



ISRAEL AEROSPACE INDUSTRIES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2025

**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, 2025

IN U.S. DOLLARS IN MILLIONS

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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"), is 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 IFRS Accounting Standards, 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, 2025 is effective.

Date: March 11, 2026



Eyal De Paauw
Director (*)

Date: March 11, 2026



Boaz Levy
President and CEO

Date: March 11, 2026



Eran Anchikovskiy
Executive VP and CFO

(*) Authorized by the Board of Directors to sign the financial statements in the absence of permanent COB.

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

I, Eyal De Paauw, 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 2025 ("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 in order 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 11, 2026



Eyal De Paauw
Director (*)

(*) Authorized by the Board of Directors to sign the financial statements in the absence of permanent COB.

**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 2025 ("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 in order 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 11, 2026



Boaz Levy
President and CEO

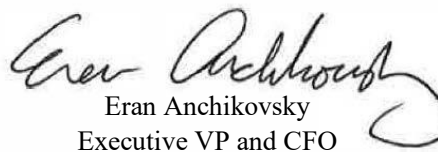
**GOVERNMENT COMPANIES REGULATIONS
(ADDITIONAL REPORT REGARDING ACTIONS TAKEN AND
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THE FINANCIAL STATEMENTS AND DIRECTORS' REPORT), 2005**

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 2025 ("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 in order 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 11, 2026


Eran Anchikovsky
Executive VP and CFO



**Independent Auditor's 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, 2025, 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 21.87% of total consolidated assets as of December 31, 2025 and whose revenues constitute approximately 23.90% of total consolidated revenues for 2025. 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 IFRS Accounting Standards, 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 Accounting Standards, 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 expensed 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.

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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, 2025, based on the COSO criteria.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2025 and for the year then ended, and our report dated March 11, 2026 expressed an unmodified opinion thereon, based on our audit and the reports of other auditors.

Tel-Aviv, Israel
March 11, 2026


BDO Ziv Haft
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of

ISRAEL AEROSPACE INDUSTRIES LTD.

Opinion

We have audited the consolidated financial statements of Israel Aerospace Industries Ltd. ("the Company"), which comprise the consolidated statement of financial position as of December 31, 2025, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policies.

We did not audit the financial statements of certain consolidated entities, whose assets included in the consolidated statement of financial position constitute approximately 24.06% of total consolidated assets as of December 31, 2025, and whose revenues included in the consolidated statement of profit or loss constitute approximately 25.47% of total consolidated revenues for the year then ended. Furthermore, we did not audit the financial statements of equity accounted investees, the investment in which amounted to approximately \$ 145 million as of December 31, 2025, and the Company's share of their losses amounted to approximately \$ 7 million for the year then ended. The financial statements of those entities were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar, as it relates to amounts included for those entities, is based solely on the reports of the other auditors.

In our opinion, based on our audit and the reports of other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2025, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with IFRS Accounting Standards and with the provisions of the Securities Regulations (Annual Financial Statements), 2010. Moreover, in our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the disclosure provisions required by circulars of the Israel Government Companies Authority.

Basis for Opinion

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditor's Regulations (Auditor's Mode of Performance), 1973. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries, in accordance with the applicable legal provisions in Israel regarding independence and conflict of interest of auditors. Additionally, we have fulfilled our other ethical responsibilities in accordance with the Auditors' Law, 1955 and the regulations thereunder. We believe that the audit evidence we have obtained, including the reports of other auditors, is appropriate and sufficient to provide a basis for our opinion.

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Key Audit Matters

The key audit matters described below are those matters that were communicated, or were required to be communicated, to the board of directors of the Company, and that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters include, among others, any matter that (1) relates, or may relate, to significant accounts or disclosures in the consolidated financial statements; and (2) involved our professional judgment that was challenging, subjective or especially complex. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. The communication of these matters below does not change our opinion on the consolidated financial statements as a whole, nor do we provide through such communication a separate opinion on these matters or on the accounts or disclosures to which they relate.

Description of the matter:

Revenue recognition

As discussed in Notes 2h(3), 3l, 7, 18 and 24 to the consolidated financial statements, the Company's operations rely on the performance of extensive contracts whose accounting treatment requires using estimates and evaluations regarding the performance of the contracts and assessing the underlying risks. The Company recognizes revenue from contracts with customers when the control of the goods or services is transferred to the customer. In 2025, the Company's revenues totaled approximately \$ 7.4 billion. In respect of most of its contracts, the Company recognizes revenue over time in accordance with the provisions of IFRS 15, "Revenue from Contracts with Customers".

The revenue recognition process for each customer contract requires the Company to identify the performance obligation, determine the revenue recognition method and estimate the contract revenue and costs during each contract stage. When revenue is recognized over time, the Company uses the percentage of completion method according to which the Company measures the contract progress based on the ratio of costs incurred to date to total estimated costs of performing the contract (percentage of completion). The percentage of completion measures the total revenue and gross profit to be recognized in the relevant period and, if applicable, the loss allowance in respect of the contract. This process requires management to prepare estimates and make assumptions for the future, including forecasts of expected costs to performance of the contract which involve a degree of uncertainty. Any change in such estimates or evaluations is likely to have a material impact on the revenue and gross profit deriving from the contracts.

Principal estimates – as stated above, the percentage of completion method requires the Company to make significant evaluations and assumptions regarding the costs of performance of contracts with customers. At each contract inception, the Company determines the revenue recognition method, the inherent contract risks and the expected costs to completion (costs of labor, materials, subcontractors and more). Throughout the contract period, the Company evaluates whether to update the provision for completion based on project progress, risk materialization and cost evaluation compared to the forecast and adjusts the provision for contract completion as necessary.

How we addressed the matter in our audit:

We identified the revenue recognition process, estimates and assumptions used by management to measure revenue as a key audit matter. The audit of the revenue recognition process requires the auditor to exercise judgment, knowledge and experience in examining how management substantiated the adequacy of assumptions and estimates used in the process which results in determining the Company's revenues and gross profit every reporting period.

The primary procedures we performed to address this key audit matter included the following:

We performed the following primary procedures to address the key audit matter in our audit:

We tested the revenue recognition process by obtaining an understanding of the process and evaluating the planning, implementation and operating effectiveness of the relevant internal controls over the Company's revenue recognition process, including:

- Internal controls practiced by management to determine revenue recognition at a point in time or over time.
- Internal controls practiced by the relevant functions in the Company to evaluate expected costs to contract completion including a structured executive signoff process.

For a sample of contracts, we performed analytical and substantive procedures for testing the estimates and assumptions used in the revenue recognition process. Among others, these procedures included the following:

- Obtaining an understanding of contract prices and the underlying revenue recognition method.
- Examining changes in contract completion assessments and obtaining supporting evidence.
- Testing the existence of project losses and the need for loss provision.
- Performing various analytical procedures (such as profit margins, percentage of completion, costs) of results in previous contract periods or, if applicable, of results of other contracts in the same segment.
- Obtaining supporting documentation of contract cost performance.

Responsibilities of Board of Directors and Management for the Consolidated Financial Statements

The board of directors and management are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards and for such internal control as the board of directors and management determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the board of directors and management are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors and management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Israel will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit, including the reliance on the work of other auditors, in accordance with generally accepted auditing standards in Israel, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- o Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is appropriate and sufficient to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- o Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- o Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors and management.
- o Conclude on the appropriateness of the use by the board of directors and management of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- o Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- o Obtain sufficient appropriate audit evidence regarding the financial preparation of the consolidated financial statements, including examining that the accounting principles applied in the financial statements audited by other auditors are consistent with the principles applied by the Company, that the reporting principles used in the preparation of the financial statements audited by other auditors are consistent with laws and mandatory guidance applicable to the Company, and that all the data required for consolidation have been appropriately reflected in the consolidated financial statements.

We communicate with the board of directors and management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors and management with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the safeguards applied to eliminate identified threats to our independence.

From the matters communicated or required to be communicated to the board of directors and management, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Reference Paragraph

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) regarding an audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the Company's internal control over financial reporting as of December 31, 2025, based on the COSO criteria and our report dated March 11, 2026 included an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Yaron David.

Tel-Aviv, Israel
March 11, 2026



ZIV HAFT BDO
Certified Public Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION



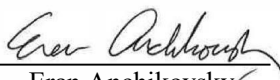
	<u>Note</u>	<u>December 31,</u>	
		<u>2025</u>	<u>2024</u>
		<u>U.S. dollars in millions</u>	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	725	541
Short-term financial assets	5	3,201	3,391
Trade receivables	6	2,340	1,271
Contract assets, net	7	1,553	1,364
Other accounts receivable	8	923	721
Inventories	9	1,078	1,032
<u>Total current assets</u>		<u>9,820</u>	<u>8,320</u>
NON-CURRENT ASSETS:			
Long-term receivables	10	41	75
Investments in associates and joint ventures	11	145	131
Property, plant and equipment	12	1,608	1,502
Intangible assets	13	400	368
<u>Total non-current assets</u>		<u>2,194</u>	<u>2,076</u>
<u>Total assets</u>		<u>12,014</u>	<u>10,396</u>

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31,	
		2025	2024
U.S. dollars in millions			
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Loans from banks and current maturities in respect of debentures	14	169	126
Short-term financial liabilities		64	6
Trade payables	15	1,491	1,236
Other accounts payable	16	688	548
Provisions	17	454	374
Dividend payable	23	242	438
Contract liabilities, net	18	6,003	5,365
Total current liabilities		9,111	8,093
NON-CURRENT LIABILITIES:			
Other long-term liabilities		191	171
Employee benefits	20	318	262
Total non-current liabilities		509	433
EQUITY:			
Equity attributable to equity holders of the parent	23	2,318	1,813
Non-controlling interests		76	57
Total equity		2,394	1,870
Total liabilities and equity		12,014	10,396

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

March 11, 2026			
Date of approval of the financial statements	Eyal De Paauw Director (*)	Boaz Levy President and CEO	Eran Anchikovskiy Executive VP and CFO

(*) Authorized by the Board of Directors to sign the financial statements in the absence of permanent COB.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Note	Year ended December 31,		
		2025	2024	2023
U.S. dollars in millions				
Sales	24	7,384	6,112	5,327
Cost of sales	25	5,951	4,971	4,360
Gross profit		1,433	1,141	967
Research and development expenses, net	26	318	333	275
Selling and marketing expenses	27	139	127	118
General and administrative expenses	28	223	210	199
Other expenses (income), net	29	1	(26)	(3)
Expenses (income) in respect of early retirement of employees	20	1	(1)	2
		682	643	591
Operating income		751	498	376
Finance income	30	265	182	82
Finance expenses	30	(93)	(53)	(53)
Company's share of earnings (losses) of associates and joint ventures, net	11	(7)	-	6
Income before taxes on income		916	627	411
Taxes on income	31	(204)	(134)	(93)
Net income		712	493	318
Net income attributable to:				
Equity holders of the parent		702	484	309
Non-controlling interests		10	9	9
Total		712	493	318

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31,		
		2025	2024	2023
		U.S. dollars in millions		
Net income		712	493	318
Other comprehensive income (loss) net of taxes:				
Items of other comprehensive income that will not be subsequently reclassified to profit or loss:				
Remeasurement of defined benefit plans	32	2	3	5
Total items of other comprehensive income that will not be subsequently reclassified to profit or loss		2	3	5
Items of other comprehensive income (loss) that may be subsequently reclassified to profit or loss:				
Gain from cash flow hedge	32	17	37	41
Foreign currency translation adjustments of foreign operation	32	33	(1)	-
Company's share of other comprehensive income of investees	32	1	-	-
Total items of other comprehensive income that may be subsequently reclassified to profit or loss		51	36	41
Total comprehensive income		765	532	364
Total comprehensive income attributable to:				
Equity holders of the parent		747	523	356
Non-controlling interests		18	9	8
Total comprehensive income		765	532	364

