a monetary bonus of 10% of the severance pay plus six adjustment months.
  - (d) Employees who have not yet accumulated the maximum annuity percentage in Mivtachim (70%) will be entitled to continued contributions based on their latest pensionary salary before retirement according to the customary contribution rates in the Company until they reach 70%.
  - (e) Release of all funds contributed to provident funds or pension fund in favor of the employee.
  - (f) Retention of pension benefits consisting of holiday gifts from the date of termination.
2. Employees who retire under the severance pay track will be entitled to accrued severance pay and advance notice based on seniority (ranging between 100% severance and two adjustment months and 230% severance and nine adjustment months). The overall amount of the 6% payments contributed by the Company to the retiring employee's provident fund will be deducted from the severance pay.
3. The agreement was expired in January 2022. as part of the agreement 100 employees retired in accordance with the conditions which determined in the plan.

**j. Collective agreement signed for settling the Company's vacation and advanced study policies:**

On January 17, 2021, the Company, the Histadrut and the Workers' Union signed an agreement for settling the Company's vacation and advanced study fund policies. The agreement settles the payment and utilization of advanced study days and establishes an enforcement mechanism limiting the number of vacation days that can be accrued by employees and the Company's consent to increasing its participation in paid vacation hours during holiday eves. The Company and the Workers' Union also agreed that the Company will provide employees who were involuntarily absent from work due to the State imposed restrictions as a result of the Coronavirus crisis a quota of vacation hours paid by the

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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employer based on a distribution formula that allowed employees to utilize vacation days at the Company's expense effective solely in the third quarter of 2021. This quota is not added to the employees' annual vacation days and cannot be accrued or redeemed.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 21:- LIENS, GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS****a. Contingent liabilities:**

## 1. Offset transactions:

Certain countries that represent the Company's target markets practice certain offset transaction guidelines that require foreign suppliers to enter into offset transactions at different rates in each country. The offset transactions may involve the transfer of knowhow, performance contracts etc. based on the policies, restrictions and/or laws applicable in the relevant country. The offset transaction obligation is in respect of predetermined projects and is carried based on the respective project term. If the Company fails to meet this obligation, it is liable to face penalties at rates ranging between 5% and 10%.

As of December 31, 2021, the Company has outstanding obligations in respect of offset transactions totaling approximately \$ 1,224 million (of which approximately \$ 813 million have been completed and are awaiting customer approval). The balance of outstanding obligations in respect of offset transactions to material customer A, included in the above total, approximates \$ 903 million (of which approximately \$ 687 million have been completed and are awaiting customer approval). In addition, according to laws that apply in some of these countries, foreign suppliers such as the Company may be obligated to provide performance guarantees in respect of offset transactions. As of December 31, 2021, the Company provided guarantees in favor of offset transactions totaling approximately \$ 2 million.

According to the department of defense in the resident country of material customer A, all foreign suppliers which provide military products or services to material customer A's country in a transaction whose monetary scope exceeds \$ 50 million (starting from June 2016, the monetary scope of such transactions signed from that date onwards is approximately \$ 300 million) are required to meet the offset transaction terms and rates established in that country's procedures. If a foreign supplier fails to meet the annual obligation according to the predetermined plan, material customer A is entitled to obligate the supplier to pay compensation at a rate of 5% of the offset transaction amount not met by the supplier. In addition, the outstanding unmet offset transaction amount is carried forward to the following year and accrues to the foreign supplier's obligation towards material customer A.

Material customer A also has the right to prevent the foreign supplier from entering any future bids if it fails to meet its offset transaction obligations in previous transactions. In the context of certain transactions with material customer A, the latter is entitled to delay the payments to the Company if the Company fails to meet the offset transaction obligations after the period determined in the transaction. In the reporting year, the Company was not levied any significant penalties in connection with offset transactions. The Company estimates that as of the date of the financial statements, it is in compliance with its principal offset transaction obligations. The Company recorded an adequate provision in its books whenever it estimated, based on its legal counsel and experience, that it might be subject to penalties.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 21:- LIENS, GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)****a. Contingent liabilities (Cont.)**

## 2. Pollution of ground and groundwater:

In keeping with applicable laws and regulations, the Company may be required to take measures to rehabilitate ground and/or groundwater found to be polluted. The Company submitted to the Ministry of Environmental Protection and to the Water Authority a multiannual plan for regulating and treating polluted ground and groundwater for its entire enterprises nationwide. In accordance with the plan, the Company conducted various surveys and inquiries and found certain areas of pollution in some of its enterprises. According to the Water Authority, its monitoring of water source quality efforts detected groundwater pollution in several production and drilling facilities in the Ben-Gurion Airport area.

The Company maintains ongoing contact with the Ministry of Environmental Protection and the Water Authority for expanding the surveys and take any necessary ground rehabilitation actions in keeping with the multiannual regulatory plan.

The Company recognized certain provisions for the testing of ground and groundwater rehabilitation feasibility and probability and for the costs of ground and groundwater rehabilitation that can be predicted as of the financial statement date.

## 3. The Mivtachim management fee claim:

In 2010, a claim was filed with the Tel-Aviv-Jaffa Labor Court by Mivtachim the Workers Social Insurance Fund Ltd. (Special Management) ("Mivtachim") against the Company and the New General Federation of Laborers in Israel - the National Association of Israel Aerospace Industries Employees Ltd. ("the Association") regarding a monetary claim of approximately NIS 30 million (estimated for fee purposes) and a claim for the provision of accounts. The claim involved funds returned to the Company for certain pension payments that had been paid by the Company to Mivtachim. The funds were deposited in an account from 1974 based on an arrangement reached between the parties.

The funds were delivered to the Company on an ongoing basis throughout the period of the arrangement in return for managing Mivtachim's branch on the Company's premises, including the related costs. The arrangement was upheld until later 2002 and was cancelled effective from that date based on a judicial decision. In December 2014, the Labor Court accepted the claim and ruled that Mivtachim is entitled to receive the remaining funds in said account. The Court also ordered the Company and the Association to deliver to Mivtachim the relevant documents. The Company and the Association appealed the Court's verdict and also filed a petition for delaying the verdict's execution (which was granted in March 2015). On August 21, 2017, the National Labor Court rendered its verdict in the appeal filed by the Company and the Association and dismissed it ruling, among others, that the funds accrued in the management fee account as of January 1, 2003 and thereafter will be transferred to Mivtachim. The verdict also ordered Mivtachim to inform the Court, the Company and the Association of the exact amount claimed by the former.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 21:- LIENS, GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)**
**a. Contingent liabilities (Cont.)**
**3. The Mivtachim management fee claim (Cont.):**

On January 22, 2018, Mivtachim informed the Court that the amount of the claim is estimated by it at approximately NIS 114 million. The Company submitted its clarification notice to the Regional Labor Court on March 18, 2018 in which it objected to Mivtachim's demand. A hearing of the parties' notices was held on May 1, 2018 at the conclusion of which the Court ruled that its decision will be issued in writing. The Court has yet to render its decision. The Company is considering taking further legal action in connection with the verdict. Following petitions and responses submitted by both parties to the Court, on September 3, 2020, the Court announced that a decision on the amount of the claim will be made within several days but to date no such decision has been issued.

On February 17, 2022, the Regional Labor Court issued a judgment which ordered the Company to pay its debt to Mivtachim, estimated as of January 1, 2003 at approximately NIS 38 million. The debt bears interest and linkage differences from said date through the date of actual payment as per the Interest and Linkage Law of 1961 totaling approximately NIS 72 million as of the date of issuing the judgment. According to the law, both parties may appeal the judgment within 30 days from the date of its issuance. The Company filed an appeal with the National Labor Court on March 6, 2022. The Company included a provision for covering any exposure arising from the judgment.

**4. Motion for approval of a class action regarding parental rights:**

In June 2017, a motion for approval of a class action was filed against the Company with the Tel-Aviv Regional Labor Court regarding the Company's alleged discrimination against employees who are fathers and its failure to provide them legal parental benefits as prescribed in applicable laws and particularly in Article 4 to the Employment (Equal Opportunities) Law, 1988. According to the motion, the petitioners estimate the claim amount at NIS 200 million and demand that the Company repay the entire group of plaintiffs approximately NIS 65 million a year, subject to the statute of limitation. The parties held a mediation proceeding in the context of which they proposed a settlement regarding the past and a settlement of future rights in a collective agreement which had been negotiated between the Company and the Workers' Union. The parties have yet to reach a settlement agreement and have not yet filed notice to the Court regarding the results of their negotiations, also since a collective agreement has not yet been signed. The Company filed several mutual petitions for extending the date of submitting the update notice and the Court extended the date to April 24, 2022.

To the best of the Company's assessment, based on the evaluation of its external legal counsel of the motion as is, the chances of the motion for approval of a class action to be accepted, and consequently the chances of the class action to prevail are lower than the chances that the motion and class action will be dismissed.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 21:- LIENS, GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)****b. Commitments:**

## 1. Royalties to the Ministry of Defense:

The Company and a subsidiary, as any other entity which uses knowhow or equipment of the Ministry of Defense ("MOD") in the context of security exports, are committed to pay royalties to the MOD for such use. Accordingly, the Company and the subsidiary have entered into an indefinite agreement with the MOD according to which the companies pay royalties at a uniform rate of 1.1% on the receipts from security exports, net of certain expenditures, as detailed in the agreement. The royalties are calculated on the security exports (and their components), including exports whose manufacture did not use any of the MOD's knowhow or equipment, excluding exports which are defined in specific agreements and excluding exports whose customer or end user is the MOD.

Under certain conditions and by mutual agreement, export transactions that use the MOD's knowhow or equipment will bear additional predetermined royalties at a specific percentage.

In 2021, 2020 and 2019, the total royalties paid by the Company to the MOD in respect of the above agreement amounted to approximately \$ 17 million, approximately \$ 16 million and approximately \$ 18 million, respectively.

## 2. Compliance with financial covenants:

- (a) The Company has entered into financing, credit, bank service and guarantee agreements in its operating activities with several banks and financial institutions as well as trust deeds of debentures in the context of which the Company has undertaken to meet certain financial covenants.

In January 2019, the Company signed agreements with the lending banks and financial institutions for updating the financial covenants, which became effective from the financial statements for 2018. The Company simultaneously signed a mutual support agreement with its subsidiary, ELTA, as detailed in Note 5e to the Company's separate financial information.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 21:- LIENS, GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

## b. Commitments (Cont.)

## 2. Compliance with financial covenants (Cont.):

## (a) (Cont.):

The updated financial covenants are as follows:

<b>Financial covenants</b>	<p><b><u>Financial covenants towards banks and financial institutions</u></b></p> <p>(1) The amount of the Company's tangible equity at the end of each quarter shall not be lower than \$ 600 million as disclosed in its consolidated financial statements. Notwithstanding the aforesaid, tangible equity that is lower than \$ 600 million but not lower than \$ 550 million for a maximum period of four consecutive quarters will not be viewed as violation of this financial covenant;</p> <p>(2) The ratio of the Company's tangible equity to total adjusted balance sheet at the end of each quarter shall not be lower than 16% as disclosed in its consolidated financial statements;</p> <p>(3) The Company's debt coverage ratio as disclosed in its consolidated financial statements and in the Company's and ELTA's (solo) obligo reports at the end of each calendar year will not exceed 7.3;</p> <p>(4) The Company's consolidated debt service ratio at the end of each calendar year will not be lower than 5.</p>
<b>The date of the lender's verification of the compliance with the financial covenants</b>	Financial covenants (1) and (2) above - once a quarter; financial covenants (3) and (4) - at the end of each calendar year.
<b>The results of the calculation of financial covenants at December 31, 2021</b>	<p>(1) Tangible equity - \$ 1,168 million.</p> <p>(2) Ratio of tangible equity to total (solo) adjusted balance sheet - 22%.</p> <p>(3) Debt coverage ratio - 2.1.</p> <p>(4) Debt service ratio – 40.9.</p> <p>As discussed above, as of December 31, 2021, the Company is in compliance with all the above financial covenants.</p>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 21:- LIENS, GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

## b. Commitments (Cont.)

## 2. Compliance with financial covenants (Cont.):

## (a) (Cont.):

<b>Collaterals</b>	An undertaking not to create liens without the banks' advance written consent, excluding liens to secure specific credit for financing the acquisition of a specific asset/project; not to sell or transfer (other than sales in the ordinary course of business) a material asset <sup>1</sup> of its assets and/or part thereof without the banks' advance written consent.
<b>Grounds for early repayment</b>	In any event where the Company fails to meet the financial covenants or violates any of its liabilities, each of the banks may demand the immediate repayment of all or part of the Company's debts and liabilities towards it (subject to providing early notice as determined in the agreement), and collect them with any additional amount that it believes will cover the losses and/or expenses incurred to the bank for placing the debt for immediate repayment. Moreover, in the occurrence of any of the following events, each of the banks may demand the immediate repayment of the Company's debts towards it: (i) in the context of the legal adoption of a decision for the privatization of the State's interests in the Company and the transfer of the control of the Company to a third party which results in a deviation by any of the banks from the limitations regarding a single borrower/a group of borrowers or any other related limitation; (ii) after the transfer of control as discussed in (i) above, any of the banks decides at its exclusive discretion that another change in control of the Company as opposed to the status on the date of transfer of control from the State (control as defined in the Securities Law) has taken place; (iii) if the mutual support agreement signed between the Company and ELTA is cancelled without the banks' consent.

