

Israel Aerospace Industries

2022 Sustainability report





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About the report

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Reporting period and cycle

This report presents the Israel Aerospace Industries (IAI) performance on Environmental, Social, and Governance (ESG) issues, as of December 31, 2022. This is the company's eighth consecutive reporting year, published at March 31st, 2023. In some cases, previous years were considered for the sake of comparison, trend analysis, and future goal setting. When such cases appear in the report, this fact is explicitly noted. Parts of the report contents were audited for limited assurance by BDO Ziv Haft (see pages 76-77), and professional consultation on the report was provided by KPMG Somekh Chaikin.

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

Reporting 'in accordance' with the GRI Standards

UN SDG targets: 12.6



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

For the Content Index - Essentials Service, GRI Services reviewed that the GRI content index is clearly presented, in a manner consistent with the Standards, and that the references for disclosures 2-1 to 2-5, 3-1, and 3-2 are aligned with the appropriate sections in the body of the report. The GRI

Standards Content Index is located at the end of this report, on pages 68-74.

Reporting scope

IAI has a worldwide business and financial activity, with the majority of its managerial and manufacturing activities taking place in Israel's territory. Relevant financial data specified in this report are in line with IAI's 2022 financial statement period, from January 1st to December 31st, and concerns IAI's global activity. Unless otherwise mentioned, all the sustainability data (other than financial) included in this report applies to IAI's activities and operational sites in Israel alone, and reflect the consolidated data from these sites. In some cases, relevant information was given for specific sites only. When such cases appear in the report, this fact is explicitly noted.

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

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

Restatements

Change in the measurement or in the definitions used: in this report, the jet fuel consumption data for 2020-2021 was revised to reflect only direct consumption by IAI. The decrease from previous data is 70%.

Significant changes to the report

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



From the Chairman of the board

2-22

Observing the world and everything in it through a sustainability lens is vital to any company that considers itself a leader in local and international markets. As a governmental company operating in the business environment, we are committed to our material sustainability issues and serve as an example for leading and implementing strategic plans that align with the UN sustainable development goals (SDGs).

I am happy to present IAI's eighth sustainability report, demonstrating the degree of importance we place on the topics of environmental, social, and governance (ESG). The report details the various ways cross-company processes are executed, and the oversight by the Board's sustainability committee, which provides guidance and sets expectations regarding these issues.

In 2022, IAI attained the highest sales figures in its history and issued a dividend payment to our owners - the citizens of Israel, which contributed directly to lowering fuel costs for each and every one. For the first time, IAI shared its profits with its employees, a step we intend to continue as part of seeing our employees as partners. We successfully met our business objectives as we remained committed to working with our customers and partners from local and international military and civilian markets to ensure that our cutting-edge products and services are reliable, effective, and safe. Facing continued global supply chain disruptions and a volatile geopolitical atmosphere, we remained determined to meet our strategic priorities while continuing to invest in our long-term sustainable development and growth. Our commitments led to yet another year in which we maintained our "Platinum Plus" ranking in the Israeli Ma'ala Index for Corporate Responsibility in Business at the Tel Aviv Stock Exchange.

We continued our work, aligned with the six UN 2030 Sustainable Development Goals (SDGs) that have been found most relevant to our business as part of our 2019-2023 strategic sustainability roadmap. Through transparent cooperation and collaboration

with local and international bodies, authorities, and NGOs, we learn and keep creating better practices, improving our environmental and social performance, and holding ourselves accountable. These will continue to be shared as we form our 2030 strategic sustainability roadmap.

Environmental responsibility is the most significant responsibility as it is measured across generations, while business responsibility is measured several years ahead. We need to act from a sense of national responsibility and leave a better world for future generations.

As we enter IAI's 70th year of existence, I am proud and excited to be part of this technological wonder, which keeps pioneering the aviation, space, and defense industry. I am proud of IAI's employees' steadfast dedication, expertise, creativity, and ongoing effort that enable our growing global reach and customer trust, while we firmly remain committed to Israel's national security and future. I am confident we will continue building on this strong foundation as our journey unfolds.