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						Retained earnings	Total	Non-controlling interests	Total equity
	Outstanding share capital	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	Other capital reserves				
	U.S. dollars in millions									
Balance as of December 31, 2022	861	(45)	(1)	(8)	19	4	364	1,194	40	1,234
Changes in the year ended December 31, 2023:										
Net income for the year	-	-	-	-	-	-	309	309	9	318
Other comprehensive income (loss)	-	39	2	1	5	-	-	47	(1)	46
Total comprehensive income (loss) for the year	-	39	2	1	5	-	309	356	8	364
Dividend declared	-	-	-	-	-	-	(104)	(104)	-	(104)
Dividend to holders of non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	(2)	(2)
Non-controlling interests from business combination	-	-	-	-	-	-	-	-	3	3
Balance as of December 31, 2023	861	(6)	1	(7)	24	4	569	1,446	49	1,495
Changes in the year ended December 31, 2024:										
Net income for the year	-	-	-	-	-	-	484	484	9	493
Other comprehensive income (loss)	-	37	-	(1)	3	-	-	39	-	39
Total comprehensive income (loss) for the year	-	37	-	(1)	3	-	484	523	9	532
Dividend declared	-	-	-	-	-	-	(155)	(155)	-	(155)
Dividend to holders of non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	(2)	(2)
Dilution of non-controlling interests in subsidiaries	-	-	-	-	-	(1)	-	(1)	1	-
Balance as of December 31, 2024	861	31	1	(8)	27	3	898	1,813	57	1,870
Changes in the year ended December 31, 2025:										
Net income for the year	-	-	-	-	-	-	702	702	10	712
Other comprehensive income (loss)	-	19	(2)	25	2	1	-	45	8	53
Total comprehensive income (loss) for the year	-	19	(2)	25	2	1	702	747	18	765
Dividend declared	-	-	-	-	-	-	(242)	(242)	-	(242)
Dividend to holders of non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	(2)	(2)
Non-controlling interests from business combination	-	-	-	-	-	-	-	-	3	3
Balance as of December 31, 2025	861	50	(1)	17	29	4	1,358	2,318	76	2,394

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2025	2024	2023
	U.S. dollars in millions		
Cash flows from operating activities:			
Net income	712	493	318
Adjustments for:			
Depreciation and amortization (including impairment)	331	294	288
Finance income, net	(190)	(116)	(37)
Taxes on income in profit or loss	204	134	93
Company's share of (earnings) losses of associates and joint ventures, net	7	-	(6)
Dividend received from associate	4	6	14
Gain from change in holding rate in associate	(8)	(1)	-
Increase (decrease) in respect of employee benefits	59	15	(7)
Changes in value of securities measured at fair value through profit or loss, net	(30)	(4)	2
Change in fair value of financial derivatives, net	(2)	(1)	1
Loss (gain) from sale of property, plant and equipment	11	7	(6)
Impairment of (reversal of impairment) of investment in associate	(1)	6	-
Gain from loss of control in a subsidiary that is a business	-	(26)	-
	385	314	342
Changes in asset and liability items:			
Decrease (increase) in trade receivables	(1,057)	16	65
Decrease (increase) in other accounts receivable	(152)	(137)	41
Decrease (increase) in contract assets, net	(153)	56	(143)
Increase in inventories	(56)	(73)	(120)
Increase (decrease) in trade payables	139	21	(9)
Increase (decrease) in provisions	71	19	(3)
Increase in contract liabilities, net	600	1,931	434
Increase in other accounts payable	84	4	3
	(524)	1,837	268
Interest paid	(5)	(3)	(5)
Interest received	177	130	40
Taxes on income paid, net	(133)	(54)	(74)
	39	73	(39)
Net cash provided by operating activities	612	2,717	889

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2025	2024	2023
	U.S. dollars in millions		
Net cash provided by operating activities (brought forward)	612	2,717	889
Cash flows from investing activities:			
Investment in property, plant and equipment	(226)	(232)	(192)
Proceeds from sale and expropriation of property, plant and equipment	-	21	8
Investment in intangible assets	(54)	(60)	(78)
Proceeds from sale of (investment in) marketable securities, net	(264)	(251)	44
Short-term deposits, net	581	(2,446)	(205)
Lease payments made on or before lease inception date	(14)	-	(79)
Investments in and loans to associates, net	(9)	3	(20)
Payments for acquisition of subsidiary on or after initial consolidation date	5	(6)	(52)
Net cash provided by (used in) investing activities	19	(2,971)	(574)
Cash flows from financing activities:			
Short-term loans from banks, net	-	(50)	-
Sale of swap in respect of debenture principal	-	-	(4)
Repayment of lease liability	(42)	(34)	(20)
Short-term credit, net	27	18	24
Dividend paid	(447)	-	-
Dividend paid to holders of non-controlling interests	(2)	(2)	(2)
Net cash used in financing activities	(464)	(68)	(2)
Increase (decrease) in cash and cash equivalents	167	(322)	313
Cash and cash equivalents at the beginning of the year	541	865	549
Translation differences from balances of cash and cash equivalents	17	(2)	3
Cash and cash equivalents at the end of the year	725	541	865

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 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 resolution of the Government Companies Authority ("the GCA"), 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 21b(2) and 23c below.

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

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.

d. Interest curve fluctuations and inflation expectations:

In recent years, inflation rates have been on the rise in Israel and worldwide. In response to global markups, central banks around the world decided to raise their benchmark interest rates in an attempt to stop prices from rising further. Fluctuations in market interest and inflation rates are likely to have a major impact on the Company's employee benefit liabilities, see more information in Note 20e(4) below.

e. Effects of war in Israel and recent military operations in the region:

Despite the recent homeland security challenges, the Company has taken the necessary measures to maintain its operational and business continuity, including but not limited to, supporting Israel's defense systems while continuing to operate its development and production divisions to meet its contractual obligations to its customers. As of the date of publication of these consolidated financial statements, the Company is not aware of any impairment of its assets due to damage caused to infrastructures, production lines and raw materials and/or due to reduced demand for the Company's products.

The foreign relations of the State of Israel, as well as its security needs, have an impact on the Company's activities mainly in the military market. The Company is presently not aware of any material effect on its business dealings with its customers due to the war. The Ministry of Defense is a significant customer of the Company, and the State's defense budget, which may be affected as a result of the war, could impact the Company's results and cash flow.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**a. Adoption of IFRS Accounting Standards:**

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

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 11, 2026.
7. As of the date of approval of these financial statements, a Chair has yet to be appointed to the Company's Board of Directors. Accordingly, the Board authorized Mr. Eyal De Paauw to sign the financial statements.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.
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,		
	2025	2024	2023
Israeli CPI (in points)	103.60	100.90	97.80
U.S.\$ (in NIS per U.S.\$ 1)	3.19	3.65	3.63
Euro (in NIS per € 1)	3.75	3.80	4.01
	Year ended December 31,		
	2025	2024	2023
	%		
Change in the reporting periods:			
Israeli CPI	2.64	3.24	2.96
U.S.\$	(12.60)	0.55	3.07
Euro	(1.43)	(5.36)	6.89

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

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

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

NOTE 3:- 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.

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

NOTE 3:- 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.

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

NOTE 3:- 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

NOTE 3:- 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.

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

NOTE 3:- 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

NOTE 3:- 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

NOTE 3:- 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

NOTE 3:- 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 forward transactions, the Company designates the entire changes in fair value as a hedging instrument.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- 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

NOTE 3:- 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.
5. The Company recognizes the right to receive reimbursement from third parties for impaired items of property, plant and equipment when the reimbursement becomes receivable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- 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 the item in which the underlying assets would have been presented had they been owned by the Company. 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

NOTE 3:- 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

NOTE 3:- 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).
2. The Company recognizes a reimbursement asset only when it is virtually certain that the reimbursement will be received once the Company settles the obligation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

3. 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.
4. 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

NOTE 3:- 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

NOTE 3:- 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. 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

NOTE 3:- 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

NOTE 3:- 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(4) 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 any 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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. 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.

q. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 3:- ACCOUNTING POLICIES (Cont.)****r. New standards issued in the period that are not yet applicable:**

Published by the IASB in April 2024, IFRS 18, "Presentation and Disclosure in Financial Statements" ("IFRS 18"), replaces IAS 1, "Presentation of Financial Statements", and is effective for annual reporting periods beginning on or after January 1, 2027. IFRS 18 can be adopted early.

IFRS 18 modifies the structure of the statement of profit or loss, defines new presentation categories and mandatory disclosures related to management-defined performance measures (MPMs) and updates certain principles of aggregation and disaggregation of information in the financial statements.

IFRS 18 has resulted in certain narrow scope amendments to other IFRS Accounting Standards, such as IAS 7, "Statement of Cash Flows".

The Company evaluated the possible effects of IFRS 18 on its financial statements and does not expect the adoption of IFRS 18 to have a material impact on the financial statements. The Company plans to adopt IFRS 18 on its effective date rather than early.

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

	December 31,	
	2025	2024
	U.S. dollars in millions	
Cash	307	290
Short-term deposits (b)	418	251
Total	725	541

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 as of December 31, 2025 and 2024 is about 4% and about 4.2%, respectively.
3. The average annual interest rate of USD deposits as of December 31, 2025 and 2024 is about 4.6% and about 4.7%, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- SHORT-TERM FINANCIAL ASSETS

a. Composition:

	December 31,	
	2025	2024
	U.S. dollars in millions	
Hedging instruments:		
Forwards (b(1))	95	30
Options (b(1))	1	8
Designated deposits (b(1))	-	16
	<u>96</u>	<u>54</u>
At fair value through profit or loss:		
Government bonds (b(2))	215	122
Corporate debentures (b(3))	427	227
Derivatives not designated as hedging instruments	39	1
Mutual funds	14	13
	<u>695</u>	<u>363</u>
At amortized cost:		
Deposits	<u>2,410</u>	<u>2,974</u>
	<u>2,410</u>	<u>2,974</u>
Total	<u><u>3,201</u></u>	<u><u>3,391</u></u>

b. Additional information:

1. NIS forward, options and deposits designated for hedging changes in exchange rates mainly in respect of expected salary payments and balance sheet exposure and mainly Euro forward and option contracts designated to hedge against changes in exchange rates in respect of receipts and payments.
2. Government bonds with average life of 5.9 years and average yield-to-maturity of about 4.5% per annum.
3. Corporate debentures with average life of 4.5 years and average yield-to-maturity of about 4.7% per annum.
4. NIS deposits bearing average annual interest of about 4.0% and 4.6% as of December 31, 2025 and 2024, respectively, and USD deposits bearing average interest of about 5.2% and 5.9% as of December 31, 2025 and 2024, respectively. See also Note 22f below regarding linkage bases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- TRADE RECEIVABLES

a. Composition:

	December 31,	
	2025	2024
	U.S. dollars in millions	
Open debts:		
Unrelated party customers	648	542
Related parties (b(1))	1,711	745
Total open debts	2,359	1,287
Less - allowance for doubtful accounts:		
Balance at beginning of year	(16)	(32)
Net charge during the year (b(2))	(4)	(5)
Decrease in respect of collected or written-off debts, net	1	21
Balance at end of year	(19)	(16)
Total	2,340	1,271

b. Additional information:

1. The increase mainly stems from the Ministry of Defense's debt. The Company does not normally anticipate any risk of collecting this debt. See also Notes 22d(4) and 34 below.
2. The addition to the charge in 2025 and the recognition of bad debts stem from the Company's assessment of expected credit losses in respect of certain customers in the Aviation Group and Systems Missile & Space Group.
3. As for aging of trade receivables, see Note 22d(4)(b) below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31,	
	2025	2024
	U.S. dollars in millions	
Gross contract assets	1,963	1,742
Less - progress billings	(410)	(378)
Contract assets, net	<u>1,553</u>	<u>1,364</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 2025, a balance of approximately \$ 854 million was reclassified from the balance of contract assets at beginning of the year to trade receivables. In 2024, a balance of approximately \$ 864 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

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

	December 31,	
	2025	2024
	U.S. dollars in millions	
Government authorities	22	6
Employees	3	3
Deferred charges and advances to suppliers (b(1))	602	489
Related parties (b(2))	178	159
Other	118	64
Total	923	721

b. Additional information:

1. Includes incremental costs of obtaining contracts with customers. In 2025 and 2024, the Company recognized amortization expenses in respect of an asset for costs to obtain a contract totaling approximately \$ 75 million and approximately \$ 69 million, respectively.
2. Including balance of advances to suppliers that are a related party, see additional information of related party balances in Note 34 below.