<sup>1</sup> "Material asset" - a single asset whose value exceeds \$ 150 million or several assets which cumulatively exceed \$ 300 million in a single calendar year.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 21:- LIENS, GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

## b. Commitments (Cont.)

## 2. Compliance with financial covenants (Cont.):

## (a) (Cont.):

<b>Financial covenants</b>	<p><b><u>Financial covenants to holders of debentures (series D)</u></b></p> <p>(1) The ratio of the Company's tangible equity to total adjusted balance sheet at the end of each calendar quarter shall not be lower than 20%, as disclosed in the Company's stand-alone (solo) financial statements.</p> <p>(2) The ratio of the Company's net financial debt to annual EBITDA at the end of each calendar quarter shall not exceed 4, as disclosed in the Company's consolidated financial statements.</p> <p>It should be noted that according to the trust deed of the debentures (series D), noncompliance with any of the above financial covenants for a period exceeding two consecutive quarters is ground for placing the debentures (series D) for immediate repayment.</p>
<b>The date of the lender's verification of the compliance with the financial covenants</b>	Once a quarter.
<b>The results of the calculation of financial covenants at December 31, 2021</b>	<p>(1) The ratio of tangible equity to total adjusted balance sheet on a stand-alone basis - 25%.</p> <p>(2) The ratio of net financial debt to EBITDA - (1.3).</p> <p>As discussed above, as of December 31, 2021, the Company is in compliance with all the above financial covenants.</p>
<b>Collaterals</b>	As long as the debentures are not repaid in full, the Company will not create any liens on the assets owned by the Company and/or part thereof to secure any debts or liabilities in addition to the existing liens on the date of issuance of the debentures unless with the advance consent of the holders of the debentures by a special decision. Notwithstanding the aforesaid, the Company may record liens or conduct actions as agreed between the parties in the deeds of trust of the debentures, including: a lien in favor of the State of Israel; a lien for securing specific credit for the acquisition of a specific asset/company or for financing a project; a lien on deposits, cash, cash equivalents; and changes or amendments to existing liens.
<b>Grounds for early repayment</b>	The debentures will be placed for immediate repayment under the circumstances specified in the deeds of trust, including, among others, in the event that the series of debentures issued to the public by the Company is placed for immediate repayment; or if any other debt assumed by the Company from a bank or financial institution (including Government institution) is placed for immediate repayment (excluding a non-recourse debt of the Company) at a scope that exceeds \$ 150 million.

(\*) As of January 1, 2021, the debentures (series C) have been repaid in full.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 21:- LIENS, GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)**
**b. Commitments (Cont.)**

## 2. Compliance with financial covenants (Cont.):

 (b) Definitions of main terms relating to the financial covenants towards banks and financial institutions

**"Tangible equity"** - equity attributable to equity holders of the parent (excluding non-controlling interests) as disclosed in the financial statements, including outstanding share capital, undistributed retained earnings and reserves and less intangible assets such as goodwill, patents, trademarks, trade names, copyright etc. (but excluding pre-manufacturing development stage intangible assets such as computer software and excluding goodwill created in the acquisition of a certain company) and less goodwill created from the fair value remeasurement of equity rights in an acquired investee prior to obtaining control. For the removal of doubt, the definition of equity does not include revaluation reserve in respect of property, plant and equipment created from the adoption of a revaluation model in the period succeeding the establishment of the financial covenants.

**"Debt service operating income"** (EBITDA) - the cumulative amount of earnings from operations according to the latest annual financial statements before finance expenses, finance income, taxes and with the addition of depreciation and amortization expenses in the period (except depreciation of costs of obtaining contracts), employee retirement expenses and other expenses and less other income. For the removal of doubt, the definition and calculation of EBITDA will not include the items of revaluation gains/losses of investment property and capital gains/losses as detailed below.

**"Debt coverage ratio"** - the result of dividing total debts and liabilities (les cash) by the debt service operating income (EBITDA).

**"Debt service ratio"** - the result of dividing the debt service operating income (EBITDA) by the amount of interest expenses, bank commissions and interest income.

**"Consolidated debt service ratio"** - debt service ratio whose components are defined or calculated according to the Company's consolidated financial statements and the Company's and ELTA's (solo) stand-alone obligo reports.

**"Adjusted balance sheet"** - balance sheet less the lower of total cash or total payables for work in progress.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 21:- LIENS, GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)**
**b. Commitments (Cont.)**

## 2. Compliance with financial covenants (Cont.):

 (c) Definitions of main terms relating to the financial covenants towards holders of debentures

**"Tangible equity"** - equity attributable to equity holders of the Company (excluding non-controlling interests) as disclosed in the financial statements, including outstanding share capital, undistributed retained earnings and reserves and less intangible assets such as goodwill, patents, trademarks, trade names, copyright etc. (but excluding pre-manufacturing development stage intangible assets such as computer software and excluding goodwill created in the acquisition of a certain company) and less goodwill created from the fair value remeasurement of equity rights in an acquired investee prior to obtaining control. For the removal of doubt, the definition of equity does not include revaluation reserve in respect of property, plant and equipment created from the adoption of a revaluation model.

**"Adjusted balance sheet"** - balance sheet less the lower of total cash or total payables for work in progress.

**"Balance sheet"** and **"payables for work in progress"** - as defined and stated in the financial statements.

**"The Company's net financial debt"** - the cumulative amount of the following balance sheet items: short-term credit from banks and other credit providers, debentures and long-term loans from banks and other credit providers less cash, all as disclosed in the Company's consolidated financial statements for the end of the relevant period.

**"Annual EBITDA"** - relating to the period of 12 months preceding the date of the Company's latest financial statements - the cumulative amount of operating income before finance expenses, finance income and taxes with the addition of depreciation and amortization expenses in the period, with the addition of employee retirement expenses, with the addition of other expenses and less other income.

## 3. The Company's overall oblige scope (mainly guarantees) in banks and other financial institutions approximates \$ 3,098 million.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 21:- LIENS, GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)****b. Commitments (Cont.)**

4. The Company has signed indemnification agreements with three insurance companies and a bank (collectively - "the financial corporations") according to which the financial corporations undertook that, subject to the provisions of the agreements, they will provide guarantees in various amounts from time to time to secure the repayment of amounts payable to the Company's employees for monthly pension allowances based on the early retirement plan implemented in the Company, see details in Note 20g(4) above. According to the indemnification agreements, the Company has undertaken to indemnify the financial corporations, subject to the provisions of the agreements, in respect of any payment, damage and expense incurred to them due to or in connection with guarantees issued by them as discussed above. As of the report date, the balance of said guarantees from the financial corporations approximates \$ 60 million. The Company has undertaken towards the financial corporations that throughout the period of the agreements, it will comply with the financial covenants to financial institutions as detailed in paragraph 3 above and will not create any lien on its assets (excluding a fixed lien to secure specific credit for financing the acquisition of a certain asset or for financing a certain project) and will not transfer them not in the ordinary course of business without the financial corporations' advance written consent.
5. The Company does not pay lease fees for certain real estate properties provided for its disposal by the Israel Land Administration and the MOD. Based on the opinion of legal counsel, the Company included adequate provisions to cover the potential exposure in respect of the above nonpayment. See additional information on the Company's real estate in Note 12c.

**c. Guarantees provided:**

As of December 31, 2021, financial corporations provided guarantees totaling approximately \$ 2,481 million to secure various liabilities of the Company. This amount mostly consists of bank guarantees granted to customers in the ordinary course of business.

**d. Collaterals and pledges:**

The Company has undertaken towards various lenders not to create additional pledges (negative pledges) on its property and assets without obtaining advance written consent, except in certain predetermined cases.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 21:- LIENS, GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)****e. Loss of the Amos 6 satellite:**

On September 1, 2016, during refueling by SpaceX of the launcher manufactured by the latter ("the launching company"), an explosion took place which caused the total loss of the Amos 6 communication satellite.

According to the agreements signed between the parties, under such circumstances, the Company is required to refund the customer, Spacecom, receipts obtained in the context of the agreements with the addition of interest and bear other related expenses.

The Company had full insurance coverage for the above receipts and it took the necessary steps to obtain the full claim amount from the insurers as a result of which the Company was paid an aggregate of approximately \$ 213 million in November and December 2016.

In March and October 2017, agreements were signed between the Company and the insurers for executing a mediation/arbitration proceeding regarding the remaining amount of the insurance claim filed by the Company that has yet to be paid. In the context of the above agreements, the parties agreed on the amounts paid to the Company until that date.

In January 2018, the Company filed with the Court a letter of claim against the insurers and the brokers (Peltours and Marsh) following which the insurers paid the Company another \$ 21 million.

In September 2019, a settlement agreement was signed in the context of a mediation proceeding between the Company, the insurers and Peltours according to which another amount ranging between \$ 28 million and \$ 30 million will be paid to the Company for the claim. The end amount will be contingent on the outcome of a different litigation which will be held by the Company.

On October 3, 2019, the Court approved the settlement agreement and granted it judgement status. An amount of approximately \$ 28 million was received by the Company in October 2019. The implications of the settlement agreement were carried to the Company's results in 2019 whereby its revenues include the insurance compensation. On December 11, 2019, the Company filed with the Court an amended letter of claim against Marsh only in a total of approximately \$ 14 million, representing the remaining difference between the amount covered by the policy and the amount actually paid to the Company.

On July 8, 2021, the Company signed a mediation agreement with Marsh according to which the latter agreed to pay the Company \$ 2.5 million, subject to removing the claim filed by the Company against it. As a result of signing the agreement with Marsh, the Company notified that the insurers that if they agree to pay the Company compensation of \$ 0.5 million, the Company will consider the mediation agreement as fully met. The amount was actually received in 2021.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 22:- FINANCIAL INSTRUMENTS

## a. Measurement of fair value of financial instruments:

Cash and cash equivalents Short-term trade and other receivables Short-term trade and other payables	Due to their nature, fair value approximates the carrying amount
Traded assets and liabilities	Based on quoted market price in an active market on the report date
Derivative financial instruments	When derivatives are not traded in an active market, fair value is measured using a model that takes into consideration inputs such as market risks, credit risks etc.

## b. Inputs of fair value hierarchy of financial instruments measured at fair value and recognized in the statement of financial position:

	December 31, 2021			Total
	Level 1	Level 2	Level 3	
	U.S. dollars in millions			
<b>Financial assets:</b>				
<b>Financial assets at FVPL:</b>				
Marketable securities	221	-	-	221
Loan to associate and contingent consideration (*)	-	-	41	41
Financial derivatives not designated as hedging instruments	-	2	-	2
<b>Financial assets at FVOCI:</b>				
Financial derivatives designated as hedging instruments	-	41	-	41
	<b>221</b>	<b>43</b>	<b>41</b>	<b>305</b>
<b>Financial liabilities:</b>				
<b>Financial liabilities at FVPL:</b>				
Financial derivatives not designated as hedging instruments	-	2	-	2
<b>Financial liabilities at FVOCI:</b>				
Financial derivatives designated as hedging instruments	-	5	-	5
	<b>-</b>	<b>7</b>	<b>-</b>	<b>7</b>

(\*) See additional information of the loan and contingent consideration measured at fair value in connection with the Company's investment in ISI in Note 11b(1) above.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 22:- FINANCIAL INSTRUMENTS (Cont.)

- b. **Inputs of fair value hierarchy of financial instruments measured at fair value and recognized in the statement of financial position (Cont.):**

	December 31, 2020			Total
	Level 1	Level 2	Level 3	
	U.S. dollars in millions			
<b>Financial assets:</b>				
<b>Financial assets at FVPL:</b>				
Marketable securities	227	-	-	227
Loan to associate and contingent consideration	-	-	30	30
Financial derivatives not designated as hedging instruments	-	2	-	2
<b>Financial assets at FVOCI:</b>				
Financial derivatives designated as hedging instruments	-	72	-	72
	<b>227</b>	<b>74</b>	<b>30</b>	<b>331</b>
<b>Financial liabilities:</b>				
<b>Financial liabilities at FVPL:</b>				
Financial derivatives not designated as hedging instruments	-	2	-	2
<b>Financial liabilities at FVOCI:</b>				
Financial derivatives designated as hedging instruments	-	11	-	11
	<b>-</b>	<b>13</b>	<b>-</b>	<b>13</b>

- c. **Data of the fair value of financial liabilities whose carrying amount does not approximate their fair value:**

	December 31, 2021		December 31, 2020	
	Fair value, Level 1	Carrying amount including interest	Fair value, Level 1	Carrying amount including interest
NIS in thousands				
<b>Financial liabilities (excluding swaps):</b>				
Marketable debentures (series C)	-	-	95	95
Marketable debentures (series D)	101	100	146	145

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 22:- FINANCIAL INSTRUMENTS (Cont.)****d. Risk management policy:**

The Company's activities expose it to various financial risks such as foreign currency risk, interest risk, price risk, credit risk and liquidity risk. The Company's comprehensive risk management policy focuses on activities that reduce to a minimum any possible adverse effects on the Company's financial performance. Among others, the Company utilizes derivative financial instruments in order to hedge certain exposures to risks.