Amir Peretz
Chairman of the Board of Directors



From the CEO

2-22

I am pleased to present IAI's eighth consecutive Sustainability Report, which outlines our 2022 performance. As usual, we publish our annual performance at the same time as our annual financial statement, reflecting our commitment to a timely reporting practice, and having sustainability as a strategic contributor to our long-term business success. Responsible decision-making is foundational in strong governance practices, ensuring transparency, accountability, and ethical behavior. This allows us to consider the expectations of all stakeholders, including our employees, customers, business partners, suppliers, and the communities in which we operate, in a responsible manner.

2022 marks our fourth year of the company's implementation of the 2019-2023 strategic sustainability roadmap. Our 2019-2023 strategic sustainability plan was designed to guide our efforts toward achieving our sustainability goals, which are aligned with the United Nations Sustainable Development Goals (SDGs). We have continued to make progress in all our sustainability objectives concerning the way we employ, operate, innovate, and grow, while strengthening our technological leadership.

This year had been the most successful in our 70 years of existence, with a 655 million ILS dividend to the State of Israel. We continued to deliver excellent products and services to the Aerospace and Defense markets and reached record-high sales of over \$ 4.9 billion and a net income of \$213 million. Further, our total spend on local procurement increased, with "blue-and-white" representing 63% of our total procurement. Socially, we continued to promote diversity, inclusion, and gender equality in our workplace. We believe that a diverse and inclusive workplace drives innovation, productivity, and better management practices. The "academy for future women CEOs" initiative launched in 2022 will allow more women to take senior management positions at IAI and the Israeli defense sector. Additionally, we met our 10 by 10 social

impact objective, in which 10% of our employees volunteered for 10 hours each to make STEM professions approachable to youth and encourage more students to choose aviation and space professions. Environmentally, we maintained our efforts to reduce our environmental impact, including our energy consumption and greenhouse gas emissions, improving our waste management practices, and promoting more sustainable products and services.

Moving forward, we are developing our 2030 strategic sustainability roadmap to set more ambitious sustainability goals and define our actions to achieve them. We will engage with our stakeholders to gather their input and address their insights and expectations as part of our overall strategizing activities.

In conclusion, I am proud of our sustainability achievements over the past eight years, a result of the hard work and dedication of our employees, our most valuable asset, which invest in making and providing the best solutions and services while driving sustainable growth and building trust with our stakeholders. We are excited about the opportunities and challenges that lie ahead, and I am confident that our progress in addressing the range of environmental, social, and governance (ESG) topics that are material to our business and stakeholders will keep fortifying our role as a leading Aerospace and Defense company in the future.

Boaz Levy
President and Chief Executive Officer





STRATEGY AND VALUE CREATION



Our business

2-1 | 2-2 | 2-6

Israel Aerospace Industries (IAI) is a global Aerospace and Defense (A&D) company, and the largest governmental Company in Israel, delivering state-of-the-art technologies and systems in all domains: sea, air, land, space, and cyber for defense and commercial markets. We have been developing and supplying comprehensive solutions and services for customers around the world for nearly seven decades, allowing them to meet their unique security and commercial objectives. IAI was founded in Lod, Israel in 1966. Prior to its establishment, it operated as a supporting unit in the Ministry of Defense, established in 1953. Its name changed to Israel Aerospace Industries Ltd. In 2007.

IAI's headquarters is located at Ben-Gurion Airport, Lod, overseeing eight operational sites across Israel, IAI is the largest employer of engineers in Israel, 22% of which are women. The company sustains over 30,000 households nationwide, across all circles of employment.



Managing sustainability

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

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

Our sustainability management is directly derived from our sustainability policy, which in turn reflects our material topics (see page 15). This policy dictates both the focus of the Senior Management Sustainability Steering Committee and the strategic work of the Sustainability and Corporate Responsibility Directorate, as well as the targets & objectives assigned to the various functional units (i.e. the divisions, HR, P&L, and Finance, etc.). The Sustainability and Corporate Responsibility Directorate gathers progress reports from the various units, and reports back to both the Senior Management Sustainability Steering Committee and the Board of Directors' Sustainability Committee each quarter. The program supports the company's long-term business objectives and the company's senior management and the board of directors' sustainability committee reviews it annually to ensure its completeness and effectiveness.