NOTE 9:- INVENTORIES**a. Composition:**

	December 31,	
	2025	2024
	U.S. dollars in millions	
Raw materials, parts and auxiliary materials	572	508
Work in progress (b)	652	687
Less - provision for write down	(146)	(163)
Total	1,078	1,032

b. Additional information:

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- LONG-TERM RECEIVABLES

a. Composition:

	December 31,	
	2025	2024
	U.S. dollars in millions	
Deferred taxes (b)	9	7
Other long-term assets	32	68
Total	41	75

b. Additional information:

For information of movement in deferred taxes, see Note 31i below.

NOTE 11:- INVESTMENTS IN ASSOCIATES, JOINT VENTURES AND INVESTEEES

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

	Holding rate	Carrying amount of the Investment as of December 31 *		The Company's share of earnings (losses) in the year ended December 31		
		31.12.2025	2025	2024	2025	2024
		U.S. dollars in millions				
Associates:						
ISI (b(1))	31%	44	45	(1)	(1)	
TSG (b(2))	37%	40	28	2	1	
NIART (b(3))	-	27	24	(2)	-	
GroWings (b(4))	45%	14	9	(6)	(6)	
Other (b(5))		11	9	1	1	
Total associates		136	115	(6)	(5)	
Joint ventures:						
Iron Brain (b(6))	50%	4	7	(3)	(2)	
M&B Conversions Limited (b(7))	50%	1	6	2	6	
Other		4	3	-	1	
Total joint ventures		9	16	(1)	5	
Total		145	131	(7)	-	

* Includes the amortized cost of original differences arising at the date of investment, elimination of unrealized intercompany profits, and other related adjustments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Investment in ImageSat International N.V. ("ISI"):
 - a) As of the financial statement date, the Company holds about 31% 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 granted a loan to ISI whose carrying amount as of December 31, 2025 including accrued interest is approximately \$ 34 million. The loan is presented in other accounts receivable.
 - c) 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. The contingent consideration is measured and presented in the financial statements at fair value and changes in fair value are carried to profit or loss. The changes in the fair value of the contingent consideration carried to profit or loss in 2025 are immaterial.
2. TSG IT Advanced Systems Ltd. ("TSG") is engaged in research, development, supply, integration, consulting and maintenance of a variety of software systems, solutions and services for the defense and civil sectors.
 - a) On October 30, 2025, TSG completed a capital raising of about NIS 104 million through a private placement of ordinary shares and options that are exercisable into ordinary shares. Following this capital raising round, the Company's interests in TSG declined from 43% to about 37%. As a result of the capital raising and dilution of the Company's interests, the Company recognized a gain of approximately \$ 8 million which was carried to other income, net in 2025.
 - b) On August 1, 2024, TSG completed an IPO and began trading on the TASE. In the IPO, TSG issued new shares to the public which account for about 14.3% of its issued and outstanding share capital post allocation and raised gross proceeds of approximately NIS 62 million. Following the IPO, the Company's interests in TSG were diluted from 50% to about 43%. As a result of the IPO and the dilution of the Company's interests in TSG, in 2024, the Company recognized a gain in an immaterial amount which was carried to other income, net.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

3. In the second quarter of 2024, a wholly owned subsidiary of the Company, ELTA Systems Ltd. ("ELTA"), closed a transaction with an unrelated corporation ("the partner") for co-founding a new joint venture that will develop, manufacture and globally distribute obstacle detection solutions for the civil transportation industry including the railway industry, based on digital radar with multi-spectral electro-optical sensors developed by ELTA in the context of a special project ("the project"). According to the transaction, the partner will establish an Israeli company ("NIART") which will be 100% held by the partner in return for a capital contribution of approximately \$ 25 million to be invested in three tranches within a year from the closing date. Upon NIART's foundation, ELTA will transfer to NIART the entire project operations, tangibles and intangibles, including knowhow, patents and various rights, as well as the project's team of professionals, in return for approximately \$ 6 million and warrants that are exercisable into 49.9% of NIART's share capital with no exercise increment.

The project operations transferred to NIART represent a business as per accounting principles pertaining to business combinations and accordingly, in the second quarter of 2024, the Company recognized other income of approximately \$ 26 million from loss of control interests in a business.

The Company accounts for the capital investment in NIART (the warrants) at equity although it does not hold any shares therein as of the financial statement date, yet it is the beneficial owner of the rights attached to the warrants which grant it access to the returns and the power of influence that are associated with ownership rights.

4. Investment in GroWings Robotx Ltd.:

In 2019, the Company entered into an engagement with a private unrelated company ("the partner") for founding GroWings Robotx Ltd., a joint venture that will develop and provide agricultural solutions and services ("GroWings" and/or "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 \$ 15 million. The Company accounted for the investment in the joint venture at equity.

In 2025, the Company invested approximately \$ 9 million in GroWings, accounting for the Company's relative share of an overall investment round of \$ 20 million executed by GroWings in keeping with the total investments of \$ 22 million completed by the Company in two instalments of \$ 11 million each in 2023 and 2020 pro rata to its interests on the investment dates.

5. In 2024, the Company, through ELTA, recognized a loss from impairment of its investments in associates totaling approximately \$ 6 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

b. Additional information (Cont.):

6. Investment in Iron Brain Ltd.:

In 2024, the Company, through ELTA, acquired 20% of the issued and outstanding share capital of Iron Brain Ltd. ("Iron Brain"), an Israeli corporation which designs AI based solutions for the defense market, for approximately \$ 5 million. The investment is in addition to an initial investment made by the Company in Iron Brain in 2023 during which the Company acquired 30% of Iron Brain's issued and outstanding share capital for approximately \$ 4 million. The change in the Company's interests in Iron Brain did not lead to a change in the assessment of the Company's control over Iron Brain and therefore the latter continues to be classified as an investee accounted for at equity.

7. Joint venture in the aircraft conversion industry incorporated in Ireland and equally held with a foreign partner. The JV develops and markets customized B767-300 cargo reconfiguration plans.

c. Principal subsidiaries:

1. Composition:

	Rate of equity and voting rights	
	December 31,	
	2025	2024
	%	
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
Israel Aerospace India Services Private Limited	100	100
Lardosa Investment B.V.	100	100
Intracom Defense S.A.	100	100
Hela Systems Private Limited	100	100
Flensburg Technology Systems GmbH (2a)	50	50
Elcom Systems Private Limited (2b)	65	-
BIA BEL IAI Aerosystems Private Limited	60	60
Ziv-Av Technologies Ltd.	50	50
Eltel Technologicals Ltd.	50	50
Elbatech Ltd.	50	50
Bluebird Aero Systems Ltd.	50	50

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

2. Initial consolidation of subsidiaries:

a) Initial consolidation of Flensburg Technology Systems GmbH ("FTSG"):

- (1) In 2024, the subsidiary ELTA co-founded FTSG with a German partner, in equal parts. FTSG focuses on development, integration and application of advanced solutions for electronic warfare systems, SIGINT, defense and autonomous capabilities.
- (2) In 2025, the shareholders' agreement in FTSG was amended to change the parties' major decision-making rights in FTSG as a result of which ELTA achieved control over FTSG within the definition of the term "control" in IFRS 10. Accordingly, from the date of the amendment and achieving control as above, FTSG is fully consolidated in the Company's financial statements. Before that date, the investment in FTSG was accounted for at equity.
- (3) The achievement of control in FTSG was recognized as a business combination as per IFRS 3 whereby the previous interests were remeasured to fair value on the date of achieving control and the negligible difference between the fair value and carrying amount was carried to profit or loss in 2025.

b) Initial consolidation of Elcom Systems Private Limited ("Elcom"):

On August 4, 2025, the Company completed the acquisition of 65% of the issued and outstanding share capital of Elcom for approximately \$ 3 million. Elcom is incorporated in India and is mainly engaged in offering maintenance, repair and overhaul (MRO) services for unmanned aerial vehicles. Elcom has been administratively attributed to the Military Aircraft Group.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- PROPERTY, PLANT AND EQUIPMENT

a. Composition and movement in 2025:

	Land, buildings and service installations	Machinery, systems, equipment and tools	Computers, office furniture and equipment	ROU assets for land and offices	ROU assets for vehicles	Total
	U.S. dollars in millions					
Cost						
Balance at beginning of year	1,429	1,395	336	158	76	3,394
Additions	102	101	38	55	24	320
Disposals	(36)	(29)	(22)	(1)	(12)	(100)
Business combination	1	3	-	-	-	4
Translation differences	19	5	5	7	1	37
Balance at end of year	1,515	1,475	357	219	89	3,655
Accumulated depreciation						
Balance at beginning of year	(730)	(898)	(215)	(21)	(28)	(1,892)
Additions and impairment	(53)	(104)	(32)	(18)	(26)	(233)
Disposals	25	28	22	1	10	86
Translation differences	(2)	(4)	(2)	-	-	(8)
Balance at end of year	(760)	(978)	(227)	(38)	(44)	(2,047)
Depreciated balance at end of year	755	497	130	181	45	1,608

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

b. Composition and movement in 2024:

	Land, buildings and service installations	Machinery, systems, equipment and tools	Computers, office furniture and equipment	ROU assets for land and offices	ROU assets for vehicles	Total
	U.S. dollars in millions					
Cost						
Balance at beginning of year	1,365	1,360	308	143	58	3,234
Additions	94	105	39	18	33	289
Disposals	(30)	(70)	(10)	(3)	(15)	(128)
Translation differences	-	-	(1)	-	-	(1)
Balance at end of year	<u>1,429</u>	<u>1,395</u>	<u>336</u>	<u>158</u>	<u>76</u>	<u>3,394</u>
Accumulated depreciation						
Balance at beginning of year	(694)	(858)	(198)	(15)	(20)	(1,785)
Additions and impairment	(53)	(97)	(26)	(9)	(23)	(208)
Disposals	17	57	9	3	15	101
Balance at end of year	<u>(730)</u>	<u>(898)</u>	<u>(215)</u>	<u>(21)</u>	<u>(28)</u>	<u>(1,892)</u>
Depreciated balance at end of year	<u><u>699</u></u>	<u><u>497</u></u>	<u><u>121</u></u>	<u><u>137</u></u>	<u><u>48</u></u>	<u><u>1,502</u></u>

c. Additional information:

1. The Company's Israeli activities and enterprises are performed and located on real estate covering an overall area of some 3,970 thousand sq. m., most of which in the Company's main area of activity in the vicinity of Ben-Gurion Airport.
2. 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 2014-2064 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

NOTE 12:- PROPERTY, PLANT AND EQUIPMENT (Cont.)
c. Additional information (Cont.):

3. 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).
4. 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.
5. In 2025, the Company invested approximately \$ 82 million in inhouse PP&E production.
6. In 2025, the Company derecognized fully depreciated PP&E with an original cost of approximately \$ 58 million.
7. The Company leases a vehicle fleet generally for a period of three years.
8. The annual depreciation rates are as follows:

<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)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13:- INTANGIBLE ASSETS

a. Composition and movement in 2025:

	Software	Capitalized costs of development in progress	Knowhow U.S. dollars in millions	Customer relations, order backlog and other in millions	Goodwill	Total
Cost						
Balance at beginning of year	196	469	21	12	16	714
Purchases and in-house development	7	45	2	-	-	54
Translation differences	1	-	-	1	-	2
Disposals	(8)	-	-	-	-	(8)
Balance at end of year	<u>196</u>	<u>514</u>	<u>23</u>	<u>13</u>	<u>16</u>	<u>762</u>
Accumulated depreciation						
Balance at beginning of year	(178)	(141)	(14)	(7)	(6)	(346)
Additions and impairment	(7)	(14)	(2)	-	-	(23)
Translation differences	(1)	-	-	-	-	(1)
Disposals	8	-	-	-	-	8
Balance at end of year	<u>(178)</u>	<u>(155)</u>	<u>(16)</u>	<u>(7)</u>	<u>(6)</u>	<u>(362)</u>
Depreciated balance at end of year	<u><u>18</u></u>	<u><u>359</u></u>	<u><u>7</u></u>	<u><u>6</u></u>	<u><u>10</u></u>	<u><u>400</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13:- INTANGIBLE ASSETS (Cont.)

b. Composition and movement in 2024:

	Software	Capitalized costs of development in progress	Knowhow U.S. dollars in millions	Customer relations, order backlog and other in millions	Goodwill	Total
Cost						
Balance at beginning of year	193	419	21	12	16	661
Purchases and in-house development	5	55	-	-	-	60
Disposals	(2)	(5)	-	-	-	(7)
Balance at end of year	196	469	21	12	16	714
Accumulated depreciation						
Balance at beginning of year	(167)	(144)	(13)	(6)	(6)	(336)
Additions and impairment	(13)	(2)	(1)	(1)	-	(17)
Disposals	2	5	-	-	-	7
Balance at end of year	(178)	(141)	(14)	(7)	(6)	(346)
Depreciated balance at end of year	18	328	7	5	10	368

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 and costs for development of business jets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Stated interest rate at 31.12.25	December 31,	
		2025	2024
U.S. dollars in millions			
Loans and credit from banks	5.25%-6.8%	120	83
Debentures:			
Debentures (series D) (b(1))	5.20%	49	43
Total		169	126

b. Additional information:

- As for financial covenants, see Note 21b(2) below.
- As for additional information on linkage bases, see Note 22f below.