The officers in charge of risk management in the Company

The Company's Board has established a policy (in the context of the Company's procedures) for using financial instruments in order to protect the Company against fluctuations in foreign currency exchange rates and secure the Company's cash flow. The use of financial instruments is only allowed through banks.

**1. Exchange rate risk:**

Since the Company's functional currency is the U.S. dollar, the Company has currency exposure that arises mainly from payments in currencies that are not in U.S. dollars (mainly payroll expenses), from excess non-dollar or dollar-linked assets or liabilities and from engagements in non-dollar currencies.

A change in the dollar exchange rate in relation to the NIS is liable to affect operating results given that although the majority of revenues are generated in foreign currency (mainly in dollars), some of the expenses (mainly salary expenses) are incurred in NIS. The Company hedges future payroll expenses through forwards and/or dollar NIS put/call options. To hedge the balance sheet exposure, the Company holds part of the cash equivalents and short-term investments in NIS also against NIS liabilities.

The various foreign currency exchange rates in relation to the dollar may also affect operating results. In the event of exposure to a contract with a customer that exceeds \$ 250,000 resulting from engagement in non-dollar foreign currencies, the Company enters into project hedges (internal or external at its discretion) on the exchange rates in relation to the dollar using forwards or foreign currency options.

As of December 31, 2021, the Company has currency hedges ranging between NIS 3.15 and NIS 3.3. See more details in paragraph e below.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 22:- FINANCIAL INSTRUMENTS (Cont.)**
**d. Risk management policy (Cont.):**
**2. Price risk:**

The Company has exposure to risks arising from changes in quoted market prices of securities held by it. As of December 31, 2021, the Company has a marketable securities portfolio that is mainly comprised of investment in debentures and mutual funds.

**3. Interest rate risk:**

The Company's interest rate risk arises from long-term debentures. Financial liabilities that bear variable interest rates expose the Company to interest rate risk in respect of cash flows. The Company's policy is to manage the finance costs attributable to interest by using a mix between variable interest and fixed interest on the Company's long-term loans.

In addition, the Company is exposed to interest rate risk in respect of short-term and long-term financial investments that bear fixed interest rates and is consequently also exposed to changes in interest rates and to the increase in yields on debentures.

Most of the Company's monetary balances are invested for the short term and consequently, the Company is able to minimize the risk arising from changes in interest rates and yields.

**4. Credit risks:**
**a) Cash and short-term investments:**

The Company holds cash and cash equivalents and short-term deposits in Israeli banks which are financial institutions with high credit ratings.

**b) Customers and contract assets:**

The Company mainly performs military and civilian product development and manufacturing projects for various customers, some of which leading local aviation companies and aircraft manufacturers and some of which government offices of various countries around the world which finance the transactions through government budgets. Some of the foreign customers' debts are secured by credit insurance. The Company has foreign trade insurance policies for several projects. The Company performs ongoing customer credit evaluations while examining the customers' financial condition. The Company records an allowance for doubtful accounts specifically for debts whose collection is doubtful according to the Company's management. In view of the nature of these operations, the Company provides the Board periodic reports of the status of customer debts and the allowance for doubtful accounts. The Company also recognizes a general allowance for expected credit losses that result from all possible default events pursuant to the guidance of IFRS 9.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 22:- FINANCIAL INSTRUMENTS (Cont.)

## d. Risk management policy (Cont.):

## 4. Credit risks (Cont.):

Table of aging of customer debts as of December 31, 2021

	Customer debt in the Company's credit facility	Debt in arrears of up to 60 days from maturity date	Debt in arrears of 61-120 days from maturity date	Debt in arrears of over 120 days from maturity date	Total
	U.S. dollars in millions				
Material customer A	53	77	7	61	198
Interested parties	223	32	15	27	297
Others	82	142	40	223	487
<b>Balance of trade receivables as of December 31, 2021</b>	<b>358</b>	<b>251</b>	<b>62</b>	<b>311</b>	<b>982</b>
Less - allowance for doubtful accounts	-	-	-	(24)	(24)
<b>Net balance as of December 31, 2021</b>	<b>358</b>	<b>251</b>	<b>62</b>	<b>287</b>	<b>958</b>

Table of aging of customer debts as of December 31, 2020

	Customer debt in the Company's credit facility	Debt in arrears of up to 60 days from maturity date	Debt in arrears of 61-120 days from maturity date	Debt in arrears of over 120 days from maturity date	Total
	U.S. dollars in millions				
Material customer A	69	47	28	14	158
Interested parties	250	109	37	32	428
Others	90	108	152	182	532
<b>Balance of trade receivables as of December 31, 2020</b>	<b>409</b>	<b>264</b>	<b>217</b>	<b>228</b>	<b>1,118</b>
Less - allowance for doubtful accounts	-	-	-	(23)	(23)
<b>Net balance as of December 31, 2020</b>	<b>409</b>	<b>264</b>	<b>217</b>	<b>205</b>	<b>1,095</b>

In March 2020, the Company entered into an agreement with a financial institution for assigning debts of one of the Company's customers by way of complete sale. As a result of the above debt assignment, the Company derecognized the financial asset in return for cash totaling approximately \$ 180 million.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 22:- FINANCIAL INSTRUMENTS (Cont.)****d. Risk management policy (Cont.):**

## 4. Credit risks (Cont.):

## c) Investment in debentures:

The Company maintains low exposure to credit risk in connection with its investments in corporate debentures and Government bonds by investing in debentures and bonds with an international rating of BBB- and above (or a corresponding local rating) in keeping with the Board's policy. The Company's Treasurer approves investment decisions and receives a quarterly analysis report of operating results.

Maximum exposure in respect of credit risk:

	<b>Carrying amount</b>	
	<b>2021</b>	<b>2020</b>
	<b>U.S. dollars in millions</b>	
<b>Cash and cash equivalents</b>	<b>581</b>	849
<b>Financial assets:</b>		
Deposits	<b>20</b>	64
Financial derivatives	<b>43</b>	74
<b>Investments in corporate debentures and Government bonds:</b>		
Rated AAA	<b>84</b>	78
Rated AA+	<b>10</b>	12
Rated AA	<b>34</b>	37
Rated AA-	<b>95</b>	91
Rated A+	<b>7</b>	12
Rated A	<b>8</b>	14
Rated A-	<b>7</b>	9
Rated BBB+	<b>3</b>	4
Rated BBB	<b>4</b>	5
Rated BBB-	<b>4</b>	5
Mutual funds	<b>20</b>	15
Total investments	<b>276</b>	282
<b>Total financial assets</b>	<b>339</b>	420
Trade receivables	<b>958</b>	1,095
Loans to associates	<b>35</b>	24
<b>Total maximum exposure in respect of credit</b>	<b>1,914</b>	2,388

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 22:- FINANCIAL INSTRUMENTS (Cont.)****d. Risk management policy (Cont.):**

## 5. Liquidity risk:

- a) Liquidity risks arise from the Company's working capital management and from finance expense and repayment of principal on the Company's debt instruments. Liquidity risk consists of the risk that the Company will find it difficult or will be unable to meet obligations relating to financial liabilities. The Company's policy is to secure that the cash held by the Company will always suffice for repaying its liabilities when they mature. For this purpose, the Company strives to hold cash balances (or adequate credit lines) that will allow it to meet expected undertakings for a period of at least 90 days. The Company's policy is that the cash balances (including deposits and investments in marketable securities) will be at least \$ 800 million and any deviation will be brought to the Board's attention. As of the date of the financial statements, it is likely that the Company has sufficient liquid sources for meeting all its liabilities.
- b) For details of financial covenants, see Note 21b(2) above.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 22:- FINANCIAL INSTRUMENTS (Cont.)

## d. Risk management policy (Cont.):

## 5. Liquidity risk (Cont.):

c) Following is a disclosure of cash flows from financing activities arising from the Company's liabilities:

	Lease liabilities	Dividend payable	Short- term loans and credit	IRS (debentures (series C))	Debentures	Total
	U.S. dollars in millions					
<b>Balance as of January 1, 2020</b>	<b>52</b>	<b>24</b>	<b>23</b>	<b>(10)</b>	<b>312</b>	<b>401</b>
Changes arising from cash flows from financing activities in 2020:						
Repayment of debentures	-	-	-	-	(87)	(87)
Proceeds from sale of swap	-	-	-	14	-	14
Loans and short-term credit, net	-	-	308	-	-	308
Repayment of lease liability	(25)	-	-	-	-	(25)
<b>Total</b>	<b>(25)</b>	<b>-</b>	<b>308</b>	<b>14</b>	<b>(87)</b>	<b>210</b>
Other comprehensive income	-	-	-	(4)	-	(4)
Movement in accrued interest	-	-	1	-	(1)	-
New lease contracts signed	27	-	-	-	-	27
Exchange rate differences and other	1	-	-	-	16	17
<b>Balance as of December 31, 2020</b>	<b>55</b>	<b>24</b>	<b>332</b>	<b>-</b>	<b>240</b>	<b>651</b>
Changes arising from cash flows from financing activities in 2021:						
Repayment of debentures	-	-	-	-	(142)	(142)
Proceeds from sale of swap	-	-	-	-	4	4
Loans and short-term credit, net	-	-	(73)	-	-	(73)
Repayment of lease liability	(28)	-	-	-	-	(28)
<b>Total</b>	<b>(28)</b>	<b>-</b>	<b>(73)</b>	<b>-</b>	<b>(138)</b>	<b>(239)</b>
Other comprehensive income	-	-	-	-	(4)	(4)
Movement in accrued interest	-	-	-	-	(2)	(2)
New lease contracts signed	22	-	-	-	-	22
Initial consolidation	-	-	3	-	-	3
Exchange rate differences	(1)	-	-	-	4	3
<b>Balance as of December 31, 2021</b>	<b>48</b>	<b>24</b>	<b>262</b>	<b>-</b>	<b>100</b>	<b>434</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 22:- FINANCIAL INSTRUMENTS (Cont.)

## d. Risk management policy (Cont.):

## 5. Liquidity risk (Cont.):

d) Following is the analysis of contractual maturity dates of financial liabilities:

**December 31, 2021**

	<b>Within 30 days</b>	<b>1-12 months</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>Over 6 years</b>	<b>Total</b>
	<b>U.S. dollars in millions</b>					
<u>Non-derivative</u>						
Trade payables	324	391	269	-	-	984
Other accounts payable	155	236	211	-	-	602
Provisions	-	22	282	-	-	304
Bank loans and current maturities of debentures	50	312	-	-	-	362
Long-term financial liabilities	-	-	-	22	7	29
<u>Derivatives</u>						
Foreign currency forwards and options	-	7	-	-	-	7
<b>Total</b>	<b>529</b>	<b>968</b>	<b>762</b>	<b>22</b>	<b>7</b>	<b>2,288</b>

**December 31, 2020**

	<b>Within 30 days</b>	<b>1-12 months</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>Over 6 years</b>	<b>Total</b>
	<b>U.S. dollars in millions</b>					
<u>Non-derivative</u>						
Trade payables	308	495	278	-	-	1,081
Other accounts payable	136	314	182	-	-	632
Provisions	-	24	234	-	-	258
Loans and current maturities in respect of debentures	95	381	96	-	-	572
Long-term financial liabilities	-	-	-	47	11	58
<u>Derivatives</u>						
Foreign currency forwards and options	-	13	-	-	-	13
<b>Total</b>	<b>539</b>	<b>1,227</b>	<b>790</b>	<b>47</b>	<b>11</b>	<b>2,614</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 22:- FINANCIAL INSTRUMENTS (Cont.)****e. Hedging activity:**

## 1. Economic (non-accounting) hedging activity:

As of the financial statement date, the Company has entered into forward and swap contracts that are intended to hedge and minimize the exposure of customer receipts to price fluctuations in transactions denominated in foreign currencies other than the dollar. As of the balance sheet date, the Company has entered into the following commitments:

As of the balance sheet date, the Company has euro/dollar swaps at a net scope of approximately \$ 9 million which mature between March 2022 and May 2023. The fair value of these swaps represents a liability in an immaterial amount.