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



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



Our stakeholders

2-29 | Limited assurance

We work proactively to develop trust-based relationships with our internal and external stakeholders, including our employees, customers, business partners, suppliers and contractors, regulatory authorities, civic organizations, and communities in which we operate. We seek engagement with our stakeholders through various processes and approaches. In 2022, we continued to engage with new stakeholder dialogues, and strengthen processes that were set in previous years in order to advance cooperation, learning, and improvement, based on valuable insights on our material topics and performance.

Stakeholders	Internal/ External	Proposed material topics for engagement	Engagement approach
Israel's government (owners)	External	All materials topics (see page 15)	Annual reports; Meetings
Regulatory authorities (including environmental and social compliance)	External	All materials topics (see page 15)	Annual reports; Meetings; Joint seminars, conferences and seminars; Site visits and audits; Professional forums
Employees, employees' families, our retirees	Internal	All materials topics (see page 15)	Intranet; Internet; Mobile app #weareIAI; Newsletters and emails; Social media posts; Forums and gatherings; Company events; Surveys; Round tables
Board of directors and senior management	Internal	All materials topics (see page 15)	Management reviews; Professional training; Steering committees; Surveys; Round tables
Customers	External	Corporate governance and business ethics; Product responsibility and customer service; Technological innovation; Compliance; Business development and performance; Energy and emissions; Environmental management; Responsible supply chain; Cyber defense and information security; Anti-competitive behavior prevention; Business continuity	Annual reports; Trade shows and technical conventions; Audits and site visits; Surveys; Meetings; Joint seminars, conferences and seminars; Social media posts; External website



2-29 | Limited assurance

Suppliers and contractors	External	Responsible supply chain; Anti-Corruption and bribery prevention practices; Environmental management; Occupational health and safety; Cyber defense and information security; Business continuity	Internet; Meetings; Joint seminars and conferences; Audits; Supplier training; Surveys
Communities	External	Impact on Israel; Social impact; Energy and emissions; Environmental management; Waste and effluents; Indirect economic impact	Internet; Strategic partnerships; Volunteering and local initiatives; Meetings; Round tables; Surveys; Social media posts
Local and international partnerships and industry associations	External	Technological innovation; Environmental management; Social impact; Compliance; Cyber defense and information security; Energy and emissions; Waste and effluents	Strategic partnerships; Professional committees and forums; Joint seminars and conferences; External website
Civil organizations	External	Impact on Israel; Social impact; Responsible supply chain; Anti-Corruption and bribery prevention practices; Energy and emissions; Environmental management; Waste and effluents; Technological innovation; Diversity, inclusion and gender equality	Surveys; Meetings; Joint seminars, conferences and seminars; Social media posts; Internet; Surveys; Round tables
Academia	External	Technological innovation; Impact on Israel	Strategic partnerships; Technical conferences; Internships and higher education training; Joint R&D projects
Future generations	Internal/ External	Impact on Israel; Technological innovation; Human resources management	National-level Long-term outlook forums; Future women engineers of tomorrow project
Investors and financial stakeholders	External	All materials topics (see page 15)	Annual reports; Meetings; External website



Strategic alliances and memberships

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IAI is active in various associations, forums, and alliances, both local and international, which focus on promoting collaborative efforts and knowledge sharing around our material topics. These important connections inform our responsible business practices and our policies, and their implementation. During 2022, we kept strengthening these partnerships as an integral part of our sustainability and business continuity management.

In Israel

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

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

Maala

Maala is a nonprofit organization promoting corporate social responsibility in Israel. Founder of Maala index at the Tel Aviv

Stock Exchange, it is considered the CSR standards-setting organization in Israel. In 2022, IAI maintained its "Platinum +" ranking, the highest-ranking available.