NOTE 15:- TRADE PAYABLES
a. Composition:

	December 31,	
	2025	2024
U.S. dollars in millions		
Unrelated trade payables (b)	1,399	1,146
Related parties	92	90
Total	1,491	1,236

b. Additional information:

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

Total finance expenses in respect of lease liabilities in 2025 and 2024 amounted to approximately \$ 3 million and \$ 2 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16:- OTHER ACCOUNTS PAYABLE

Composition:

	December 31,	
	2025	2024
	U.S. dollars in millions	
Employees and payroll accruals	490	416
Current maturities of employee benefit liabilities (1)	28	29
Other liabilities	170	103
Total	688	548

(1) See Note 20b below.

NOTE 17:- PROVISIONS

a. Composition:

	Provision for warranty (b)	Provision for onerous contract	Other (c)	Total
	U.S. dollars in millions			
Balance at December 31, 2024	253	62	59	374
Movement in 2025:				
Additions and/or changes in the year	89	40	44	173
Exercised provisions in the year	(37)	(25)	(31)	(93)
Balance at December 31, 2025	305	77	72	454

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. As of December 31, 2025, the cumulative amount of pending claims and demands filed against the Company and its subsidiaries in the ordinary course of business approximates \$ 110 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,	
	2025	2024
	U.S. dollars in millions	
Gross contract liabilities	6,413	5,743
Less - progress billings classified to contract assets	(410)	(378)
Contract liabilities, net	<u>6,003</u>	<u>5,365</u>

- b.** In 2025, the Company recognized revenue of approximately \$ 3,036 million included in the balance of contract liabilities at January 1, 2025. In 2024, the Company recognized revenue of approximately \$ 1,912 million included in the balance of contract liabilities at January 1, 2024.

See additional information of related party balances in Note 34 below.

NOTE 19:- DEBENTURES
a. General:

Debentures (series D):

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). As per the issue terms, the interest is calculated and payable in semi-annual instalments on December 1 and June 1 of each calendar year from December 1, 2014 through December 1, 2023 (inclusive). Moreover, the principal is payable in three equal instalments on December 1 of each of the years 2021 through 2023.

In August 2024, the meeting of holders of debentures (series D) approved the deferral of the maturity date of the debentures. According to the approval, the date of the final debenture principal payment of NIS 154,450,422 par value (accounting for 33.334% of the debenture principal) will be deferred to December 1, 2025 (instead of December 1, 2024). In addition, two interest instalments were added to the debentures to be paid on June 1, 2025 and December 1, 2025.

On October 29, 2025, the meeting of holders of Company debentures approved an amendment to the trust deed signed between the Company and the trustee which governs the issue of the Company's debentures. According to the amendment, the final payment date of the principal of the debentures with a par value of NIS 154,450,422 (accounting for 33.334% of the debenture principal) was deferred to December 1, 2026 (instead of December 1, 2025) and two additional interest payments on the debentures were added on June 1, 2026 and December 1, 2026. It should be emphasized that the amendment does not arise from any cash flow issue in the Company but rather only to maintain its legal status as a reporting entity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- DEBENTURES (Cont.)

b. Additional information:

1. The outstanding principal of debentures (series D) is fully classified in current maturities of debentures as of December 31, 2025, see Note 14a above.
2. The debentures (series D) have been rated by Maalot at AAA from July 2023. This rating was reaffirmed in December 2023, July 2024 and March 2025.

NOTE 20:- EMPLOYEE BENEFITS

a. Composition:

	December 31,	
	2025	2024
	U.S. dollars in millions	
Employee benefit liability (f)	331	272
Less - current maturities in respect of vacation pay (b)	(15)	(13)
Liability for early retirement (g)	15	19
Less - current maturities in respect of early retirement (b)	(13)	(16)
Total	318	262

b. Current maturities:

In respect of vacation pay:

	December 31,	
	2025	2024
	U.S. dollars in millions	
First year	7	5
Second year	4	4
Third year	4	4
Total current maturities	15	13

In respect of early retirement:

	December 31,	
	2025	2024
	U.S. dollars in millions	
First year	8	9
Second year	3	4
Third year	2	3
Total current maturities	13	16

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. 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.
2. 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.
3. 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 covered by the Company's current contributions to provident funds. These contributions are not under the Company's control or management. Accordingly, the statement of financial does not reflect such amounts or their respective liabilities.
4. The amounts recognized as an expense in respect of the defined contribution plan in 2025, 2024 and 2023 approximate \$ 188 million, \$ 164 million and \$ 155 million, respectively.
5. 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 in most cases, such employees terminate their work relations with the Company 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

- 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.

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 - 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 – 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

4. Enhanced compensation for senior employees – as per the GCA's policy, the Company's Board may pay enhanced compensation to senior employees upon retirement. Accordingly, the Company recognizes an accrual for enhanced post-retirement compensation as a long-term benefit.
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 2023 on salary increase rates in 2014-2023 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 3.09%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20:- EMPLOYEE BENEFITS (Cont.)

e. Principal actuarial assumptions (Cont.):

Analysis of sensitivity to principal actuarial assumptions:

	Change in actuarial assumption	Increase in assumption	Decrease in assumption
	%	U.S. dollars	in millions
Employee benefit liability	Unchanged	331	331
Discount rate	1%	300	369
Salary increase rate	1%	359	308

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).

f. Movement in the present value of defined benefit liability and other long-term benefits:

	Sick benefit	Retirement benefit	Holiday gifts	Disability benefit	Other long-term benefits	Total
	U.S. dollars in millions					
Balance at January 1, 2024	76	29	63	22	68	258
Current service cost	5	2	1	1	7	16
Interest cost	4	1	4	2	4	15
Total benefits paid	(6)	(3)	(4)	(2)	(7)	(22)
Actuarial loss (gain)	(2)	-	(2)	-	10	6
Exchange rate differences	-	-	-	-	(1)	(1)
Balance at December 31, 2024	77	29	62	23	81	272
Current service cost	7	2	2	2	12	25
Interest cost	5	2	5	1	5	18
Total benefits paid	(5)	(2)	(5)	(1)	(8)	(21)
Actuarial loss (gain)	(1)	-	(1)	(1)	2	(1)
Exchange rate differences	11	4	9	3	11	38
Balance at December 31, 2025	94	35	72	27	103	331

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20:- EMPLOYEE BENEFITS (Cont.)**g. Early retirement and termination benefits:**

1. 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.

2. 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 - are 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.
3. 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.
4. 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.
5. 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 \$ 12 million. As for the indemnification agreement with financial corporations, see Note 21b(4) below.
6. There are other employees who retire under a compensation track (mutual agreement). 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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%.

In the reporting year, the Company was not levied any significant penalties in connection with offset transactions. The Company estimates that as of the financial statement date it is in compliance with the principal offset transaction obligations applicable to it. The Company has provided guarantees in immaterial amounts in favor of offset transactions.

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21:- LIENS, GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)
a. Contingent liabilities (Cont.)
3. 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 estimated the claim amount on the date of filing the motion at about NIS 200 million. The parties are holding a mediation proceeding in the context of which they are also discussing a proposed settlement regarding the group of plaintiffs filing the motion. Negotiations were also held between the Company, the Workers' Union and the Histadrut for reaching a collective agreement regarding parental rights whose validity is contingent on the Court's approval of the settlement agreement and on the finalization of the related proceedings and conditions. The parties have until March 25, 2026 to update the Regional Labor Court.

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.

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 2025, the total royalties paid by the Company to the MOD in respect of the above agreement were negligible. In 2024 and 2023, the Company paid the MOD royalties of approximately \$ 31 million and approximately \$ 26 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

b. Commitments (Cont.)

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 deed 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.

The updated financial covenants are as follows:

Financial covenants	<p><u>Financial covenants towards banks and financial institutions</u></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>
The date of the lender's verification of the compliance with the financial covenants	Financial covenants (1) and (2) above - once a quarter; financial covenants (3) and (4) - at the end of each calendar year.
The results of the calculation of financial covenants at December 31, 2025	<p>(1) Tangible equity - \$ 2,305 million.</p> <p>(2) Ratio of tangible equity to total (solo) adjusted balance sheet - 28%.</p> <p>(3) Debt coverage ratio – (2.6).</p> <p>(4) Debt service ratio – in compliance (the ratio is negative since finance income exceeds finance expenses).</p> <p>As discussed above, as of December 31, 2025, 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.):

Collaterals	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 ¹ of its assets and/or part thereof without the banks' advance written consent.
Grounds for early repayment	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.

¹ **"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.):

Financial covenants	<p><u>Financial covenants to holders of debentures (series D)</u></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>
The date of the lender's verification of the compliance with the financial covenants	Once a quarter.
The results of the calculation of financial covenants at December 31, 2025	<p>(1) The ratio of tangible equity to total adjusted balance sheet on a stand-alone basis - 36%.</p> <p>(2) The ratio of net financial debt to EBITDA – (3.5).</p> <p>As discussed above, as of December 31, 2025, the Company is in compliance with all the above financial covenants.</p>
Collaterals	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.
Grounds for early repayment	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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 obligo data report.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. As of December 31, 2025, the Company's overall obligo scope (mainly guarantees to customers) in banks and other financial institutions approximates \$ 2,552 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

4. The Company has signed indemnification agreements with two 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(5) 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 December 31, 2025, the balance of said guarantees from the financial corporations approximates \$ 12 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 to customers:

As of December 31, 2025, financial corporations (mainly banks) provided guarantees to customers totaling approximately \$ 2,285 million to secure various liabilities of the Company to customers.

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

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, 2025			Total
	Level 1	Level 2	Level 3	
	U.S. dollars in millions			
Financial assets:				
Financial assets at FVPL:				
Marketable securities	656	-	-	656
Contingent consideration	-	-	5	5
Financial derivatives not designated as hedging instruments	-	39	-	39
Financial assets at FVOCI:				
Financial derivatives designated as hedging instruments	-	96	-	96
	<u>656</u>	<u>135</u>	<u>5</u>	<u>796</u>
Financial liabilities:				
Financial liabilities at FVPL:				
Financial derivatives not designated as hedging instruments	-	37	-	37
Financial liabilities at FVOCI:				
Financial derivatives designated as hedging instruments	-	27	-	27
	<u>-</u>	<u>64</u>	<u>-</u>	<u>64</u>

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, 2024			Total
	Level 1	Level 2	Level 3	
	U.S. dollars in millions			
Financial assets:				
Financial assets at FVPL:				
Marketable securities	362	-	-	362
Contingent consideration	-	-	4	4
Financial derivatives not designated as hedging instruments	-	1	-	1
Financial assets at FVOCI:				
Financial derivatives designated as hedging instruments	-	38	-	38
	<u>362</u>	<u>39</u>	<u>4</u>	<u>405</u>
Financial liabilities:				
Financial liabilities at FVPL:				
Financial derivatives not designated as hedging instruments	-	1	-	1
Financial liabilities at FVOCI:				
Financial derivatives designated as hedging instruments	-	5	-	5
	<u>-</u>	<u>6</u>	<u>-</u>	<u>6</u>

- c. Data of the fair value and carrying amount of financial liabilities:

	December 31, 2025		December 31, 2024	
	Fair value, Level 1	Carrying amount including interest	Fair value, Level 1	Carrying amount including interest
	U.S. dollars in millions			
Financial liabilities:				
Marketable debentures (series D)	49	49	43	43

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 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 most of its future payroll expenses through forwards and/or dollar NIS put/call options. To hedge the balance sheet exposure, the Company enters into hedges and 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 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.