## 2. Accounting hedging activity:

- a) The Company has chosen to hedge cash flows in respect of certain future salary payments. For the purpose of the hedge, the Company designated NIS/dollar forwards. As of the balance sheet date, the Company has forwards at a scope of approximately \$ 217 million at rates ranging between NIS 3.12 and NIS 3.21 per \$ 1 which mature between April 2022 and January 2023. The fair value of these transactions represents an asset of approximately \$ 6 million.
- b) The Company has chosen to hedge cash flows in respect of certain customer receipts. For the purpose of the hedge, the Company designated Czech koruna/dollar forwards. As of the balance sheet date, the Company has forwards at a scope of approximately \$ 79 million at rates ranging between CZK 22.7 and CZK 23.3 per \$ 1 which mature between February 2022 and June 2023. The fair value of these transactions represents a liability of approximately \$ 1 million.
- c) The Company has chosen to hedge cash flows in respect of certain customer receipts. For the purpose of the hedge, the Company designated euro/dollar forwards. As of the balance sheet date, the Company has forwards at a scope of approximately \$ 178 million at rates ranging between € 1.13 and € 1.24 per \$ 1 which mature between January 2022 and February 2025. The fair value of these transactions represents an asset of approximately \$ 5 million.
- d) The Company has chosen to hedge cash flows in respect of certain supplier payments. For the purpose of the hedge, the Company designated Czech koruna/dollar forwards. As of the balance sheet date, the Company has forwards at a scope of approximately \$ 9 million at rates ranging between CZK 21.03 and CZK 21.22 per \$ 1 which mature between January 2022 and March 2023. The fair value of these transactions represents a liability of approximately \$ 1 million.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 22:- FINANCIAL INSTRUMENTS (Cont.)**
**e. Hedging activity (Cont.):**
**2. Accounting hedging activity (Cont.):**

- e) The Company has entered into a cash flow hedge for part of its future salary payments and for that purpose designated cylinder transactions of put and call options. The table below presents the dollar/NIS options of the following transactions:

Purchased put options in foreign currency:

Sale of \$ 731 million for NIS 2,298 million.

The fair value of these transactions represents an asset of approximately \$ 23 million.

Written call options in foreign currency:

Purchase of \$ 719 million for NIS 2,394 million.

The fair value of these transactions represents a liability of approximately \$ 3 million.

The Company's objective for entering into the above option transactions was to secure the receipt of amounts in NIS that will suffice for repaying the Company's liabilities mainly in respect of payroll.

- f) The balance of the capital reserve from the net cash flow hedges of exchange rate fluctuations in respect of net salary payments and customer receipts as of the financial statement date is a credit balance of approximately \$ 17 million. The balance of the capital reserve from the cost of the net cash flow hedges of exchange rate fluctuations in respect of salary payments and customer receipts as of the financial statement date is a credit balance of approximately \$ 1 million. In 2021, an amount of approximately \$ 2 million was reclassified from the reserve for the cost of the hedge to profit or loss.

- g) Swaps:

The Company has chosen to perform a cash flow hedge of the dollar and NIS interest exposure arising from the terms of the debentures (series D). For the purpose of the hedge, the Company has signed a cross currency swap with a bank in respect of receipts of NIS 463 million at the variable BOI annual interest rate plus a margin of 0.95% (unlinked) against payments of \$ 135 million at a fixed interest rate of 4.1%. The principal and interest swap dates are based on the dates determined in the issuance of the debentures (series D). As of the reporting date, the fair value of the interest swap is \$ 7 million (asset). The outstanding net capital reserve in respect of the accounting hedge on the debentures (series D) as of the financial statement date amounts to a debit balance of approximately \$ 1 million. The outstanding net capital reserve in respect of the cost of the accounting hedge on the debentures (series D) as of the financial statement date was negligible.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 22:- FINANCIAL INSTRUMENTS (Cont.)

## f. Linkage bases report as of December 31, 2021:

	In or linked to dollar	In CPI- linked NIS	In or linked to Euro	In or linked to other currencies	In unlinked NIS	Non- monetary	Total
	U.S. dollars in millions						
Cash and cash equivalents	135	-	4	5	437	-	581
Short-term financial assets	153	-	-	-	171	-	324
Trade receivables	530	-	4	7	417	-	958
Contract assets, net	1,138	87	7	-	40	-	1,272
Other accounts receivable	71	-	4	2	62	484	623
Inventories	-	-	-	-	-	774	774
Long-term receivables	27	-	-	-	-	22	49
Investments in associates and joint ventures	41	-	-	-	-	94	135
Deferred taxes	-	-	-	-	-	82	82
Property, plant and equipment	-	-	-	-	-	1,181	1,181
Intangible assets	-	-	-	-	-	178	178
<b>Total assets</b>	<b>2,095</b>	<b>87</b>	<b>19</b>	<b>14</b>	<b>1,127</b>	<b>2,815</b>	<b>6,157</b>
Loans from banks and current maturities of debentures	349	-	-	-	13	-	362
Short-term financial liabilities	7	-	-	-	-	-	7
Trade payables	733	-	21	6	224	-	984
Other accounts payable	137	67	-	-	398	-	602
Provisions	266	-	-	-	38	-	304
Dividend payable	24	-	-	-	-	-	24
Contract liabilities, net	1,658	24	3	-	292	264	2,241
Other long-term liabilities	25	-	-	-	4	-	29
Employee benefits	5	17	-	-	361	-	383
<b>Total liabilities</b>	<b>3,204</b>	<b>108</b>	<b>24</b>	<b>6</b>	<b>1,330</b>	<b>264</b>	<b>4,936</b>
<b>Net balance sheet balance</b>	<b>(1,109)</b>	<b>(21)</b>	<b>(5)</b>	<b>8</b>	<b>(203)</b>	<b>2,551</b>	<b>1,221</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 22:- FINANCIAL INSTRUMENTS (Cont.)

## Linkage bases report as of December 31, 2020:

	In or linked to dollar	In CPI- linked NIS	In or linked to Euro	In or linked to other currencies	In unlinked NIS	Non- monetary	Total
U.S. dollars in millions							
Cash and cash equivalents	280	-	19	3	547	-	849
Short-term financial assets	207	50	-	-	148	-	405
Trade receivables	487	-	1	-	607	-	1,095
Contract assets, net	841	73	7	-	24	-	945
Other accounts receivable	138	-	3	2	35	444	622
Inventories	-	-	-	-	-	840	840
Long-term receivables	15	-	-	-	-	67	82
Investments in associates and joint ventures	30	-	-	-	-	93	123
Deferred taxes	-	-	-	-	-	66	66
Property, plant and equipment	-	-	-	-	-	1,109	1,109
Intangible assets	-	-	-	-	-	121	121
<b>Total assets</b>	<b>1,998</b>	<b>123</b>	<b>30</b>	<b>5</b>	<b>1,361</b>	<b>2,740</b>	<b>6,257</b>
Loans from banks and current maturities of debentures	551	-	-	-	21	-	572
Short-term financial liabilities	13	-	-	-	-	-	13
Trade payables	749	-	39	8	285	-	1,081
Other accounts payable	168	56	-	3	405	-	632
Provisions	237	-	-	-	21	-	258
Dividend payable	24	-	-	-	-	-	24
Contract liabilities, net	1,695	13	3	-	273	183	2,167
Other long-term liabilities	54	-	-	-	2	2	58
Employee benefits	9	15	-	-	346	-	370
<b>Total liabilities</b>	<b>3,500</b>	<b>84</b>	<b>42</b>	<b>11</b>	<b>1,353</b>	<b>185</b>	<b>5,175</b>
<b>Net balance sheet balance</b>	<b>(1,502)</b>	<b>39</b>	<b>(12)</b>	<b>(6)</b>	<b>8</b>	<b>2,555</b>	<b>1,082</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 23:- EQUITY****a. Composition of share capital as of December 31, 2021 and 2020:**

	<u>Authorized</u>	<u>Issued and outstanding</u>
	<u>Number of shares</u>	
Ordinary shares of NIS 1 par value each	<u>2,600,000,001</u>	<u>2,559,514,386</u>

**b. Dividend distribution policy:**

The Government Companies Authority's policy is that 50% of current net income is distributed as a dividend.

**c. Dividend distributions:**

- On May 29, 2019, the Company's Board declared the distribution of a dividend in a total of \$ 10 million (approximately NIS 36 million) which will be viewed as a distribution of the Company's retained earnings for 2017, subject to the approval of the Government Companies Authority ("the GCA"). The GCA's approval was granted on June 17, 2019 and an amount of approximately NIS 36 million was paid on July 1, 2019.
- On September 9, 2019, the Company's Board declared the distribution of a dividend in a total of approximately \$ 29.5 million (approximately NIS 104 million), subject to the approval of the GCA. In its decision of December 17, 2019, the Company's Board approved revising the decision of September 9, 2019 as described above to distribute an amount of approximately NIS 84 million as a dividend and earmark an amount of approximately NIS 20 million for investments in the Company's innovation program, including mergers and acquisitions, subject to obtaining all the approvals required by law. As of the reporting date, the approvals of the GCA and of the Company's General Meeting for the dividend distribution have been obtained.
- An amount of approximately \$ 24 million originating from the above dividends declared has not yet been paid as of the date of publication of the financial statements.
- The dates and amounts of dividends distributed in practice in 2019-2021:

<u>Actual distribution date</u>	<u>Amount distributed in U.S. dollars in millions</u>
July 2019	10

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 24:- SALES

## a. Composition:

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
Exports	3,219	2,991	3,033
Local market	1,258	1,193	1,075
<b>Total</b>	<b>4,477</b>	<b>4,184</b>	<b>4,108</b>

## b. Sales to principal customers:

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
State of Israel (*)	1,098	1,111	949
Material customer A	1,197	867	795
<b>Total</b>	<b>2,295</b>	<b>1,978</b>	<b>1,744</b>

(\*) See Note 34 below on transactions with interested parties.

(\*\*) See more information on the composition of revenues based on different cutoffs in Note 33 below. The Company's revenues from the above main customers derive from the Company's entire operating segments.

## NOTE 25:- COST OF SALES

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
Salaries and related expenses	1,598	1,499	1,399
Materials	356	347	371
Subcontractors	1,465	1,457	1,429
Depreciation and amortization	200	182	187
Other manufacturing costs	231	305	245
	<b>3,850</b>	<b>3,790</b>	<b>3,631</b>
Add (Less):			
In-house manufacturing of property, plant and equipment and development of intangible assets	(159)	(260)	(120)
Changes in inventory of WIP	90	(11)	20
<b>Total</b>	<b>3,781</b>	<b>3,519</b>	<b>3,531</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 26:- RESEARCH AND DEVELOPMENT EXPENSES**

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
Salaries and related expenses	120	118	118
Depreciation and amortization	8	8	8
Subcontractors	60	60	64
Other	21	17	11
Grants and participations	(5)	(7)	(10)
<b>Total</b>	<b>204</b>	<b>196</b>	<b>191</b>

**NOTE 27:- SELLING AND MARKETING EXPENSES**

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
Salaries and related expenses	16	17	14
Preparation of quotations	57	52	50
Travel	4	2	8
Other	24	16	25
<b>Total</b>	<b>101</b>	<b>87</b>	<b>97</b>

**NOTE 28:- GENERAL AND ADMINISTRATIVE EXPENSES**
**a. Composition:**

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
Salaries and related expenses	133	134	128
Depreciation	11	11	8
Other (b(1))	35	41	36
<b>Total</b>	<b>179</b>	<b>186</b>	<b>172</b>

**b. Additional information:**

- In 2020, an expense was recorded in respect of an allowance for doubtful accounts totaling approximately \$ 15 million, see more information in Note 6b(2) above.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 29:- OTHER INCOME, NET**
**a. Composition:**

	<b>Year ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
	<b>U.S. dollars in millions</b>		
<b><u>Income</u></b>			
Gain from sale and expropriation of property, plant and equipment (b(1))	7	-	-
Issue of capital in associate (b(2))	-	8	-
Gain from sale of operation (b(3))	-	-	12
Other	<u>3</u>	<u>-</u>	<u>-</u>
	<u><b>10</b></u>	<u>8</u>	<u>12</u>
<b><u>Expenses</u></b>			
Impairment and other (b(4))	<u>(1)</u>	<u>(2)</u>	<u>(11)</u>
<b>Total other income, net</b>	<u><b>9</b></u>	<u>6</u>	<u>1</u>

**b. Additional information:**

- In Q2 2021, the Company received compensation of approximately \$ 6 million for the expropriation of part of a real estate property used by it (of which approximately \$ 3 million was received in cash).
- See Note 11b(1) above.
- See Note 11b(2) above.
- In 2020-2021, the Company recognized impairment losses from property, plant and equipment in immaterial amounts. In 2019, the Company recognized an impairment loss in respect of an intangible asset, see Note 13c(3) above.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 30:- FINANCE INCOME AND EXPENSES, NET