International Aerospace Environmental Group (IAEG)

A trade association formed by major international aerospace and defense companies, focusing on compliance with future laws and regulations regarding health and the environment. The association is advancing mutual efforts to aid the A&D value chain to become more sustainable, reduce potential risks, and drive continual improvements to help companies in making their products more environmentally friendly. As sole Israeli participant in this association since 2013, IAI is involved in various working groups, such as chemicals disclosure and replacements, environmental qualifications of suppliers, ISO 14001 and EMS implementation, Greenhouse Gases (GHG) sector-specific guidelines and most recently, ESG engagement.

International Forum on Business Ethical Conduct (IFBEC)

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



ESG risk management

2-12

Environmental, social, and governance (ESG) risks and their impacts are included in the company's periodic risk review (see page 37) and tracked regularly by the senior management sustainability steering committee and to the Board of directors' committee on corporate governance, sustainability and the advancement of diverse populations. The Sustainability and Corporate Responsibility Directorate carries out ongoing monitoring and evaluation of all of the impacts that derive from the material topics with respect to the company's business activity, leads improvement and preparedness processes with respect to group and division managers, and leverage opportunities for shared value with respect to internal and external stakeholders. A climate-related risk assessment was performed in 2022, reviewing physical risks (acute and chronic) and risks associated with transition to low-carbon economy (page 60).

Information on all key corporate risks is located in Section 29 in the Fourth part of the 2022 Financial Statement of the Company (in Hebrew), pages 128-141. The table below presents the main ESG risks that could potentially affect our business activity.

Risk area	Potential impact	Organizational mechanisms for managing and reducing impact
Coping with crises and emergency events	Harm to people and equipment, disruption of business activity, failure to meet objectives and deliveries, loss of opportunities	Risk management (see page 37) and business continuity (see page 27)
Cyber defense and information security	Disruption of business activity, shutdown of systems, loss of information, security breach, information leakage to competitors, including sensitive commercial and personal information	Cyber defense and information security (see page 38)
ESG-related regulatory developments (local and international)	Infrastructure investment for the purpose of meeting regulatory requirements, prohibition or limitation on the use of specific raw materials in the company's products	Compliance with laws and regulations on environmental issues (see page 56) and socioeconomic issues (see page 35)
Human capital management vis-a-vis the current and developing labor trends	Competitiveness in recruiting and maintaining human capital in accordance with the company's needs	Career at IAI (see page 43)
Climate-related risks (transition and physical)	Mid- to long-term potential impact on operations and supply chain due to resources price volatility and taxation changes in transitioning to global low-carbon economy and due to severe weather trends	GHG emissions (see page 60), business continuity (see page 27) and Environmental R&D (see page 62)



Materiality

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

The company's material topics are reflected in the company's sustainability policy and constitute the basis that guides the company's 2019-2023 strategic sustainability roadmap.

In the original full materiality assessment done in 2019, the Senior Management Sustainability Steering Committee had set the scope and goals for the process. Then, existing and emerging material topics were gauged through internal documents and procedures, insights from sector peers, international sustainability standards and initiatives, the UN Sustainable Development Goals (SDGs), Aerospace and Defense Sector-specific data, media reviews and more. This process had yielded a list of 36 material topics. A ranking process followed by engaging internally through employees' surveys and by interviews with external stakeholders, such as governmental authorities. IAI topics were then ranked by internal and external factors, validated and approved by IAI's Senior Management Sustainability Steering Committee (see the 2019 sustainability report available on IAI's website).

Since this full assessment, the Senior Management Sustainability Steering Committee has re-validated the list on an annual basis, based on a continuous gauging of the company's ESG impact. In each quarterly meeting, the committee reviews progress towards goals and objectives as defined by the strategic sustainability plan, as well as any new and emerging topics that require impact assessment and decision-making. These topics emerge from the company's stakeholders' engagement platforms (see pages 10-11), actively tracked by the Sustainability and corporate responsibility directorate. In most cases, current material topics capture these emerging trends, resulting in the expansion or realignment of activities under the strategic plan. In case a topic is emerging which is not already part of the company's material topics list, a wider methodic engagement with relevant stakeholders is done, to assess its addition to the company's materiality (such was the case for "business continuity" in 2020).