As of December 31, 2025, the Company has currency hedges ranging between NIS 3.65 and NIS 3.67 for 2026. See more details in paragraph e below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2025, the Company has a marketable securities portfolio that is mainly comprised of investment in debentures and mutual funds. See also paragraph 4(c) below.

3. Interest rate risk:

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 financial liabilities.

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, 2025

	Customer debt within approved credit limits	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	46	48	26	78	198
Related parties (*)	470	344	311	586	1,711
Others	242	100	53	55	450
Balance of trade receivables as of December 31, 2025	758	492	390	719	2,359
Less - allowance for doubtful accounts	-	-	-	(19)	(19)
Net balance as of December 31, 2025	758	492	390	700	2,340

(*) Mainly the MOD. The Company does not normally anticipate any risk in collecting the MOD's debt.

Table of aging of customer debts as of December 31, 2024

	Customer debt within approved credit limits	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	21	18	24	75	138
Related parties	368	183	72	122	745
Others	150	67	124	63	404
Balance of trade receivables as of December 31, 2024	539	268	220	260	1,287
Less - allowance for doubtful accounts	-	-	-	(16)	(16)
Net balance as of December 31, 2024	539	268	220	244	1,271

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

Maximum exposure in respect of credit risk:

	Carrying amount	
	2025	2024
	U.S. dollars in millions	
Cash and cash equivalents	725	541
Financial assets:		
Deposits	2,410	2,990
Financial derivatives	135	39
Investments in corporate debentures and Government bonds:		
Rated AAA	75	57
Rated AA+	62	67
Rated AA	59	32
Rated AA-	111	44
Rated A+	27	28
Rated A	77	30
Rated A-	108	38
Rated BBB+	46	22
Rated BBB	46	23
Rated BBB-	31	8
Mutual funds	14	13
Total investments in marketable securities	656	362
Total financial assets	3,201	3,391
Trade receivables	2,340	1,271
Loans to related parties	34	38
Total maximum exposure in respect of credit	6,300	5,241

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 \$ 1,000 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 borrowings	Debentures	Total
	U.S. dollars in millions				
Balance as of January 1, 2024	82	284	115	43	524
Changes arising from cash flows from financing activities in 2024:					
Loans and short-term borrowings, net	-	-	(32)	-	(32)
Repayment of lease liability	(34)	-	-	-	(34)
Total	(34)	-	(32)	-	(66)
Dividend declared	-	155	-	-	155
New lease contracts signed	52	-	-	-	52
Exchange rate differences	-	(1)	-	-	(1)
Balance as of December 31, 2024	100	438	83	43	664
Changes arising from cash flows from financing activities in 2025:					
Loans and short-term borrowings, net	-	-	27	-	27
Dividend paid	-	(447)	-	-	(447)
Repayment of lease liability	(42)	-	-	-	(42)
Total	(42)	(447)	27	-	(462)
Other comprehensive income	8	-	10	-	18
Dividend declared	-	242	-	-	242
New lease contracts signed	93	-	-	-	93
Exchange rate differences	7	9	-	6	22
Balance as of December 31, 2025	166	242	120	49	577

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, 2025

	<u>Within 30 days</u>	<u>1-12 months</u>	<u>1-3 years</u>	<u>4-5 years</u>	<u>Over 6 years</u>	<u>Total</u>
	<u>U.S. dollars in millions</u>					
<u>Non-derivative</u>						
Trade payables	273	936	282	-	-	1,491
Other accounts payable	176	269	243	-	-	688
Provisions	-	58	396	-	-	454
Bank loans and current maturities of debentures	-	167	2	-	-	169
Long-term financial liabilities	-	-	-	66	125	191
<u>Derivatives</u>						
Forwards and options	2	11	39	12	-	64
Total	451	1,441	962	78	125	3,057

December 31, 2024

	<u>Within 30 days</u>	<u>1-12 months</u>	<u>1-3 years</u>	<u>4-5 years</u>	<u>Over 6 years</u>	<u>Total</u>
	<u>U.S. dollars in millions</u>					
<u>Non-derivative</u>						
Trade payables	341	683	212	-	-	1,236
Other accounts payable	145	164	239	-	-	548
Provisions	-	44	330	-	-	374
Bank loans and current maturities of debentures	-	125	1	-	-	126
Long-term financial liabilities	-	-	-	91	80	171
<u>Derivatives</u>						
Forwards and options	1	4	-	1	-	6
Total	487	1,020	782	92	80	2,461

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- FINANCIAL INSTRUMENTS (Cont.)

e. Hedging activity:

As of the financial statement date, the Company has entered into forward and option 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:

1. Economic (non-accounting) hedging activity:

<u>Type of hedge</u>	<u>Nature of hedged item</u>	<u>Hedge details</u>	<u>Hedged rates</u>	<u>Hedge maturity range</u>	<u>Amount of hedge</u> <u>U.S. dollars in millions</u>	<u>Fair value of hedge</u> <u>U.S. dollars in millions</u>
Forward	Trade payables/receivables	EUR/USD	1.02-1.17	06/2026-07/2029	54	2
Forward	Trade payables/receivables	USD/THB	31	01/2026	513	Negligible

2. Accounting hedging activity:

<u>Type of hedge</u>	<u>Nature of hedged item</u>	<u>Hedge details</u>	<u>Hedged rates</u>	<u>Hedge expiration dates</u>	<u>Amount of hedge</u> <u>U.S. dollars in millions</u>	<u>Fair value of hedge</u> <u>U.S. dollars in millions</u>
Forward	Payroll	USD/ILS	3.6-3.9	12/2026 - 01/2026	584	90
Forward	Trade receivables	EUR/USD	1.0-1.2	04/2030 - 01/2026	1,203	(22)
Forward	Trade receivables	USD/CZK	23.7	06/2026 - 04/2026	212	(1)
Forward	Trade receivables	USD/PLN	3.7	11/2030 - 03/2028	167	(1)
Forward	Trade receivables	USD/INR	90.3-91.6	06/2026 - 01/2026	865	Negligible
Forward	Trade receivables	USD/THB	30.7-32.0	01/2026 - 12/2028	3,935	(2)
Forward	Trade payables	EUR/USD	1.06-1.22	08/2029 - 01/2026	172	4
Put options	Payroll	ILS	3.06-3.12	12/2026 - 04/2026	122	1
Call options	Payroll	USD	3.4	12/2026 - 04/2026	122	Negligible

The balance of the capital reserve from the net cash flow hedges of exchange rate fluctuations in respect of net salary payments, customer receipts and supplier payments as of the financial statement date is a credit balance of approximately \$ 50 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 debit balance of approximately \$ 1 million. In 2025, a negligible amount was reclassified from the reserve for the cost of the hedge to profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- FINANCIAL INSTRUMENTS (Cont.)

f. Linkage bases report as of December 31, 2025:

	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	610	-	52	21	42	-	725
Short-term financial assets	3,067	-	-	29	105	-	3,201
Trade receivables	220	-	97	43	1,980	-	2,340
Contract assets, net	1,242	-	(3)	18	296	-	1,553
Other accounts receivable	161	-	5	1	15	741	923
Inventories	-	-	-	-	-	1,078	1,078
Long-term receivables	4	-	-	2	-	35	41
Investments in associates and joint ventures	-	-	2	-	-	143	145
Property, plant and equipment	-	-	-	-	-	1,608	1,608
Intangible assets	-	-	-	-	-	400	400
Total assets	5,304	-	153	114	2,438	4,005	12,014
Loans from banks and current maturities of debentures	108	-	-	1	60	-	169
Short-term financial liabilities	64	-	-	-	-	-	64
Trade payables	957	-	42	14	478	-	1,491
Other accounts payable	239	66	9	2	372	-	688
Provisions	391	-	7	-	56	-	454
Dividend payable	242	-	-	-	-	-	242
Contract liabilities, net	17	-	-	-	3	5,983	6,003
Other long-term liabilities	83	-	2	-	21	85	191
Employee benefits	-	3	3	-	312	-	318
Total liabilities	2,101	69	63	17	1,302	6,068	9,620
Net balance sheet balance	3,203	(69)	90	97	1,136	(2,063)	2,394

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- FINANCIAL INSTRUMENTS (Cont.)

Linkage bases report as of December 31, 2024:

	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	355	-	15	14	157	-	541
Short-term financial assets	3,289	-	-	-	102	-	3,391
Trade receivables	454	-	11	-	806	-	1,271
Contract assets, net	1,073	-	-	-	291	-	1,364
Other accounts receivable	105	-	3	-	7	606	721
Inventories	-	-	-	-	-	1,032	1,032
Long-term receivables	-	-	-	-	-	75	75
Investments in associates and joint ventures	-	-	-	-	-	131	131
Property, plant and equipment	-	-	-	-	-	1,502	1,502
Intangible assets	-	-	-	-	-	368	368
Total assets	5,276	-	29	14	1,363	3,714	10,396
Loans from banks and current maturities of debentures	72	-	-	-	54	-	126
Short-term financial liabilities	6	-	-	-	-	-	6
Trade payables	889	-	34	7	306	-	1,236
Other accounts payable	209	12	3	-	324	-	548
Provisions	325	-	9	-	40	-	374
Dividend payable	259	-	-	-	179	-	438
Contract liabilities, net	9	-	-	-	19	5,337	5,365
Other long-term liabilities	92	-	-	-	14	65	171
Employee benefits	1	5	2	-	254	-	262
Total liabilities	1,862	17	48	7	1,190	5,402	8,526
Net balance sheet balance	3,414	(17)	(19)	7	173	(1,688)	1,870

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23:- EQUITY**a. Composition of share capital as of December 31, 2025 and 2024:**

	<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:

As of the report date, the policy of the Israeli Government Companies Authority ("the GCA") is that 50% of current net income attributable to equity holders of the Company is distributed as a dividend.

c. Dividend declaration and payment:

1. On December 31, 2025, the Company's Board declared the distribution of a dividend of approximately \$ 242 million for the profits of 2024. The actual payment of the dividend is contingent on the approval of the GCA, which as of the financial statement publication date has yet to be received.
2. On May 29, 2025, the Company's shareholders were paid a dividend of approximately \$ 447 million for the Company's profits through and including 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24:- SALES

	Year ended December 31, 2025					Total
	Aviation Group	Military Aircraft Group	Systems	ELTA	Other	
			Missile & Space Group			
U.S. dollars in millions						
Export/local market:						
Export	1,232	430	2,050	1,167	1	4,880
Local market	209	245	1,425	625	-	2,504
Total	1,441	675	3,475	1,792	1	7,384
Military/commercial:						
Military	497	669	3,459	1,786	-	6,411
Commercial	944	6	16	6	1	973
Total	1,441	675	3,475	1,792	1	7,384
Timing of revenue recognition:						
Revenue recognized over time	1,095	628	3,254	1,504	-	6,481
Revenue recognized at a point in time	346	47	221	288	1	903
Total	1,441	675	3,475	1,792	1	7,384
Principal customers:						
Related parties (*)	130	228	1,324	446	-	2,128
Material customer A	30	68	406	306	-	810
Other customers	1,281	379	1,745	1,040	1	4,446
Total	1,441	675	3,475	1,792	1	7,384

(*) See more information in Note 34 on interested party transactions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24:- SALES (Cont.)