## a. Composition:

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
<b><u>Finance expenses</u></b>			
Commissions to banks	19	22	22
Interest on credit	4	5	-
Debentures	6	8	11
Adjustment of financing component of provisions and payables	12	10	14
Cash flow hedges	-	-	-
Exchange rate differences	7	-	8
Other	2	5	5
<b>Total</b>	<b>50</b>	<b>50</b>	<b>60</b>
<b><u>Finance income</u></b>			
Return on deposits and marketable financial assets	9	12	24
Adjustment of financing component of provisions and payables	-	-	15
Cash flow hedges	1	1	3
Exchange rate differences	-	7	-
Finance income on investment component in investee measured at fair value	11	8	4
Other	-	1	2
<b>Total</b>	<b>21</b>	<b>29</b>	<b>48</b>

## b. Additional information:

In 2019, the item of adjustment of financing component of provisions and payables includes finance income of approximately \$ 14 million from adjustment of the financing component of a provision for a concluded legal proceeding.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 31:- TAXES ON INCOME

## a. Composition:

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
Current tax expenses	57	6	12
Taxes in respect of prior years	(2)	3	7
	55	9	19
<b>Deferred tax expenses (income):</b>			
Creation and reversal of temporary differences	(9)	37	4
	(9)	37	4
<b>Total income tax expenses</b>	<b>46</b>	<b>46</b>	<b>23</b>

## b. Details of the Company's tax environment:

1. The Israeli corporate tax rate applicable to the Group companies is 23%.
2. The Law for the Encouragement of Capital Investments, 1959 ("the Investment Encouragement Law"):

The Investment Encouragement Law was amended in the context of the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011 ("Amendment No. 68"), effective from January 1, 2011. Amendment No. 68 states that a wholly-owned government company is not entitled to the benefits prescribed in the Investment Encouragement Law and therefore neither the Company nor ELTA (a wholly owned subsidiary of the Company) qualify for the tax benefits following the enactment of Amendment No. 68 anymore. Prior to the enactment of Amendment No. 68, the Company was entitled to the tax benefits prescribed by the Investment Encouragement Law. The transition provisions of Amendment No. 68 stipulate that the enterprise owned by the Company in its entirety is still eligible for the tax benefits under the Law prior to its amendment until the end of the benefit period. Therefore, the Company is entitled to receive the tax benefits as they were on the date of grant of the approval.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 31:- TAXES ON INCOME (Cont.)**
**b. Details of the Company's tax environment (Cont.):**

3. Benefits under the Law for the Encouragement of Industry (Taxation), 1969:
  - a) The Company and some of its subsidiaries have the status of industrial companies as defined in the Law for the Encouragement of Industry (Taxation), 1969 and are therefore entitled to the following main benefits:
    - (1) Accelerated depreciation rates.
    - (2) Possibility of filing consolidated financial statements with "single production line subsidiaries".
  - b) The Company and two of its Israeli wholly owned and controlled subsidiaries file consolidated tax returns.
4. Dollar based reporting for tax purposes:

The Company's functional currency and presentation currency is the USD (see Note 2c above). From January 1, 2018, the Company manages its accounts in foreign currency pursuant to Section 130A to the Israeli Income Tax Ordinance ("the Dollar Regulations"). In 2019-2021, the Company notified the Tax Assessing Officer of Large Enterprises of its election to apply the Dollar Regulations for the above tax years.

On August 29, 2019, the Company received an indefinite tax ruling allowing it to manage its accounts in foreign currency (dollars) pursuant to the Dollar Regulations. The ruling is in effect as long as the Company's functional currency, as this term is defined by generally accepted accounting principles, remains the USD.

5. Exposure to foreign tax laws:

As an export-oriented military and civilian security defense company, the Company sells products and provides services to a variety of customers around the globe, including through long-term contracts. Accordingly, and in view of recent global trends of enhancing the taxation of foreign multinationals in the target countries, including in material customer countries, the Company may become exposed to the implications of the changing tax regimes in such target countries. The Company records provisions for expected tax payments against income tax expenses in respect of any uncertainty involving future tax treatments by the tax authorities in the target countries.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 31:- TAXES ON INCOME (Cont.)****b. Details of the Company's tax environment (Cont.):**

## 6. Accelerated depreciation (temporary provision) during the Coronavirus crisis:

In November 2020, the Israeli Government issued the Income Tax Regulations (Accelerated Depreciation during the Coronavirus Crisis) (Temporary Provision), 2020 (in this paragraph – "the Regulations"). According to the Regulations, the Company may apply for a doubled acceleration rate in respect of equipment that has been or will be purchased by the Company during the period from September 1, 2020 to June 30, 2021 (in this paragraph – "the record period") which is directly used in its operations and qualifies for depreciation deduction, provided that the entire depreciation of said equipment does not exceed its original price (in this paragraph – "accelerated depreciation").

The accelerate depreciation will only apply if the equipment is used by the Company in generating income from its Israeli operations within three months from the date of its purchase or the end of the record period, whichever is later, and throughout the period beginning on the date of initial use of the equipment and ending at least at the end of the tax year for which the accelerated depreciation is claimed.

The Company's choice of applying the accelerated depreciation deduction as per the Regulations mandates applying the provisions of the Regulations to all equipment that has been or will be purchased in the record period which qualifies for accelerate depreciation.

As for assets for which accelerated depreciation is claimed, the Company believes that as of the date of the financial statements it is in compliance with the criteria qualifying its equipment for said accelerated depreciation.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 31:- TAXES ON INCOME (Cont.)

## c. Foreign subsidiaries:

1. The subsidiaries incorporated outside of Israel are taxed at the tax laws in their country of residence.
2. The tax rates applicable to the income of material foreign investees/partnerships of the Company which were incorporated outside of Israel:

Country of incorporation	Tax rate	Comments
United States	Federal tax - 21% State tax - average of 5%	Withholding tax rate in dividend distribution - 12.5% (subject to the terms of the US-Israel tax treaty)
India	Corporate tax - about 25% (22% corporate tax and other levies)	
Singapore	17%	Territorial tax

3. Distribution of dividends to Israel:

Section 126(c) to the Ordinance, which became effective in the context of Amendment No. 132 to the Ordinance (see above) and amended in Amendment No. 216, states that a company's taxable income from a dividend originating from income produced or generated outside of Israel or from a dividend originating outside of Israel will be subject to corporate tax. Following the enactment of Amendment No. 132 to the Ordinance, Israeli companies which receive dividends from foreign companies are entitled to tax credit on the corporate tax levied in Israel on the dividend income in the amount of the foreign tax paid on said income outside of Israel.

In connection with the taxation of dividends from foreign companies, an Israeli corporate taxpayer may choose between two options: a tax liability in Israel in respect of a foreign dividend at the corporate tax rate simultaneously with a withholding tax credit upon the distribution of the dividend in Israel and a tax liability in Israel in respect of a dividend originating overseas at the ordinary corporate tax rate in Israel on the amount of the dividend (namely the dividend paid to the taxpayer with the addition of any foreign tax in its respect or in respect of the income from which it derives) simultaneously with a withholding tax credit both for the withheld tax ("direct credit") and for the tax paid by the foreign company on the income from which it derives ("indirect credit"). The indirect credit will be granted for tax paid by both the direct subsidiary of the Israeli company provided that the Israeli company holds at least 25% of the means of control in the foreign subsidiary that distributes the dividend and the sub-subsidiary of the Israeli company that receives the dividend provided that the sub-subsidiary is directly held by the subsidiary at a rate of at least 50%.

4. Intercompany transactions:

As a rule, intercompany transactions conducted between the Company and subsidiaries outside of Israel are subject to the reporting provisions established in the Income Tax (Determining Market Terms) Regulations, 2006.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 31:- TAXES ON INCOME (Cont.)**
**d. Final tax assessments:**

1. The Company and ELTA, a subsidiary in Israel, file a consolidated tax return pursuant to the provisions of the Law for the Encouragement of Industry (Taxes). These companies received final income tax assessments through the 2016 tax year and final withholding tax assessments through the 2019 tax year.
2. On June 27, 2019, the Company signed a final tax assessment agreement with the Israeli income tax authority for the 2013-2016 tax years. The tax assessment agreement did not have a material impact on the financial statements.
3. In March 2021, subject to the original tax assessment agreement, the Company's tax assessments for 2013-2016 were revised following the submission of the approvals from the Israel Innovation Authority (formerly: the Chief Scientist) as required in Section 20A to the Income Tax Ordinance. The implications of the revised tax assessments are immaterial to the Company's results.
4. In Q2 2021, the Company reached understandings with the Israel Tax Authority ("the ITA") regarding prepayments paid by the Company which resulted in recognizing tax income and finance income in an aggregate of approximately \$ 7 million.
5. In December 2021, the Company reached understandings with the withholding tax assessing officer and signed a tax assessment in agreement for 2017-2019. The implications of the agreed tax assessment are immaterial to the Company's results. The Company received final withholding tax assessments through 2016.
6. In October 2020, the Company reached understandings with the National Insurance Institute and signed a tax assessment in agreement for 2013-2016. The implications of the agreed tax assessment are immaterial to the Company's results. The Company received final assessments from the National Insurance Institute through 2016.
7. The Company and ELTA received a final VAT assessment through October 2019.
8. A subsidiary in the United States received final tax assessments (or tax assessments that are deemed final) through 2015.

**e. Taxes on income recognized in other comprehensive income:**

	<b>Year ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
	<b>U.S. dollars in millions</b>		
Tax benefit (expense) carried against other comprehensive income	<u>(7)</u>	<u>7</u>	<u>7</u>
<b>Total</b>	<b><u>(7)</u></b>	<b><u>7</u></b>	<b><u>7</u></b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 31:- TAXES ON INCOME (Cont.)

## f. Reconciliation between the theoretical tax on pre-tax income and the amount of tax benefits included:

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
Income before taxes on income	194	179	113
Statutory tax rate	23%	23%	23%
Tax computed on pre-tax income at the statutory tax rate	45	41	26
Offsetting earnings of investees accounted for at equity, net	(1)	(1)	(1)
Losses in respect of which no deferred tax was recorded	-	3	6
Taxes in respect of previous years	(2)	3	7
Nondeductible expenses (tax exempt income), net	(3)	(3)	(4)
Differences in measurement basis (dollar against NIS) and other provisions	7	3	(11)
<b>Total income tax expenses</b>	<b>46</b>	<b>46</b>	<b>23</b>

## g. Carryforward tax losses:

- In 2021, the Company utilized its entire carryforward tax losses.
- According to the provisions of the Income Tax Ordinance, capital losses that are carried forward can be utilized against capital gains indefinitely. It is also possible to offset capital losses from the sale of assets outside of Israel against capital gains in Israel. The Company has carryforward capital losses totaling approximately \$ 64 million for which no deferred tax asset has been recognized as it is not expected to be utilized in the foreseeable future.
- A U.S. subsidiary has carryforward losses totaling approximately \$ 156 million for which no deferred tax asset has been recognized as it is not expected to be utilized in the foreseeable future.

Tax losses accumulated until the end of 2017 can be (gradually) utilized until 2017.  
Tax losses accumulated from 2018 can be carried forward indefinitely.

## h. VAT:

The Company is registered for VAT purposes as a licensed dealer (union of dealers) with its subsidiary.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 31:- TAXES ON INCOME (Cont.)