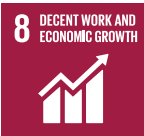

As the company's core products, markets, activity, and the essence of its business strategy, whose implementation began in 2019, remained unchanged, the Senior Management Sustainability Steering Committee have approved the current list of material topics for 2022, with two changes. The material topic named "Employees recruitment and talent management" was subordinated to the material topic of "Human capital management". In addition, the material topic named "Diversity, inclusion and equal opportunity" was re-named as "Diversity, inclusion and gender equality", to align with the company's new gender equality forum and its activity.

Look for the MT mark!

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



3-2 | Limited assurance

Topic area	Material topic	Pages	UN SDGs
Environment	Energy and emissions	58-59	
	Environmental management	56-57	
	Waste and effluents	59, 61	
Social	Diversity, inclusion, and gender equality	44	
	Human capital management	42	
	Occupational health and safety	45-46	
	Social impact	48-49	
Governance	Anti-corruption and bribery prevention practices	35	
	Compliance	35	
	Competitiveness	38	
	Corporate governance and business ethics	32-34, 36	
	Cyber defense and information security	38	
Economic	Business continuity	27	
	Business development and performance	20	
	Impact on Israel	27	
	Indirect economic impact	27	
	Product responsibility customer care	24-25	
	Responsible supply chain	26-27	
	Technological innovation	23-24, 62	



2019–2023: Our sustainability roadmap

Limited assurance

In 2019, the company had initiated the implementation of its 2019-2023 sustainability roadmap that was created based on an extensive number of resources and following a methodological process, to ensure our focus coordinates with important national and international sustainable development roadmaps and initiatives. The roadmap is divided into three levels of implementation and monitoring of the annual derivatives, as well as for each of the material topics (see page 15).

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

Look for the mark!

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



2023 Vision ¹ (KPIs and sample actions)	2022 Update	Pages
10% cross-organizational electricity savings	Annual target met	63
100% of new strategically-managed suppliers are evaluated for sustainability performance	In progress	26-27
35% women intake of all new employees hiring (core technological professions)	In progress	50-51
30% women intake of all employees hiring (all professions)	Annual target met	50-51
5% annual increase in hiring of diverse work populations	Annual target met	50-51
10% annual decrease in safety accidents rate	Annual target met	53

¹ The completed KPIs of renewable energy diversification and transitioning to ISO 45001 were removed from the table in 2022.



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

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

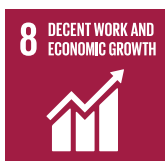
UN SDGs	UN Targets	Our alignment and contribution
 Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	<p>Target 4.3: By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university.</p> <p>Target 4.4: By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.</p>	<p>Our social impact strategy focuses on developing future technological human capital in the fields of aviation and space, with an emphasis on promoting gender equality. This strategy is implemented, among other things, in joint activities with NGOs and cooperation with the Socio-economic forum to advance diversity and equal opportunity. In addition, IAI operates a professional school, part of the ORT network, which combines conventional studies with a weekly program of practical employment. The school's curriculum is based on three areas of expertise: Aircraft Mechanics, Electrical and Electronic Systems and Unmanned Aircraft.</p>
 Achieve gender equality and empower all women and girls	<p>Target 5.1: End all forms of discrimination against all women and girls everywhere.</p> <p>Target 5.5: Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.</p>	<p>IAI promotes a diverse and inclusive work environment and equal opportunity employment. Our gender equality plan was built in order to increase the percentage of our women employees in both core and general professions. In addition, our social impact programs such as "Women Engineers of tomorrow" aim at empowering girls and young women to pursue STEM professions.</p>



UN SDGs

UN Targets

Our alignment and contribution



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

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

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

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

Target 8.5: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

Target 8.8: Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

IAI's employees are the heart of our business, going above and beyond to create value through demonstrable innovative achievements and products. Being one of the largest employers in Israel, we strive to provide secure and long-term job opportunities, while ensuring safe, ethical and empowering working environment. We invest in employees' professional development and foster diversity and inclusiveness with equal pay and remuneration for work of equal value. In addition, the company invests in environmental management systems and infrastructure that promote business growth with an environmental perspective, such as a circular economy.