	Year ended December 31, 2024					Total
	Aviation Group	Military Aircraft Group	Systems Missile & Space Group	ELTA	Other	
Export/local market:						
Export	1,136	414	1,573	905	1	4,029
Local market	199	230	1,079	574	1	2,083
Total	1,335	644	2,652	1,479	2	6,112
Military/commercial:						
Military	471	639	2,635	1,464	-	5,209
Commercial	864	5	17	15	2	903
Total	1,335	644	2,652	1,479	2	6,112
Timing of revenue recognition:						
Revenue recognized over time	1,006	608	2,446	1,296	2	5,358
Revenue recognized at a point in time	329	36	206	183	-	754
Total	1,335	644	2,652	1,479	2	6,112
Principal customers:						
Related parties (*)	156	209	984	422	-	1,771
Material customer A	30	85	492	263	-	870
Other customers	1,149	350	1,176	794	2	3,471
Total	1,335	644	2,652	1,479	2	6,112

(*) See more information in Note 34 on interested party transactions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24:- SALES (Cont.)

	Year ended December 31, 2023					Total
	Aviation Group	Military Aircraft Group	Systems Missile & Space Group	ELTA	Other	
	U.S. dollars in millions					
Export/local market:						
Export	1,164	450	1,341	837	-	3,792
Local market	110	149	856	420	-	1,535
Total	1,274	599	2,197	1,257	-	5,327
Military/commercial:						
Military	342	594	2,179	1,227	-	4,342
Commercial	932	5	18	30	-	985
Total	1,274	599	2,197	1,257	-	5,327
Timing of revenue recognition:						
Revenue recognized over time	944	566	2,035	1,108	-	4,653
Revenue recognized at a point in time	330	33	162	149	-	674
Total	1,274	599	2,197	1,257	-	5,327
Principal customers:						
Related parties (*)	66	135	782	268	-	1,251
Material customer A	27	94	630	202	-	953
Other customers	1,181	370	785	787	-	3,123
Total	1,274	599	2,197	1,257	-	5,327

(*) See more information in Note 34 on interested party transactions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 25:- COST OF SALES**

Composition:

	Year ended December 31,		
	2025	2024	2023
	U.S. dollars in millions		
Salaries and related expenses	1,868	1,692	1,708
Materials	343	358	427
Subcontractors	3,065	2,489	1,972
Depreciation and amortization	306	272	259
Other manufacturing costs	430	347	203
	6,012	5,158	4,569
Add (Less):			
In-house manufacturing of property, plant and equipment and development of intangible assets	(126)	(117)	(139)
Changes in WIP	65	(70)	(70)
Total	5,951	4,971	4,360

NOTE 26:- RESEARCH AND DEVELOPMENT EXPENSES

Composition:

	Year ended December 31,		
	2025	2024	2023
	U.S. dollars in millions		
Salaries and related expenses	164	172	148
Depreciation and amortization	11	10	13
Subcontractors	100	109	88
Other	50	50	31
Grants and participations	(7)	(8)	(5)
Total	318	333	275

NOTE 27:- SELLING AND MARKETING EXPENSES

Composition:

	Year ended December 31,		
	2025	2024	2023
	U.S. dollars in millions		
Salaries and related expenses	26	21	19
Preparation of quotations	61	63	61
Travel	10	11	11
Other	42	32	27
Total	139	127	118

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 28:- GENERAL AND ADMINISTRATIVE EXPENSES

Composition:

	Year ended December 31,		
	2025	2024	2023
	U.S. dollars in millions		
Salaries and related expenses	174	154	150
Depreciation	11	12	13
Other	38	44	36
Total	223	210	199

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

	Year ended December 31,		
	2025	2024	2023
	U.S. dollars in millions		
<u>Income</u>			
Loss of control interests in business (b(1))	-	26	-
Third party compensation for property, plant and equipment	-	11	-
Gain from sale of property, plant and equipment	-	7	6
Issue of capital in associate (b(2))	8	1	-
	8	45	6
<u>Expenses</u>			
Impairment and other (b(3))	(9)	(19)	(3)
Total other income, net	(1)	26	3

b. **Additional information:**

- See Note 11b(3) above.
- See Notes 11b(2) and 11b(1), respectively.
- Impairment of items of property, plant and equipment and investments in associates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30:- FINANCE INCOME AND EXPENSES, NET

Composition:

	Year ended December 31,		
	2025	2024	2023
	U.S. dollars in millions		
<u>Finance expenses</u>			
Commissions to banks	15	14	16
Interest on credit	3	3	3
Debentures	3	2	2
Adjustment of financing component of provisions and payables	21	18	17
Hedges	51	16	-
Exchange rate differences	-	-	13
Other	-	-	2
Total	93	53	53
<u>Finance income</u>			
Return on deposits and marketable financial assets	222	170	62
Hedges	-	-	20
Exchange rate differences	42	8	-
Finance income on investment component measured at fair value in investee	1	1	-
Other	-	3	-
Total	265	182	82

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31:- TAXES ON INCOME

a. Composition:

	Year ended December 31,		
	2025	2024	2023
	U.S. dollars in millions		
Current tax expenses:			
In respect of the current year	191	74	65
Adjustments in respect of previous years, net	-	4	5
	<u>191</u>	<u>78</u>	<u>70</u>
Deferred tax expenses:			
Creation and reversal of temporary differences	13	56	23
	<u>13</u>	<u>56</u>	<u>23</u>
Total income tax expenses	<u><u>204</u></u>	<u><u>134</u></u>	<u><u>93</u></u>

b. Details of the Company's tax environment:

1. The primary statutory 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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").

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

NOTE 31:- TAXES ON INCOME (Cont.)

b. Details of the Company's tax environment (Cont.):

6. Taxation of trapped earnings – temporary provision of the Economic Efficiency Law for 2021-2022:

According to the Economic Efficiency Law (Legislative Amendments to the 2021 and 2022 Budget Years), 2021 and the Temporary Provision of the Law for the Encouragement of Capital Investments, 1959, effective from 2022 and based on an allocation formula, a portion of a dividend distributed by a company will be classified as distributed from tax-exempt income and will be subject to corporate income tax of 25%. Alternatively, the above temporary provision offers a tax relief in the form of reduced final tax rate of 10% on any amount chosen by a company out of tax-exempt income subject to providing notice to the Israeli tax authorities and to remittance of the applicable tax.

The Company chose to apply the above tax relief in the temporary provision and paid final tax on its remaining tax-exempt income from approved enterprises (as per the Law for the Encouragement of Capital Investments, 1959) from 2007-2013.

c. Foreign subsidiaries:

- The subsidiaries incorporated outside of Israel are taxed at the tax laws in their country of residence.
- The tax rates applicable to the income of foreign investees and/or partnerships of the Company which were incorporated outside of Israel and are not negligible:

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 28% (25% corporate tax and other levies)	
Greece	22%	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31:- TAXES ON INCOME (Cont.)
c. Foreign subsidiaries (Cont.):

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.

d. Final tax assessments:

1. Final income tax assessments and uncertain tax positions:

- a) 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 2020 tax year. The Company has a partial tax assessment (in agreement from the 2023 tax year whose outcome is immaterial to the Company) for the 2021 tax year.
- b) A subsidiary in the United States received final tax assessments (or tax assessments that are deemed final) through 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31:- TAXES ON INCOME (Cont.)
d. Final tax assessments: (Cont.)
2. Final withholding tax (WHT) and deduction assessments:

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 WHT assessments through the 2023 tax year.

3. Value Added Tax (VAT) assessments:

The Company received a final VAT assessment through December 2022 and ELTA received a final VAT assessment through February 2023.

e. Taxes on income recognized in other comprehensive income:

	Year ended December 31,		
	2025	2024	2023
	U.S. dollars in millions		
Tax expense carried against other comprehensive income	<u>6</u>	<u>12</u>	<u>13</u>
Total	<u>6</u>	<u>12</u>	<u>13</u>

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,		
	2025	2024	2023
	U.S. dollars in millions		
Income before taxes on income	916	627	411
Statutory tax rate	23%	23%	23%
Tax computed on pre-tax income at the statutory tax rate	211	144	95
Increase (decrease) in theoretical tax due to the following factors:			
Offsetting earnings of investees accounted for at equity, net	2	-	(1)
Net gains in respect of which no deferred taxes were created	(2)	(15)	(2)
Taxes in respect of previous years	-	4	5
Nondeductible expenses, net	-	7	-
Differences in measurement basis and other provisions	(7)	(6)	(4)
Total income tax expenses	204	134	93

g. Carryforward tax losses:

1. 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. As of the end of the 2025 tax year, the Company has no carryforward capital and/or business losses in Israel.
2. A U.S. subsidiary has carryforward losses totaling approximately \$ 152 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 2037. 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 a 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	Other	Total
	U.S. dollars in millions				
Balance at December 31, 2022	(48)	113	13	(37)	41
<u>Changes in 2023</u>					
Changes arising from business combination	(1)	-	-	6	5
Changes carried to profit or loss	(5)	-	-	(18)	(23)
Changes carried to other comprehensive income	-	(1)	(12)	-	(13)
Balance at December 31, 2023	(54)	112	1	(49)	10
<u>Changes in 2024</u>					
Changes carried to profit or loss	(7)	6	-	(55)	(56)
Changes carried to other comprehensive income	-	(1)	(11)	-	(12)
Balance at December 31, 2024	(61)	117	(10)	(104)	(58)
<u>Changes in 2025</u>					
Changes carried to profit or loss	(2)	19	-	(30)	(13)
Changes carried to other comprehensive income	-	(1)	(5)	-	(6)
Balance at December 31, 2025	<u>(63)</u>	<u>135</u>	<u>(15)</u>	<u>(134)</u>	<u>(77)</u>

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

	December 31,	
	2025	2024
	U.S. dollars in millions	
Long-term receivables	9	7
Other long-term liabilities	(86)	(65)
Net balance	<u>(77)</u>	<u>(58)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 32:- OTHER COMPREHENSIVE INCOME (LOSS)

	Year ended December 31,		
	2025	2024	2023
	U.S. dollars in millions		
Foreign currency translation adjustments of foreign operation:			
Amount before taxes on income	25	(1)	1
Net amount after taxes	25	(1)	1
Cash flow hedge, net:			
Amount before taxes on income	22	48	53
Tax expenses	(5)	(11)	(12)
Net amount after taxes	17	37	41
Remeasurement of defined benefit plans:			
Amount before taxes on income	3	4	6
Tax expenses	(1)	(1)	(1)
Net amount after taxes	2	3	5
Company's share of other comprehensive income of investees:			
Amount before taxes on income	1	-	-
Net amount after taxes	1	-	-
Other comprehensive income net of taxes	45	39	47
Other comprehensive income (loss) net of taxes attributable to non-controlling interests	8	-	(1)

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

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.

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, 2025						Total
	Aviation Group	Military Aircraft Group	Systems Missile & Space Group	ELTA	Other	Adjustments	
	U.S. dollars in millions						
Segment revenues	1,441	675	3,475	1,792	1	-	7,384
Intersegment revenues	167	5	32	423	10	(637)	-
Total segment revenues	1,608	680	3,507	2,215	11	(637)	7,384
Cost of sales	1,456	537	2,828	1,751	16	(637)	5,951
Gross profit	152	143	679	464	(5)	-	1,433
Gross margin	9%	21%	19%	21%	-	-	19%
Research and development expenses	12	46	116	103	41	-	318
General and administrative, selling and marketing expenses	70	47	131	139	(25)	-	362
Other expenses (income)	-	(1)	2	(1)	1	-	1
Expenses in respect of early retirement of employees	-	-	-	-	1	-	1
	82	92	249	241	18	-	682
Operating income	70	51	430	223	(23)	-	751
Operating margin	4%	8%	12%	10%	-	-	10%
Finance income	1	17	156	34	57	-	265
Finance expense	(31)	(1)	(10)	(16)	(35)	-	(93)
Company's share of earnings (losses) of associates	2	-	(5)	(4)	-	-	(7)
Taxes on income	-	-	(3)	(54)	(147)	-	(204)
Net income (loss)	42	67	568	183	(148)	-	712
Net profit margin	3%	10%	16%	8%	-	-	10%
Attributable to non-controlling interests							10
Attributable to equity holders of the parent							702

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 33:- BUSINESS SEGMENTS (Cont.)