## i. Movement in deferred taxes:

	Property, plant and equipment	Employee benefits	Cash flow hedges	Losses	Other	Total
	U.S. dollars in millions					
Balance at January 1, 2019	(24)	112	9	42	(13)	126
<b>Changes in 2019</b>						
Changes carried to profit or loss	(4)	-	-	15	(15)	(4)
Changes carried to other comprehensive income	-	7	(14)	-	-	(7)
<b>Balance at December 31, 2019</b>	<b>(28)</b>	<b>119</b>	<b>(5)</b>	<b>57</b>	<b>(28)</b>	<b>115</b>
Reclassification of opening balance	-	-	-	(7)	-	(7)
<b>Amended balance at December 31, 2019</b>	<b>(28)</b>	<b>119</b>	<b>(5)</b>	<b>50</b>	<b>(28)</b>	<b>108</b>
<b>Changes in 2020</b>						
Changes carried to profit or loss	(5)	10	-	(45)	3	(37)
Changes carried to other comprehensive income	-	1	(8)	-	-	(7)
<b>Balance at December 31, 2020</b>	<b>(33)</b>	<b>130</b>	<b>(13)</b>	<b>5</b>	<b>(25)</b>	<b>64</b>
<b>Changes in 2021</b>						
Changes carried to profit or loss	(5)	8	-	(5)	11	9
Changes carried to other comprehensive income	-	-	7	-	-	7
<b>Balance at December 31, 2021</b>	<b>(38)</b>	<b>138</b>	<b>(6)</b>	<b>-</b>	<b>(14)</b>	<b>80</b>

The balances of deferred taxes are presented in the statement of financial position as follows:

	December 31,	
	2021	2020
	U.S. dollars in millions	
Deferred taxes	82	66
Other long-term liabilities	(2)	(2)
<b>Net balance</b>	<b>80</b>	<b>64</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 32:- OTHER COMPREHENSIVE INCOME (LOSS)

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
<b>Foreign currency translation adjustments of foreign operation:</b>			
Amount before taxes on income	3	1	1
Tax benefit	-	-	-
Net amount after taxes	3	1	1
<b>Cash flow hedge, net:</b>			
Amount before taxes on income	(29)	39	59
Tax benefit (expense)	7	(8)	(14)
Net amount after taxes	(22)	31	45
<b>Remeasurement of defined benefit plans:</b>			
Amount before taxes on income	3	(6)	(30)
Tax benefit	-	1	7
Net amount after taxes	3	(5)	(23)
<b>Other comprehensive income (loss) net of taxes</b>	<b>(16)</b>	<b>27</b>	<b>23</b>
<b>Other comprehensive income net of taxes attributable to non-controlling interests</b>	<b>2</b>	<b>2</b>	<b>1</b>

## NOTE 33:- BUSINESS SEGMENTS

## a. General:

An operating segment is a component of the Company:

1. Which is engaged in business activities from which the Company may earn revenues, incur expenses (including revenues and expenses relating to transactions with other components of the Company).
2. Whose operating results are regularly reviewed by the Company's Chief Operating Decision Maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance.
3. For which discrete financial information is available.

The operating segments are determined based on the information reviewed by the CODM for the purpose of making decisions on allocating resources and assessing performances. The chief reporting format according to business segments is based on the Company's internal and administrative reporting framework.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 33:- BUSINESS SEGMENTS (Cont.)****a. General (Cont.):**

Pursuant to the aforesaid, the Company operates in four principal operating segments as follows:

1. Aviation Group - mainly maintenance, renovation and upgrading of aircraft and aircraft engines, conversion of passenger aircraft to cargo configuration and refueling, development and manufacture of business jets, development and manufacture of aero-assemblies for military and commercial aircraft, and planning and development of aircraft and engineering infrastructures for the entire Company.
2. Military Aircraft Group - mainly development, manufacture and sale of unmanned air vehicles.
3. Systems Missile & Space Group - mainly development, manufacture and sale of attack and defense missile systems, satellites and various space assemblies.
4. ELTA Systems Ltd. ("ELTA") - engaged in the field of military electronics such as radar systems and electronic warfare.

In other segments, the Company also presents other activities at the Company level that serve all the operating segments, including corporate research and development expenses and expenses in respect of early retirement of employees. From January 1, 2020, the operating results of the RAMTA plant are presented under the ELTA segment. See also Note 20h above.

**Intersegment transactions**

The segment's revenues, expenses and operating results include intersegment transactions. The Company believes that these transactions are recorded at standard market prices similarly to the prices of similar product transactions with external customers. The intersegment results are eliminated when preparing the consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 33:- BUSINESS SEGMENTS (Cont.)

## b. Chief reporting of business segments:

	Year ended December 31, 2021						
	Aviation Group	Military Aircraft Group	Systems Missile & Space Group	ELTA	Other	Adjustments	Total
	U.S. dollars in millions						
Segment revenues	1,101	516	1,713	1,145	2	-	4,477
Intersegment revenues	95	10	63	420	1	(589)	-
Total segment revenues	1,196	526	1,776	1,565	3	(589)	4,477
Cost of sales	1,137	411	1,512	1,285	25	(589)	3,781
<b>Gross profit (loss)</b>	<b>59</b>	<b>115</b>	<b>264</b>	<b>280</b>	<b>(22)</b>	<b>-</b>	<b>696</b>
<b>% of gross profit (loss)</b>	<b>5%</b>	<b>22%</b>	<b>15%</b>	<b>18%</b>	<b>(733%)</b>	<b>-</b>	<b>16%</b>
Research and development expenses	13	27	60	63	41	-	204
General and administrative, selling and marketing expenses	63	33	72	105	7	-	280
Other expenses (income)	(2)	-	(6)	(2)	1	-	(9)
Employee retirement expenses	-	-	-	1	3	-	4
	74	60	126	167	52	-	479
<b>Operating income (loss)</b>	<b>(15)</b>	<b>55</b>	<b>138</b>	<b>113</b>	<b>(74)</b>	<b>-</b>	<b>217</b>
<b>% of operating income (loss)</b>	<b>(1%)</b>	<b>10%</b>	<b>8%</b>	<b>7%</b>	<b>(2,467%)</b>	<b>-</b>	<b>5%</b>
Finance income	-	-	12	3	6	-	21
Finance expense	(22)	-	(8)	(12)	(8)	-	(50)
Company's share of earnings (losses) of associates	10	(1)	(4)	-	1	-	6
Taxes on income	-	-	-	(28)	(18)	-	(46)
<b>Net income (loss)</b>	<b>(27)</b>	<b>54</b>	<b>138</b>	<b>76</b>	<b>(93)</b>	<b>-</b>	<b>148</b>
<b>% of net income (loss)</b>	<b>(2%)</b>	<b>10%</b>	<b>8%</b>	<b>5%</b>	<b>(3,100%)</b>	<b>-</b>	<b>3%</b>
Attributable to non-controlling interests							6
Attributable to equity holders of the parent							142

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 33:- BUSINESS SEGMENTS (Cont.)

## b. Chief reporting of business segments (Cont.):

	Year ended December 31, 2020						
	Aviation Group	Military Aircraft Group	Systems Missile & Space Group	ELTA	Other	Adjustments	Total
	U.S. dollars in millions						
Segment revenues	1,095	444	1,495	1,145	14	(9)	4,184
Intersegment revenues	92	12	51	361	10	(526)	-
Total segment revenues	1,187	456	1,546	1,506	24	(535)	4,184
Cost of sales	1,109	343	1,326	1,241	35	(535)	3,519
<b>Gross profit (loss)</b>	78	113	220	265	(11)	-	665
<b>% of gross profit (loss)</b>	7%	25%	14%	18%	(46%)	-	16%
Research and development expenses	12	30	48	62	44	-	196
General and administrative, selling and marketing expenses	75	28	64	88	18	-	273
Other expenses (income)	1	-	(7)	-	-	-	(6)
Employee retirement expenses	-	-	-	-	7	-	7
	88	58	105	150	69	-	470
<b>Operating income (loss)</b>	(10)	55	115	115	(80)	-	195
<b>% of operating income (loss)</b>	(1%)	12%	7%	8%	(333%)	-	5%
Finance income	-	-	9	7	13	-	29
Finance expense	(30)	-	(7)	(15)	2	-	(50)
Company's share of earnings (losses) of associates	8	(1)	(2)	-	-	-	5
Taxes on income	-	-	-	(28)	(18)	-	(46)
<b>Net income (loss)</b>	(32)	54	115	79	(83)	-	133
<b>% of net income (loss)</b>	(3%)	12%	7%	5%	(346%)	-	3%
Attributable to non-controlling interests							5
Attributable to equity holders of the parent							128

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 33:- BUSINESS SEGMENTS (Cont.)

## b. Chief reporting of business segments (Cont.):

	Year ended December 31, 2019						
	Aviation Group	Military Aircraft Group	Systems Missile & Space Group	ELTA	Other	Adjustments	Total
	U.S. dollars in millions						
Segment revenues	1,324	462	1,284	1,009	81	(52)	4,108
Intersegment revenues	118	19	49	257	107	(550)	-
Total segment revenues	1,442	481	1,333	1,266	188	(602)	4,108
Cost of sales	1,368	376	1,123	1,061	205	(602)	3,531
<b>Gross profit (loss)</b>	74	105	210	205	(17)	-	577
<b>% of gross profit (loss)</b>	5%	22%	16%	16%	(9%)	-	14%
Research and development expenses	17	24	45	47	58	-	191
General and administrative, selling and marketing expenses	57	27	55	82	48	-	269
Other expenses (income)	(1)	-	(1)	-	1	-	(1)
Employee retirement income	-	-	-	-	(3)	-	(3)
	73	51	99	129	104	-	456
<b>Operating income (loss)</b>	1	54	111	76	(121)	-	121
<b>% of operating income (loss)</b>	0%	11%	8%	6%	(64%)	-	3%
Finance income	-	2	-	16	30	-	48
Finance expense	(27)	-	(8)	(14)	(11)	-	(60)
Company's share of earnings (losses) of associates	5	(1)	-	1	(1)	-	4
Taxes on income	-	-	-	(18)	(5)	-	(23)
<b>Net income (loss)</b>	(21)	55	103	61	(108)	-	90
<b>% of net income (loss)</b>	(1%)	11%	8%	5%	(57%)	-	2%
Attributable to non-controlling interests							3
Attributable to equity holders of the parent							87

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 33:- BUSINESS SEGMENTS (Cont.)

## c. Secondary reporting of business segments:

	Sales in the year ended December 31, 2021					
	Aviation Group	Military Aircraft Group	Systems Missile & Space Group	ELTA	Other	Total
	U.S. dollars in millions					
North America	675	6	60	84	-	825
South America	10	3	9	20	-	42
Europe	141	114	60	245	-	560
Asia (excluding Israel)	128	276	821	491	1	1,717
Africa	26	23	-	11	-	60
Australia	-	-	-	15	-	15
Israel	121	94	763	279	1	1,258
<b>Total</b>	<b>1,101</b>	<b>516</b>	<b>1,713</b>	<b>1,145</b>	<b>2</b>	<b>4,477</b>
<b>Timing of revenue recognition:</b>						
Recognition of revenue over time	738	490	1,593	967	-	3,788
Recognition of revenue at a point in time	363	26	120	178	2	689
<b>Total</b>	<b>1,101</b>	<b>516</b>	<b>1,713</b>	<b>1,145</b>	<b>2</b>	<b>4,477</b>
	Sales in the year ended December 31, 2020					
	Aviation Group	Military Aircraft Group	Systems Missile & Space Group	ELTA	Other	Total
	U.S. dollars in millions					
North America	719	10	22	158	2	911
South America	42	2	21	19	1	85
Europe	104	183	38	173	-	498
Asia (excluding Israel)	67	169	686	529	2	1,453
Africa	23	1	-	7	-	31
Australia	-	-	-	13	-	13
Israel	140	79	728	246	-	1,193
<b>Total</b>	<b>1,095</b>	<b>444</b>	<b>1,495</b>	<b>1,145</b>	<b>5</b>	<b>4,184</b>
<b>Timing of revenue recognition:</b>						
Recognition of revenue over time	756	398	1,403	1,019	-	3,576
Recognition of revenue at a point in time	339	46	92	126	5	608
<b>Total</b>	<b>1,095</b>	<b>444</b>	<b>1,495</b>	<b>1,145</b>	<b>5</b>	<b>4,184</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 33:- BUSINESS SEGMENTS (Cont.)

## c. Secondary reporting of business segments (Cont.):

	Sales in the year ended December 31, 2019					Total
	Aviation Group	Military Aircraft Group	Systems Missile & Space Group	ELTA	Other	
North America	770	10	20	117	10	927
South America	107	2	14	30	-	153
Europe	211	182	30	131	3	557
Asia (excluding Israel)	52	194	602	498	5	1,351
Africa	12	4	-	10	3	29
Australia	-	-	-	16	-	16
Israel	172	70	618	207	8	1,075
<b>Total</b>	<b>1,324</b>	<b>462</b>	<b>1,284</b>	<b>1,009</b>	<b>29</b>	<b>4,108</b>
<b>Timing of revenue recognition:</b>						
Recognition of revenue over time	882	411	939	939	16	3,187
Recognition of revenue at a point in time	442	51	345	70	13	921
<b>Total</b>	<b>1,324</b>	<b>462</b>	<b>1,284</b>	<b>1,009</b>	<b>29</b>	<b>4,108</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 34:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES**

- a. The State of Israel is the controlling shareholder in the Company. Part of the Company's activity consists of performing contracts for government authorities, government offices and government corporations. The material business balances and results relating to these contracts are presented separately in the financial statements. These activities are carried out in the ordinary course of business and under standard commercial terms.
- b. As for royalties payable to the MOD, see Note 21b(1) above.
- c. As for real estate provided for the Company's use and the payment of usage fees in respect thereof, see Note 12c above.
- d. As for sales to the State of Israel, see Note 24b above.
- e. As for investees, see Note 11 above.
- f. **Balances with interested and related parties:**

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>U.S. dollars in millions</b>	
Trade receivables and contract assets, net	<b>530</b>	637
Other accounts receivable	<b>102</b>	110
Trade payables	<b>72</b>	76
Contract liabilities, net	<b>427</b>	386
Investments in associates and joint ventures	<b>135</b>	123
The highest receivable during the year	<b>846</b>	747

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 34:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES  
(Cont.)