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

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

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

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



UN SDGs

UN Targets

Our alignment and contribution



Ensure sustainable consumption and production patterns

Target 12.2: By 2030, achieve the sustainable management and efficient use of natural resources.

Target 12.5: By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

Target 12.6: Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.

Target 12.8: By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature.

IAI continually invests in minimizing the environmental footprint of its production lines, and in environmental R&D (Clean sky, Green labeling) We look to expand the implementation of “Design for sustainability” principles in our processes as part of our 2019-2023 strategic sustainability roadmap, and increase real-time accessibility to our sustainability performance data, for continual improvement of our operational decision-making.



Take urgent action to combat climate change and its impacts

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

IAI acknowledges the importance of action on climate change and its global effect. We manage a cross-organizational carbon control program, focusing on the reduction of CO2 and other air emissions, expanding tracking and reporting capabilities (CDP climate, the voluntary GHG reporting scheme of the Israeli ministry of environmental protection) and actively participating in important industry collaborations (such as IAEG, Clean Sky 2, Clean Aviation). IAI also invests technologically through innovations such as VENU research Nano-satellite.



Business development and performance

2-1 | 2-6 | 3-3 | Limited assurance | SP | MT

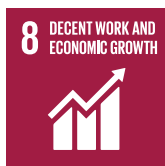
Financial performance

UN SDG targets: 8.1 | 8.2

IAI is a “wholly-owned Governmental Company”, with Israel's government holding 100% of its shares, as stipulated in the Israeli Governmental Companies Law - 1975. The Company's debentures were issued and listed for trade on the Tel-Aviv Stock Exchange effective May 2007, whereas the Company's shares are not listed for trade. The company's Board of Directors oversees the execution of its policy by the Senior Management - IAI Chief Executive Officer and Vice presidents.

The company's financial statements have been prepared in conformity with IFRS, and fully comply with the Israeli Securities Regulations and the Israeli Government Companies Law - 1975. On December 31, 2022, IAI held a backlog of orders amounting to 15.6 billion US Dollars that equals to 3.1 years of activity. The total company equity stands at 1,234 million US Dollars and the total company debt stands at 5,688 million US Dollars.

In 2022, IAI was ranked 37 out of 100 companies in the international A&D sector index by Defense News.



Business development

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

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

Sustainability aspects in business development

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



Products and services

2-6

Defense

Air

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

Naval

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

Land

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

Space

IAI, the National Space House of Israel, is acting as a one-stop-shop for cost-effective small to medium size satellites. With

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

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



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

Commercial

Aviation

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

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



2-6

Commercial

Aviation

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

Cyber and Homeland security

Cyber is a strategic sector for IAI. ELTA's Cyber business unit is IAI's center of excellence for Cyber Solutions, addressing "national grade" challenges faced by nation states, critical infrastructures, law enforcement, and defense forces. The Cyber business unit has developed unique solutions for Cyber defense, protection, monitoring, prediction, identification, intelligence and accessibility. Solutions include national-grade Cyber Early Warning centers, Cybersecurity for mission-critical systems, aviation and maritime cyber security, cyber intelligence, cellular search and rescue system, and critical cyber protection solutions. These advanced capabilities are possible due to the unique technologies developed by the Cyber business unit's R&D

and excellence centers in Israel, Singapore and Switzerland.

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

Homeland security

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



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



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



Technological innovation & Entrepreneurship

3-3 | MT

UN SDG targets: 9.4



Technological innovation is at the foundation of IAI's culture, promoting our success. IAI's CTO's team and the divisions' business units guide these efforts toward supporting the forefront of the company's strategy. As a company guided by principles of progress and creativity, we support and lead a set of initiatives and activities that promote and encourage innovation, both internally and externally, creating significant innovation-driven value for IAI and our partners. IAI is equipped with the most advanced research and development tools, materials laboratories, multiple wind tunnels, ground test facilities, and flight test facilities. These strong capabilities enable significant progress from low Technology Readiness Levels (Low TRLs) to high TRLs. We implement Innovation using two complementary approaches - organic innovation and open innovation.