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

	Year ended December 31, 2024						
	Aviation Group	Military Aircraft Group	Systems Missile & Space Group	ELTA	Other	Adjustments	Total
	U.S. dollars in millions						
Segment revenues	1,335	644	2,652	1,479	2	-	6,112
Intersegment revenues	141	1	35	376	9	(562)	-
Total segment revenues	1,476	645	2,687	1,855	11	(562)	6,112
Cost of sales	1,360	514	2,201	1,475	(17)	(562)	4,971
Gross profit	116	131	486	380	28	-	1,141
Gross margin	8%	20%	18%	20%	-	-	19%
Research and development expenses	11	50	118	114	40	-	333
General and administrative, selling and marketing expenses	68	43	116	130	(20)	-	337
Other expenses (income)	-	(15)	7	(18)	-	-	(26)
Income in respect of early retirement of employees	-	-	-	-	(1)	-	(1)
	79	78	241	226	19	-	643
Operating income	37	53	245	154	9	-	498
Operating margin	3%	8%	9%	8%	-	-	8%
Finance income	-	8	110	34	30	-	182
Finance expense	(21)	-	(1)	(12)	(19)	-	(53)
Company's share of earnings (losses) of associates	6	-	(4)	(2)	-	-	-
Taxes on income	-	-	(2)	(34)	(98)	-	(134)
Net income (loss)	22	61	348	140	(78)	-	493
Net profit margin	1%	9%	13%	8%	-	-	8%
Attributable to non-controlling interests							9
Attributable to equity holders of the parent							484

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 33:- BUSINESS SEGMENTS (Cont.)

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

	Year ended December 31, 2023						
	Aviation Group	Military Aircraft Group	Systems Missile & Space Group	ELTA	Other	Adjustments	Total
	U.S. dollars in millions						
Segment revenues	1,274	599	2,197	1,257	-	-	5,327
Intersegment revenues	113	3	24	409	12	(561)	-
Total segment revenues	1,387	602	2,221	1,666	12	(561)	5,327
Cost of sales	1,261	478	1,835	1,315	32	(561)	4,360
Gross profit	126	124	386	351	(20)	-	967
Gross margin	9%	21%	17%	21%	-	-	18%
Research and development expenses	12	34	88	102	39	-	275
General and administrative, selling and marketing expenses	69	39	97	124	(12)	-	317
Other expenses (income)	(1)	(3)	-	-	1	-	(3)
Expenses in respect of early retirement of employees	-	-	-	-	2	-	2
	80	70	185	226	30	-	591
Operating income (loss)	46	54	201	125	(50)	-	376
Operating margin	3%	9%	9%	8%	-	-	7%
Finance income	-	2	33	11	36	-	82
Finance expense	(17)	-	-	(7)	(29)	-	(53)
Company's share of earnings (losses) of associates	11	-	(6)	1	-	-	6
Taxes on income	-	-	-	(27)	(66)	-	(93)
Net income (loss)	40	56	228	103	(109)	-	318
Net profit margin	3%	9%	10%	6%	-	-	6%
Attributable to non-controlling interests							9
Attributable to equity holders of the parent							309

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 33:- BUSINESS SEGMENTS (Cont.)

c. Secondary reporting of business segments:

Sales in the year ended December 31, 2025						
Aviation Group	Military Aircraft Group	Systems Missile & Space Group	ELTA	Other	Total	
U.S. dollars in millions						
Geographic distribution of revenues:						
North America	751	3	78	67	1	900
South America	13	1	59	8	-	81
Europe	289	115	826	339	-	1,569
Asia (excluding Israel)	154	289	888	733	-	2,064
Africa	25	22	199	14	-	260
Australia	-	-	-	6	-	6
Israel	209	245	1,425	625	-	2,504
Total	1,441	675	3,475	1,792	1	7,384
Sales in the year ended December 31, 2024						
Aviation Group	Military Aircraft Group	Systems Missile & Space Group	ELTA	Other	Total	
U.S. dollars in millions						
Geographic distribution of revenues:						
North America	708	4	80	66	-	858
South America	7	3	1	3	-	14
Europe	241	112	509	318	-	1,180
Asia (excluding Israel)	158	286	837	503	1	1,785
Africa	22	9	146	11	-	188
Australia	-	-	-	4	-	4
Israel	199	230	1,079	574	1	2,083
Total	1,335	644	2,652	1,479	2	6,112
Sales in the year ended December 31, 2023						
Aviation Group	Military Aircraft Group	Systems Missile & Space Group	ELTA	Other	Total	
U.S. dollars in millions						
Geographic distribution of revenues:						
North America	826	4	69	65	-	964
South America	17	-	-	6	-	23
Europe	112	118	133	300	-	663
Asia (excluding Israel)	163	309	1,023	436	-	1,931
Africa	46	19	116	22	-	203
Australia	-	-	-	8	-	8
Israel	110	149	856	420	-	1,535
Total	1,274	599	2,197	1,257	-	5,327

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 related parties, see Note 24 above.
- e. As for investees, see Note 11 above.
- f. **Balances with interested and related parties:**

	December 31,	
	2025	2024
	U.S. dollars in millions	
Trade receivables and contract assets, net	2,010	1,058
Other accounts receivable	178	159
Trade payables	92	90
Contract liabilities, net	1,202	850
Investments in associates and joint ventures	145	131
The highest receivable during the year	2,228	1,316

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

	Year ended December 31,		
	2025	2024	2023
	U.S. dollars in millions		
Salaries and related benefits to key management personnel	7,491	7,581	7,545
Of which:			
Salaries and related benefits to interested parties	559	701	818
Fees of directors not employed in or on behalf of the Company	116	110	93
The number of people to whom the salaries and benefits relate:			
Interested parties employed in or on behalf of the Company	1	1	2
Directors not employed in the Company	5	6	5
Other key management personnel	16	17	17

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 34:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES
(Cont.)**
h. Transactions with interested and related parties:

	Year ended December 31,		
	2025	2024	2023
	U.S. dollars in millions		
Sales	2,128	1,770	1,251
Cost of sales	1,603	1,552	1,048
Cost of acquisitions	242	253	123

NOTE 35:- EVENTS AFTER THE REPORTING PERIOD

On February 28, 2026, the State of Israel and United States launched a joint, extensive military operation against Iran which led to declaration of state of emergency on the Israeli home front. The Company is categorized by the State as an essential enterprise and is therefore taking the necessary measures to maintain its operational and business continuity in keeping with the Home Front Command's directives and under an adapted emergency routine. The Company focuses on sustaining Israel's defense establishment while meeting its obligations to its various customers locally and worldwide.

As of the financial statement approval date, the drastic restrictions levied on air traffic to and from Israel and the minimization of personnel attendance at the Company's facilities following the special state of emergency in the home front have not had a material impact on the Company's operational and business parameters.

Moreover, the Company is presently unaware of any indications of impairment of any assets due to physical damage to its infrastructures, production lines or raw materials.

**SEPARATE FINANCIAL INFORMATION
AS OF DECEMBER 31, 2025**

ISRAEL AEROSPACE INDUSTRIES LTD.

SEPARATE FINANCIAL INFORMATION

AS OF DECEMBER 31, 2025

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**To the Shareholders of
ISRAEL AEROSPACE INDUSTRIES LTD.**

Dear Sirs/Mmes.,

Re: Special independent auditors' report on the separate financial information in accordance with Regulation 9C to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

Opinion

We have audited the accompanying separate financial information presented pursuant to Regulation 9C to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Israel Aerospace Industries Ltd. ("the Company") as of December 31, 2025, and for the year then ended.

We did not audit the separate financial information derived from the financial statements of investees, the investments in which total approximately \$ 695 million as of December 31, 2025, and the Company's share of their earnings, net amounted to approximately \$ 178 million for the year then ended. 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.

In our opinion, based on our audit and the reports of the other auditors, the accompanying separate financial information has been prepared, in all material respects, in conformity with the provisions of Regulation 9C to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Basis for Opinion

We conducted our audit in accordance with generally accepted auditing standards in Israel. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Information section of our report. We are independent of the Company, in accordance with the applicable legal provisions in Israel regarding independence and conflict of interest of auditors. Additionally, we have fulfilled our other ethical responsibilities in accordance with the Auditors' Law, 1955 and the regulations thereunder. We believe that the audit evidence we have obtained, including the reports of other auditors, is appropriate and sufficient to provide a basis for our opinion.

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Responsibilities of Board of Directors and Management for the Separate Financial Information

The board of directors and management are responsible for the preparation and fair presentation of the separate financial information in conformity with the provisions of Regulation 9C to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970, and for such internal control as the board of directors and management determine is necessary to enable the preparation of separate financial information that is free from material misstatement, whether due to fraud or error.

In preparing the separate financial information, the board of directors and management are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors and management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Separate Financial Information

Our objectives are to obtain reasonable assurance about whether the separate financial information as a whole is free from material misstatement, whether due to fraud or error, and to issue a special auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Israel will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial information.

As part of an audit in accordance with generally accepted auditing standards in Israel, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- o Identify and assess the risks of material misstatement of the separate financial information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is appropriate and sufficient to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- o Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- o Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors and management.

- o Conclude on the appropriateness of the use by the board of directors and management of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our special auditor's report to the related disclosures in the separate financial information or, if such disclosures are inadequate, to modify our opinion in the special auditor's report. Our conclusions are based on the audit evidence obtained up to the date of our special auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- o Evaluate the overall presentation, structure and content of the separate financial information, including the disclosures, and whether the separate financial information has been prepared, in all material respects, in conformity with the provisions of Regulation 9C to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

We communicate with the board of directors and management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Tel-Aviv, Israel
March 11, 2026



BDO Ziv Haft
Certified Public Accountants

Separate Financial Information as of December 31, 2025

Data of Financial Position

	Note	December 31,	
		2025	2024
		U.S. dollars in millions	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	486	217
Short-term financial assets	4	2,956	2,990
Trade receivables		1,775	951
Contract assets, net		732	750
Other accounts receivable		791	681
Current accounts with investees		8	5
Inventories		793	835
Total current assets		7,541	6,429
NON-CURRENT ASSETS:			
Long-term receivables		18	58
Investments in investees	5	840	652
Property, plant and equipment		1,036	1,058
Intangible assets		370	339
Total non-current assets		2,264	2,107
Total assets		9,805	8,536




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

Separate Financial Information as of December 31, 2025

Data of Financial Position

	<u>December 31,</u>	
	<u>2025</u>	<u>2024</u>
	<u>U.S. dollars in millions</u>	
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current maturities of debentures	49	43
Short-term financial liabilities	60	6
Trade payables	1,133	903
Other accounts payable	504	428
Provisions	300	225
Current accounts with investees	5	130
Dividend payable	242	438
Contract liabilities, net	<u>4,818</u>	<u>4,192</u>
<u>Total current liabilities</u>	<u>7,111</u>	<u>6,365</u>
NON-CURRENT LIABILITIES:		
Other long-term liabilities	146	168
Employee benefits	<u>230</u>	<u>190</u>
<u>Total non-current liabilities</u>	<u>376</u>	<u>358</u>
EQUITY:		
Equity attributable to equity holders of the parent	<u>2,318</u>	<u>1,813</u>
<u>Total equity</u>	<u>2,318</u>	<u>1,813</u>
<u>Total liabilities and equity</u>	<u>9,805</u>	<u>8,536</u>

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

March 11, 2026			
Date of approval of the financial statements	Eyal De Paauw Director (*)	Boaz Levy President and CEO	Eran Anchikovsky Executive VP and CFO

(*) Authorized by the Board of Directors to sign the financial statements in the absence of permanent COB.