- g. Salaries and related benefits paid to interested parties and key management personnel:

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
Salaries and related benefits to key management personnel	<u>8,312</u>	<u>6,866</u>	<u>7,338</u>
Of which:			
Salaries and related benefits to interested parties	<u>591</u>	<u>615</u>	<u>577</u>
Fees of directors not employed in or on behalf of the Company	<u>51</u>	<u>87</u>	<u>62</u>

The number of people to whom the salaries and benefits relate:

Interested parties employed in or on behalf of the Company	<u>2</u>	<u>2</u>	<u>2</u>
Directors not employed in the Company	<u>6</u>	<u>6</u>	<u>8</u>
Key management personnel	<u>24</u>	<u>19</u>	<u>26</u>

- h. Transactions with interested and related parties:

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
Sales	1,098	1,111	949
Cost of sales	856	972	790
Cost of acquisitions	187	147	179

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 35:- EVENTS AFTER THE REPORTING PERIOD**

- a.** In keeping with the matters discussed in Note 11 above, in February 2022, ISI, an associate of the Company, completed its IPO and began trading on the TASE. In addition to raising capital, the IPO also included an offer for the sale of some of the shareholders' interests in ISI prior to the IPO (the Company was not part of the offer). As a result of the IPO and sale of shares as above, the Company's interests in ISI decreased from about 38% to about 31%. Also, following the IPO and the accounting treatment of the loan granted by the Company to ISI (see Note 11 above), the Company expects to recognize a material gain in Q1 2022.
- b.** On February 17, 2022, the Regional Labor Court rendered its judgment in the claim filed by Mivtachim against the Company and the Histadrut. The Company appealed the judgment to the National Labor Court on March 6, 2022. See Note 21a(3) above for more information on the implications of the judgment on the Company's financial statements.

**SEPARATE FINANCIAL INFORMATION  
AS OF DECEMBER 31, 2021**

**ISRAEL AEROSPACE INDUSTRIES LTD.**

**SEPARATE FINANCIAL INFORMATION**

**AS OF DECEMBER 31, 2021**

**INDEX**

	<u>Page</u>
<b>Special Auditors' Report on the Separate Financial Information</b>	<b>126</b>
<b>Data of Financial Position</b>	<b>127 – 128</b>
<b>Data of Profit or Loss</b>	<b>129</b>
<b>Data of Comprehensive Income (Loss)</b>	<b>130</b>
<b>Data of Cash Flows</b>	<b>131 – 132</b>
<b>Notes to the Separate Financial Information</b>	<b>133 - 141</b>



**Special auditors' report to the Shareholders of Israel Aerospace Industries Ltd.**  
**on the separate financial information in accordance with**  
**Regulation 9C to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970**

We have audited the accompanying separate financial information presented in accordance with Regulation 9C to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Israel Aerospace Industries Ltd. ("the Company") as of December 31, 2021 and 2020 and for each of the three years the latest of which ended on December 31, 2021. This separate financial information is the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on this separate financial information based on our audits.

The data included in the separate financial information that relate to the balance in respect of certain investees and to the earnings in respect of certain investees are based on the financial statements audited by other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial information. An audit also includes assessing the accounting principles used in the preparation of the separate financial information and the significant estimates made by the board of directors and management, as well as evaluating the overall separate financial information presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the separate financial information is prepared, in all material respects, in conformity with Regulation 9C to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel  
March 15, 2022

BDO Ziv Haft  
Certified Public Accountants

## Separate Financial Information as of December 31, 2021

## Data of Financial Position

	Note	December 31,	
		2021	2020
		U.S. dollars in millions	
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	3	417	781
Short-term financial assets	4	228	306
Trade receivables		720	904
Contract assets, net		803	588
Other accounts receivable		584	473
Current accounts with investees		5	5
Inventories		619	669
<u>Total</u> current assets		<u>3,376</u>	<u>3,726</u>
<b>NON-CURRENT ASSETS:</b>			
Long-term receivables		15	44
Investments in investees	5	721	654
Deferred taxes	7	58	42
Property, plant and equipment		949	884
Intangible assets		151	98
<u>Total</u> non-current assets		<u>1,894</u>	<u>1,722</u>
<u>Total</u> assets		<u>5,270</u>	<u>5,448</u>

The notes to the separate financial information are an integral part thereof.

## Separate Financial Information as of December 31, 2021


## Data of Financial Position

	December 31,	
	2021	2020
	U.S. dollars in millions	
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Loans from banks and current maturities of debentures	340	535
Short-term financial liabilities	5	6
Trade payables	942	994
Other accounts payable	453	450
Provisions	204	183
Current accounts with investees	56	188
Dividend payable	24	24
Contract liabilities, net	1,769	1,703
<u>Total current liabilities</u>	<u>3,793</u>	<u>4,083</u>
<b>NON-CURRENT LIABILITIES:</b>		
Other long-term liabilities	16	43
Employee benefits	283	270
<u>Total non-current liabilities</u>	<u>299</u>	<u>313</u>
<b>EQUITY:</b>		
Equity attributable to equity holders of the parent	1,178	1,052
<u>Total equity</u>	<u>1,178</u>	<u>1,052</u>
<u>Total liabilities and equity</u>	<u>5,270</u>	<u>5,448</u>

The notes to the separate financial information are an integral part thereof.

March 15, 2022

Date of approval of the  
financial statements

  
Amir Peretz  
Chairman of the Board  
of Directors

  
Boaz Levy  
CEO

  
Eran Anchikovskiy  
CFO

## Separate Financial Information as of December 31, 2021

## Data of Profit or Loss

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
Sales	3,259	3,024	3,079
Sales to investees	16	22	39
Total sales	3,275	3,046	3,118
Cost of sales	2,872	2,650	2,750
<b>Gross profit</b>	<b>403</b>	396	368
Research and development expenses	137	134	144
Selling and marketing expenses	79	74	83
General and administrative expenses	92	105	94
Other income, net	(6)	(6)	(2)
Expenses (income) in respect of early retirement of employees	3	7	(3)
	<b>305</b>	314	316
<b>Operating income</b>	<b>98</b>	82	52
Finance income	19	27	31
Finance expenses	(37)	(39)	(45)
Company's share of earnings of investees, net	79	77	53
<b>Income before taxes on income</b>	<b>159</b>	147	91
Taxes on income	(17)	(19)	(4)
<b>Net income attributable to equity holders of the parent</b>	<b>142</b>	128	87

The notes to the separate financial information are an integral part thereof.

## Separate Financial Information as of December 31, 2021

## Data of Comprehensive Income (Loss)

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
<b>Net income attributable to equity holders of the parent</b>	<u>142</u>	<u>128</u>	<u>87</u>
<b>Other comprehensive income (loss) net of taxes:</b>			
<b>Items of other comprehensive income (loss) not carried to profit or loss:</b>			
Remeasurement of defined benefit plans	<u>3</u>	<u>(5)</u>	<u>(23)</u>
<b>Total items of other comprehensive income (loss) not carried to profit or loss</b>	<u>3</u>	<u>(5)</u>	<u>(23)</u>
<b>Items of other comprehensive income (loss) that may be carried to profit or loss:</b>			
Gain (loss) from cash flow hedge	<u>(22)</u>	<u>31</u>	<u>45</u>
Foreign currency translation adjustments of foreign operation	<u>3</u>	<u>1</u>	<u>1</u>
<b>Total items of other comprehensive income (loss) that may be carried to profit or loss</b>	<u>(19)</u>	<u>32</u>	<u>46</u>
<b>Total comprehensive income for the year</b>	<u><u>126</u></u>	<u><u>155</u></u>	<u><u>110</u></u>

The notes to the separate financial information are an integral part thereof.

## Separate Financial Information as of December 31, 2021

## Data of Cash Flows

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
<b>Cash flows from operating activities:</b>			
Net income	142	128	87
<b>Adjustments for:</b>			
<b>Adjustments to profit or loss items:</b>			
Depreciation and amortization	150	147	148
Finance income, net	(14)	(33)	(34)
Taxes on income in profit or loss	17	19	4
Company's share of earnings of investees, net	(79)	(77)	(53)
Gain from change in holding rate in associate	-	(8)	-
Dividend received from investees	56	44	146
Derecognition of intangible asset	-	-	11
Gain from sale of operation	-	-	(12)
Impairment of property, plant and equipment	-	1	-
Increase in employee benefits	12	13	19
Changes in value of securities measured at fair value through profit or loss, net	(7)	(9)	(5)
Change in fair value of financial derivatives, net	1	2	1
Gain from sale and expropriation of property, plant and equipment	(7)	-	(2)
Gain from investment in associate	(1)	-	-
Movement in accrued interest on debentures	(2)	(1)	(1)
	126	98	222
<b>Changes in asset and liability items:</b>			
Decrease (increase) in trade receivables	187	(359)	10
Decrease (increase) in other accounts receivable and current accounts with investees	(84)	44	(106)
Increase in contract assets, net	(215)	(65)	(106)
Increase in inventories	44	(38)	(70)
Increase (decrease) in trade payable	(140)	217	161
Increase in provisions	21	23	34
Increase (decrease) in contract liabilities, net	66	35	(185)
Increase in other accounts payable and current accounts with investees	(131)	124	28
	(252)	(19)	(234)
<b>Cash from operating activities:</b>			
Interest paid	(12)	(16)	(12)
Interest received	7	8	18
Taxes on income received (paid)	(11)	4	(12)
	(16)	(4)	(6)
<b>Net cash provided by operating activities</b>	-	203	69

The notes to the separate financial information are an integral part thereof.

## Separate Financial Information as of December 31, 2021

## Data of Cash Flows

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
<b>Net cash provided by operating activities (brought forward)</b>	-	203	69
<b>Cash flows from investing activities:</b>			
Investment in property, plant and equipment	(144)	(174)	(182)
Proceeds from sale and expropriation of property, plant and equipment	7	-	2
Investment in intangible assets	(60)	(46)	(27)
Proceeds from sale of (investment in) marketable securities, net	32	(43)	34
Short-term deposits, net	28	4	463
Investments in and loans to investees, net	(25)	(13)	(18)
<b>Net cash provided by (used in) investing activities</b>	<b>(162)</b>	<b>(272)</b>	<b>272</b>
<b>Cash flows from financing activities:</b>			
Repayment of debentures	(138)	(87)	(80)
Short-term loans from banks, net	(55)	295	-
Dividend paid	-	-	(10)
Repayment of lease liability	(15)	(14)	(14)
Proceeds from sale of swap in respect of debenture principal	-	14	7
<b>Net cash provided by (used in) financing activities</b>	<b>(208)</b>	<b>208</b>	<b>(97)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(370)</b>	<b>139</b>	<b>244</b>
Cash and cash equivalents at the beginning of the year	781	609	379
Translation differences from balances of cash and cash equivalents	6	33	(14)
<b>Cash and cash equivalents at the end of the year</b>	<b>417</b>	<b>781</b>	<b>609</b>

The notes to the separate financial information are an integral part thereof.

**Separate Financial Information as of December 31, 2021**

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**Notes to separate financial information**

**NOTE 1:- GENERAL**

The separate financial information of Israel Aerospace Industries Ltd. ("the Company") consists of financial data from the Company's consolidated financial statements as of December 31, 2021, which are issued in the context of the periodic reports ("the consolidated financial statements"), attributable to the Company itself ("separate financial information"), and presented in accordance with Regulation 9C to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 ("the Regulation") and the Tenth Addendum to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 ("the Tenth Addendum") regarding an entity's separate financial information.

The separate financial information should be read in conjunction with the consolidated financial statements.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES ADOPTED IN THE SEPARATE FINANCIAL INFORMATION**

The significant accounting policies adopted in this separate financial information are consistent with the accounting policies described in Notes 2 and 3 to the consolidated financial statements, subject to the matter discussed in Note 1 above and as specified below:

- a. The separate financial information includes data of the financial position, profit or loss, comprehensive income and loss and cash flows included in the consolidated financial statements and attributable to the Company itself as a parent. The balances of the investments in and operating results of investees are accounted for at equity.
- b. The accounting treatment of transactions between the Company and investees:
  1. The transactions between the Company and subsidiaries which had been eliminated in the consolidated financial statements were recognized and measured in the separate financial information. The recognition and measurement are based on the principles determined in IFRSs and therefore these transactions were accounted for as transactions with third parties.
  2. Net cash flows from transactions with subsidiaries attributable to the Company itself as a parent are presented in operating activities, investing activities and financing activities, as applicable.