Separate Financial Information as of December 31, 2025

Data of Profit or Loss

	Year ended December 31,		
	2025	2024	2023
	U.S. dollars in millions		
Sales	5,399	4,474	3,959
Sales to investees	60	27	29
Total sales	5,459	4,501	3,988
Cost of sales	4,567	3,811	3,398
Gross profit	892	690	590
Research and development expenses	200	206	166
Selling and marketing expenses	88	85	85
General and administrative expenses	101	97	99
Other expenses (income), net	2	(8)	(3)
Income (expenses) in respect of early retirement of employees	1	(1)	(1)
	392	379	346
Operating income	500	311	244
Finance income	232	152	74
Finance expenses	(70)	(38)	(44)
Company's share of earnings of investees, net	187	156	101
Income before taxes on income	849	581	375
Taxes on income	(147)	(97)	(66)
Net income attributable to equity holders of the parent	702	484	309

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

Separate Financial Information as of December 31, 2025

Data of Comprehensive Income (Loss)

	Year ended December 31,		
	2025	2024	2023
	U.S. dollars in millions		
Net income attributable to equity holders of the parent	702	484	309
Other comprehensive income (loss) net of taxes:			
Items of other comprehensive income not carried to profit or loss:			
Remeasurement of defined benefit plans	2	3	5
Total items of other comprehensive income not carried to profit or loss	2	3	5
Items of other comprehensive income (loss) that may be carried to profit or loss:			
Gain from cash flow hedge	17	37	41
Foreign currency translation adjustments of foreign operation	25	(1)	1
Company's share of other comprehensive income of investees	1	-	-
Total items of other comprehensive income that may be carried to profit or loss	43	36	42
Total comprehensive income for the year	747	523	356

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

Separate Financial Information as of December 31, 2025

Data of Cash Flows

	Year ended December 31,		
	2025	2024	2023
	U.S. dollars in millions		
Cash flows from operating activities:			
Net income	702	484	309
Adjustments to profit or loss items:			
Depreciation and amortization (including impairment)	249	222	227
Finance income, net	(153)	(93)	(29)
Taxes on income in profit or loss	147	97	66
Company's share of earnings of investees, net	(187)	(156)	(101)
Gain from change in holding rate in associate	(8)	(1)	-
Dividend received from investees	87	400	49
Increase (decrease) in employee benefits	41	9	(4)
Changes in value of securities measured at fair value through profit or loss, net	(29)	(4)	2
Change in fair value of financial derivatives, net	(2)	-	1
Loss (gain) from sale of property, plant and equipment	11	4	(6)
	156	478	205
Changes in asset and liability items:			
Decrease (increase) in trade receivables	(824)	(25)	146
Decrease (increase) in other accounts receivable and current accounts with investees	(66)	(115)	63
Decrease (increase) in contract assets, net	18	47	(134)
Decrease (increase) in inventories	37	(56)	(134)
Increase (decrease) in trade payables	149	13	(110)
Increase in provisions	65	23	2
Increase in contract liabilities, net	626	1,331	424
Increase (decrease) in other accounts payable and current accounts with investees	(53)	87	75
	(48)	1,305	332
Interest paid	(2)	(3)	(5)
Interest received	154	105	34
Taxes on income paid, net	(130)	(47)	(70)
	22	55	(41)
Net cash provided by operating activities	832	2,322	805

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

Separate Financial Information as of December 31, 2025

Data of Cash Flows

	Year ended December 31,		
	2025	2024	2023
	U.S. dollars in millions		
Net cash provided by operating activities (brought forward)	832	2,322	805
Cash flows from investing activities:			
Investment in property, plant and equipment	(147)	(143)	(122)
Proceeds from sale and expropriation of property, plant and equipment	-	17	8
Investment in intangible assets	(48)	(58)	(69)
Proceeds from sale of (investment in) marketable securities, net	(265)	(250)	45
Short-term deposits, net	404	(2,119)	(231)
Lease payments made on or before lease inception date	(14)	-	(79)
Investments in and loans to investees, net	(33)	(22)	(102)
Net cash used in investing activities	(103)	(2,575)	(550)
Cash flows from financing activities:			
Short-term loans from banks, net	-	(50)	-
Dividend paid	(447)	-	-
Repayment of lease liability	(22)	(16)	(10)
Proceeds from sale of swap in respect of debenture principal	-	-	(4)
Net cash used in financing activities	(469)	(66)	(14)
Increase (decrease) in cash and cash equivalents	260	(319)	241
Cash and cash equivalents at the beginning of the year	217	538	296
Translation differences from balances of cash and cash equivalents	9	(2)	1
Cash and cash equivalents at the end of the year	486	217	538

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

Separate Financial Information as of December 31, 2025

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, 2025, 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:- ACCOUNTING POLICIES ADOPTED IN THE SEPARATE FINANCIAL INFORMATION

The 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 IFRS Accounting Standards 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, 2025

Notes to separate financial information

NOTE 3:- CASH AND CASH EQUIVALENTS

Composition:

	December 31,	
	2025	2024
	U.S. dollars in millions	
Cash	106	154
Short-term deposits	380	63
Total	486	217

NOTE 4:- SHORT-TERM FINANCIAL ASSETS

Composition:

	December 31,	
	2025	2024
	U.S. dollars in millions	
Hedging instruments:		
Forwards	67	24
Options	-	5
Designated deposits	-	16
	67	45
At fair value through profit or loss:		
Government bonds	208	113
Corporate debentures	413	213
Derivatives not designated as hedging instruments	39	1
Mutual funds	14	13
	674	340
At amortized cost:		
Deposits	2,215	2,605
	2,215	2,605
Total	2,956	2,990

Separate Financial Information as of December 31, 2025

Notes to separate financial information

NOTE 5:- INVESTMENTS IN INVESTEES

a. Composition:

	December 31,	
	2025	2024
	U.S. dollars in millions	
Subsidiaries	739	568
Associates	101	84
Total	840	652

b. Subsidiaries:

	December 31,	
	2025	2024
	U.S. dollars in millions	
Equity components	676	544
Excess cost	4	5
Capital reserve	43	8
Unrealized gain	(1)	(1)
	722	556
Loans	17	12
Total	739	568

c. Associates:

	December 31,	
	2025	2024
	U.S. dollars in millions	
Equity components	90	76
Excess cost	10	12
Capital reserve	6	1
Unrealized gain	(5)	(5)
	101	84
Loans presented in other accounts receivable	34	33
Total	135	117

Separate Financial Information as of December 31, 2025**Notes to separate financial information**

NOTE 5:- INVESTMENTS IN INVESTEES (Cont.)**d. Movement in investments:**

1. As for the Company's investments in subsidiaries in the reporting period, see Note 11c(2) to the consolidated financial statements.
2. In 2025 and 2024, the Company received dividends from investees totaling approximately \$ 87 million and approximately \$ 400 million, respectively.

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.

- f. See additional information in Note 11 to the consolidated financial statements.

Separate Financial Information as of December 31, 2025

Notes to separate financial information

NOTE 6:- LINKED BALANCES - SEPARATE FINANCIAL INFORMATION

a. Composition as of December 31, 2025:

	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	446	-	13	2	25	-	486
Short-term financial assets	2,852	-	-	-	104	-	2,956
Trade receivables	119	-	75	16	1,565	-	1,775
Contract assets, net	632	-	(3)	-	103	-	732
Other accounts receivable	137	68	-	-	15	571	791
Current accounts with investees	(27)	-	-	-	35	-	8
Inventories	-	-	-	-	-	793	793
Long-term receivables	-	-	-	-	-	18	18
Investments in investees and joint ventures	15	-	-	-	3	822	840
Property, plant and equipment	-	-	-	-	-	1,036	1,036
Intangible assets	-	-	-	-	-	370	370
Total assets	4,174	68	85	18	1,850	3,610	9,805
Liabilities:							
Current maturities of debentures	-	-	-	-	49	-	49
Short-term financial liabilities	60	-	-	-	-	-	60
Trade payables	717	-	22	3	391	-	1,133
Other accounts payable	133	10	4	-	357	-	504
Provisions	245	-	-	-	55	-	300
Current accounts with investees	5	-	-	-	-	-	5
Dividend payable	242	-	-	-	-	-	242
Contract liabilities, net	15	-	-	-	2	4,801	4,818
Long-term liabilities	29	-	-	-	11	106	146
Employee benefits	-	2	-	-	228	-	230
Total liabilities	1,446	12	26	3	1,093	4,907	7,487
Net balance sheet balance	2,728	56	59	15	757	(1,297)	2,318

Separate Financial Information as of December 31, 2025

Notes to separate financial information

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

b. Composition as of December 31, 2024:

	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	136	-	3	1	77	-	217
Short-term financial assets	2,889	-	-	-	101	-	2,990
Trade receivables	297	-	-	-	654	-	951
Contract assets, net	612	-	-	-	138	-	750
Other accounts receivable	86	63	5	-	7	520	681
Current accounts with investees	5	-	-	-	-	-	5
Inventories	-	-	-	-	-	835	835
Long-term receivables	-	-	-	-	-	58	58
Investments in investees and joint ventures	9	-	-	-	3	640	652
Property, plant and equipment	-	-	-	-	-	1,058	1,058
Intangible assets	-	-	-	-	-	339	339
Total assets	4,034	63	8	1	980	3,450	8,536
Liabilities:							
Current maturities of debentures	-	-	-	-	43	-	43
Short-term financial liabilities	6	-	-	-	-	-	6
Trade payables	642	-	21	4	236	-	903
Other accounts payable	125	9	-	-	294	-	428
Provisions	186	-	-	-	39	-	225
Current accounts with investees	130	-	-	-	-	-	130
Dividend payable	259	-	-	-	179	-	438
Contract liabilities, net	8	-	-	-	18	4,166	4,192
Long-term liabilities	76	-	-	-	6	86	168
Employee benefits	-	4	-	-	186	-	190
Total liabilities	1,432	13	21	4	1,001	4,252	6,723
Net balance sheet balance	2,602	50	(13)	(3)	(21)	(802)	1,813

Separate Financial Information as of December 31, 2025

Notes to separate financial information

NOTE 7:- TAXES ON INCOME

a. Composition:

	Year ended December 31,		
	2025	2024	2023
	U.S. dollars in millions		
Current taxes	128	44	37
Taxes in respect of previous years	-	1	5
	<u>128</u>	<u>45</u>	<u>42</u>
Deferred tax expenses:			
Creation and reversal of temporary differences	19	52	24
Total income tax expenses	<u>147</u>	<u>97</u>	<u>66</u>

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

	Year ended December 31,		
	2025	2024	2023
	U.S. dollars in millions		
Income before taxes on income	<u>849</u>	<u>581</u>	<u>375</u>
Statutory tax rate	<u>23%</u>	<u>23%</u>	<u>23%</u>
Tax computed on pre-tax income at the statutory tax rate	195	134	86
Increase (decrease) in theoretical tax due to the following factors:			
Nondeductible expenses	1	5	-
Offsetting results of investees, net	(43)	(36)	(23)
Differences in measurement basis and other provisions	(5)	(2)	(2)
Losses (gains) in respect of which no deferred taxes were created	(1)	(5)	-
Taxes in respect of previous years	-	1	5
Taxes on income	<u>147</u>	<u>97</u>	<u>66</u>

Separate Financial Information as of December 31, 2025

Notes to separate financial information

NOTE 7:- TAXES ON INCOME (Cont.)

c. Movement in deferred taxes:

	Property, plant and equipment	Employee benefits	Cash flow hedges	Other	Total
	U.S. dollars in millions				
Balance at December 31, 2022	(39)	81	10	(41)	11
<u>Changes in 2023</u>					
Changes carried to profit or loss	(6)	(1)	1	(18)	(24)
Changes carried to other comprehensive income	-	(1)	(9)	-	(10)
Balance at December 31, 2023	(45)	79	2	(59)	(23)
<u>Changes in 2024</u>					
Changes carried to profit or loss	(8)	3	-	(47)	(52)
Changes carried to other comprehensive income	-	(1)	(10)	-	(11)
Balance at December 31, 2024	(53)	81	(8)	(106)	(86)
<u>Changes in 2025</u>					
Changes carried to profit or loss	(2)	13	-	(30)	(19)
Changes carried to other comprehensive income	-	-	(1)	-	(1)
Balance at December 31, 2025	(55)	94	(9)	(136)	(106)