## Separate Financial Information as of December 31, 2021

## Notes to separate financial information

## NOTE 3:- CASH AND CASH EQUIVALENTS

	December 31,	
	2021	2020
	U.S. dollars in millions	
Cash	122	226
Short-term deposits	295	555
<b>Total</b>	<b>417</b>	<b>781</b>

## NOTE 4:- SHORT-TERM FINANCIAL ASSETS

## a. Composition:

	December 31,	
	2021	2020
	U.S. dollars in millions	
<b>Hedging instruments:</b>		
Interest rate swaps	7	2
Forwards	5	37
Options	18	18
	<b>30</b>	<b>57</b>
<b>At fair value through profit or loss:</b>		
Government bonds	77	75
Corporate debentures	92	99
Derivatives not designated as hedging instruments	2	2
Other	20	15
	<b>191</b>	<b>191</b>
<b>At amortized cost:</b>		
Deposits (b(1))	7	58
	<b>7</b>	<b>58</b>
<b>Total</b>	<b>228</b>	<b>306</b>

## b. Additional information:

The Company received bank loans in an aggregate of \$ 175 million which were placed in short-term deposits in the lending banks and accrue net interest of about 0.25%. The Company has an immediate right to settle the loans against the deposits and intends to settle them on a net basis in the future. Accordingly, the carrying amount of the deposits was offset in the statement of financial position against the carrying amount of the loans and they are presented on a net basis.

## Separate Financial Information as of December 31, 2021

## Notes to separate financial information

## NOTE 5:- INVESTMENTS IN INVESTEEES

## a. Composition:

	December 31,	
	2021	2020
	U.S. dollars in millions	
Subsidiaries	608	548
Associates	113	106
<b>Total</b>	<b>721</b>	<b>654</b>

## b. Subsidiaries:

	December 31,	
	2021	2020
	U.S. dollars in millions	
Cost of investment in shares	224	221
Loans	65	47
Company's share of post-acquisition earnings, net	777	689
Capital reserve	2	(4)
Unrealized gain	(1)	(1)
Dividend received	(459)	(404)
<b>Total</b>	<b>608</b>	<b>548</b>

## c. Associates:

	December 31,	
	2021	2020
	U.S. dollars in millions	
Cost of investment in shares	118	117
Loans	54	43
Company's share of post-acquisition losses, net	(53)	(49)
Capital reserve	1	1
Unrealized gain	(6)	(5)
Dividend received	(1)	(1)
<b>Total</b>	<b>113</b>	<b>106</b>

## Separate Financial Information as of December 31, 2021

## Notes to separate financial information

## NOTE 5:- INVESTMENTS IN INVESTEES (Cont.)

## d. Movement in investments:

	See	Subsidiaries	Associates	Total
U.S. dollars in millions				
<b>Balance at January 1, 2020</b>		509	82	591
Investment in shares	(2)	9	2	11
Movement in the Company's share of earnings of investees		80	3	83
Dividend	(5)	(45)	(1)	(46)
Loans, net	(2)(3)(4)	(7)	20	13
Unrealized gain		-	(1)	(1)
Capital reserves		2	1	3
<b>Balance at December 31, 2020</b>		548	106	654
Investment in shares	(1)	3	1	4
Movement in the Company's share of earnings of investees		88	(4)	84
Dividend	(5)	(55)	-	(55)
Loans, net	(3)	18	11	29
Unrealized gain		-	(1)	(1)
Capital reserves		6	-	6
<b>Balance at December 31, 2021</b>		<b>608</b>	<b>113</b>	<b>721</b>

Additional information:

1. In 2021, the Company invested in a subsidiary, see Note 11c(2) to the consolidated financial statements.
2. In 2020, the Company invested approximately \$ 9 million in a subsidiary by way of conversion of the loan into capital.
3. See more details of a loan to an associate and contingent consideration which are measured at fair value in Note 11b(1) to the consolidated financial statements.
4. In the first half of 2019, the Company entered into an engagement with a private unrelated company for founding a joint venture that will develop and provide agricultural solutions and services. See more information in Note 11b(2) to the consolidated financial statements.
5. In 2021 and 2020, dividends were received from investees totaling approximately \$ 56 million and approximately \$ 44 million, respectively.

**Separate Financial Information as of December 31, 2021****Notes to separate financial information**

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**NOTE 5:- INVESTMENTS IN INVESTEES (Cont.)****e. Mutual support agreement signed between the Company and a material wholly owned subsidiary (ELTA):**

In keeping with the matter discussed in Note 21b(2) to the consolidated financial statements, in January 2019, simultaneously with the Company's signing of agreements with banks and financial institutions for updating the Company's financial covenants, the Company and ELTA signed a mutual support agreement according to which each party has undertaken towards each other (without assigning any third party right) that in the event that any party's debts to the financial creditors (banks and financial institutions and in the Company's case - also holders of the Company's outstanding debentures) are effectively placed for immediate repayment (or there is a substantial risk that they will be placed for immediate repayment) and that party is unable to repay its entire debts to the financial creditors, the other party will provide it an interest-bearing dollar loan of its own financial resources as available to it at the time. It is hereby clarified that neither party is obligated to receive a credit line, loan and/or any other type of debt or liability for the purpose of meeting the provisions of the mutual support agreement as above and that each party is entitled to pursue its activities in the ordinary course of its business at its sole discretion.

Such loan, if any, will be governed by the provisions of applicable laws as they will be on the relevant date, including subject to the lender's ability to meet its existing and expected liabilities when due after providing the loan to the other party, and also provided that the grant of the loan does not impair the lender's ability to exercise its current business plans as approved as of that date.

## Separate Financial Information as of December 31, 2021

## Notes to separate financial information

## NOTE 6:- LINKED BALANCES - SEPARATE FINANCIAL INFORMATION

## a. Composition as of December 31, 2021:

	In or linked to dollar	In CPI- linked NIS	In or linked to Euro	In or linked to other currency	In unlinked NIS	Non- monetary	Total
	U.S. dollars in millions						
Assets:							
Cash and cash equivalents	64	-	1	1	351	-	417
Short-term financial assets	70	-	-	-	158	-	228
Trade receivables	375	-	-	-	345	-	720
Contract assets, net	775	-	-	-	28	-	803
Other accounts receivable	5	53	1	-	41	484	584
Current accounts with investees	5	-	-	-	-	-	5
Inventories	-	-	-	-	-	619	619
Long-term receivables	-	-	-	-	-	15	15
Investments in investees and joint ventures	119	-	-	-	-	602	721
Deferred taxes	-	-	-	-	-	58	58
Property, plant and equipment	-	-	-	-	-	949	949
Intangible assets	-	-	-	-	-	151	151
<b>Total assets</b>	<b>1,413</b>	<b>53</b>	<b>2</b>	<b>1</b>	<b>923</b>	<b>2,878</b>	<b>5,270</b>
Liabilities:							
Loans and current maturities of debentures	340	-	-	-	-	-	340
Short-term financial liabilities	5	-	-	-	-	-	5
Trade payables	776	-	9	2	155	-	942
Other accounts payable	107	35	-	-	311	-	453
Provisions	167	-	-	-	37	-	204
Current accounts with investees	56	-	-	-	-	-	56
Dividend payable	24	-	-	-	-	-	24
Contract liabilities, net	1,233	-	-	-	272	264	1,769
Long-term liabilities	16	-	-	-	-	-	16
Employee benefits	-	16	-	-	267	-	283
<b>Total liabilities</b>	<b>2,724</b>	<b>51</b>	<b>9</b>	<b>2</b>	<b>1,042</b>	<b>264</b>	<b>4,092</b>
<b>Net balance sheet balance</b>	<b>(1,311)</b>	<b>2</b>	<b>(7)</b>	<b>(1)</b>	<b>(119)</b>	<b>2,614</b>	<b>1,178</b>

## Separate Financial Information as of December 31, 2021

## Notes to separate financial information

## NOTE 6:- LINKED BALANCES - SEPARATE FINANCIAL INFORMATION (Cont.)

## b. Composition as of December 31, 2020:

	In or linked to dollar	In CPI- linked NIS	In or linked to Euro	In or linked to other currency	In unlinked NIS	Non- monetary	Total
	U.S. dollars in millions						
Assets:							
Cash and cash equivalents	242	-	15	1	523	-	781
Short-term financial assets	116	50	-	-	140	-	306
Trade receivables	410	-	-	-	494	-	904
Contract assets, net	570	-	-	-	18	-	588
Other accounts receivable	8	-	1	-	14	450	473
Current accounts with investees	4	-	1	-	-	-	5
Taxes receivable	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	669	669
Long-term receivables	-	-	-	-	-	44	44
Investments in investees and joint ventures	90	-	-	-	-	564	654
Deferred taxes	-	-	-	-	-	42	42
Property, plant and equipment	-	-	-	-	-	884	884
Intangible assets	-	-	-	-	-	98	98
<b>Total assets</b>	<b>1,440</b>	<b>50</b>	<b>17</b>	<b>1</b>	<b>1,189</b>	<b>2,751</b>	<b>5,448</b>
Liabilities:							
Loans and current maturities of debentures	535	-	-	-	-	-	535
Short-term financial liabilities	6	-	-	-	-	-	6
Trade payables	739	-	28	2	225	-	994
Other accounts payable	122	56	-	-	272	-	450
Provisions	162	-	-	-	21	-	183
Current accounts with investees	188	-	-	-	-	-	188
Dividend payable	24	-	-	-	-	-	24
Contract liabilities, net	1,256	-	-	-	264	183	1,703
Long-term liabilities	43	-	-	-	-	-	43
Employee benefits	-	13	-	-	257	-	270
<b>Total liabilities</b>	<b>3,075</b>	<b>69</b>	<b>28</b>	<b>2</b>	<b>1,039</b>	<b>183</b>	<b>4,396</b>
<b>Net balance sheet balance</b>	<b>(1,635)</b>	<b>(19)</b>	<b>(11)</b>	<b>(1)</b>	<b>150</b>	<b>2,568</b>	<b>1,052</b>

## Separate Financial Information as of December 31, 2021

## Notes to separate financial information

## NOTE 7:- TAXES ON INCOME

## a. Composition:

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
Current taxes	28	3	-
Taxes in respect of previous years	(2)	4	7
	26	7	7
Deferred tax expenses (income):			
Creation and reversal of temporary differences	(9)	12	(3)
<b>Total income tax expenses</b>	<b>17</b>	<b>19</b>	<b>4</b>

## b. Taxes on income recognized directly in equity:

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
Tax benefit (expense) carried against other comprehensive income	(7)	7	5
<b>Total</b>	<b>(7)</b>	<b>7</b>	<b>5</b>

## c. Reconciliation between the theoretical tax on pre-tax income and the amount of tax benefits included:

	Year ended December 31,		
	2021	2020	2019
	U.S. dollars in millions		
Income before taxes on income	159	147	91
Statutory tax rate	23%	23%	23%
Tax computed on pre-tax income at the statutory tax rate	36	34	21
Nondeductible expenses	(2)	(2)	(3)
Offsetting results of investees, net	(18)	(18)	(12)
Differences in measurement basis (dollar against NIS) and other provisions	3	1	(9)
Taxes in respect of previous years	(2)	4	7
<b>Taxes on income</b>	<b>17</b>	<b>19</b>	<b>4</b>

## Separate Financial Information as of December 31, 2021

## Notes to separate financial information

## NOTE 7:- TAXES ON INCOME (Cont.)

## d. Movement in deferred taxes:

	Property, plant and equipment	Employee benefits	Cash flow hedges	Losses	Other	Total
	U.S. dollars in millions					
Balance at December 31, 2018	(16)	82	9	40	(13)	102
<b><u>Changes in 2019</u></b>						
Changes carried to profit or loss	(5)	5	(11)	17	(3)	3
Changes carried to other comprehensive income	-	-	-	-	(5)	(5)
<b>Balance at December 31, 2019</b>	<b>(21)</b>	<b>87</b>	<b>(2)</b>	<b>50</b>	<b>(21)</b>	<b>100</b>
Reclassification of opening balance	-	-	-	(7)	-	(7)
<b>Amended balance at December 31, 2019</b>	<b>(21)</b>	<b>87</b>	<b>(2)</b>	<b>50</b>	<b>(21)</b>	<b>93</b>
<b><u>Changes in 2020</u></b>						
Offsetting carryforward tax losses against earnings of subsidiary	-	-	-	(32)	-	(32)
Changes carried to profit or loss	(3)	7	-	(13)	(3)	(12)
Changes carried to other comprehensive income	-	1	(8)	-	-	(7)
<b>Balance at December 31, 2020</b>	<b>(24)</b>	<b>95</b>	<b>(10)</b>	<b>5</b>	<b>(24)</b>	<b>42</b>
<b><u>Changes in 2021</u></b>						
Changes carried to profit or loss	(5)	5	-	(5)	14	9
Changes carried to other comprehensive income	-	-	6	-	1	7
<b>Balance at December 31, 2021</b>	<b>(29)</b>	<b>100</b>	<b>(4)</b>	<b>-</b>	<b>(9)</b>	<b>58</b>

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