Organic innovation

IAI has an active and vibrant entrepreneur innovation community that contains the innovation leaders, the active entrepreneurs and alumni. The program is open to all IAI employees, who are invited to contribute and develop their ideas using an innovation system, and grow them into Minimum Viable Product (MVP) at our innovation center. Ideas uploaded to the system are reviewed by the division innovation team with the guidance of divisional content and business experts. Ideas that can be pursued are presented to the innovation committee in order to approve a development budget and integrated in the division product lines.

Open innovation

IAI is a significant player in the global innovation ecosystem. The Company's business divisions are extensively engaged with startups, and we continue to support, develop, and nurture the local and international industry, in order to maintain our posi-

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

IAI's innovation center

The Innovation center is at the core of IAI's overall innovation strategy, which seek to foster organic and open innovation, while also training and grooming innovation champions. The company's innovation center was established in 2019 at the heart of the ecosystem for startup companies in Israel, and operates in Tel Aviv since 2022. We use innovation methodologies to encourage technological diversity and internal entrepreneurship, alongside cooperation with potential partners. During 2022 employees from all the divisions, took part in cross-division innovation cohorts. The center runs several programs:

- **A 13-week acceleration program**, open to all IAI's employees, and occasionally in cooperation with startups or defense partners, aiming to shorten development timelines (TTM) and reaching MVP. The program include various workshops and is accompanied by technological and business experts, both local and international. Upon completing the program, the teams return to their divisions for further development and integration of the product, while maintaining the company's excellence and innovation values.
- An international **technological scouting program**, designed to discover evolving and disruptive technologies led by startups and academia and to form partnerships for innovative projects while maintaining the technological edge of each of IAI's divisions.
- **ASTRA space program**, in partnership with the STARBURST, specializing in aviation and space, through which we invite startup companies to cooperate with IAI, and serving as BETA SITE.

As of the publication date of this report, covering 3 years of activity, 46 innovation initiatives has reached MVP and 7 patent applications were lodged. Additionally, we cooperate with academia to promote engi-



neering excellence, through student scholarships, excellence programs and a Master's degree in system engineering, with the Technion, for IAI's employees. We also share applied research projects with the various academic institutes in Israel.

Managing IAI's knowledge assets

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

Patents

Limited assurance

Patents are considered an important asset and an indicator of innovation. A company's Research and Development process is highly expensive and risky, thus requiring a realization of the full economic value of the inventions. By defending our ideas, we ensure freedom of action in dealing with technologies developed by our people, encourage further innovations and creative paths to take form, and support the continual advancement and expansion of our knowledge base and intellectual property. IAI is conducting a strategic process of application and registry of patents, both locally and globally. A cross-organizational company procedure is dictating the steps for executing an effective invention and patent application. In addition, a rewards system is in place for compensating employees based on successful inventions that were accepted for the patent registry.

Product responsibility and customer service

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

Customer service

The quest for continuous improvement lies at the basis of IAI's business core. In 2022, we continued the implementation of our customer support strategy, which allow a leap forward in costumer care and support. The strategy implementation is led by IAI's VP of Operations, purchasing and logistics and the Head of Customer support administration. This aligns with the AS9100D 'Quality Management Systems - Requirements for Aviation, Space and Defense Organizations' certification requirements, an updated version held by all of IAI's manufacturing divisions. The strategy includes work plans, defining customer service indicators and business objectives. Furthermore, IAI sees costumer service as one of its most important focus areas for the coming years. In 2022, we continued implementing a Customer Relationship Management (CRM) system, which is part of our approach to better communication with our customers, development of a post-delivery support, and high customer satisfaction for all our products and services. In addition, we continued to develop our relationships with our customers, including utilizing solutions in the customers' countries.

The privacy of IAI's customers and stakeholders

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



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

Quality management at IAI

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

We drive continual improvement through:

- Operating a Quality Management System to ensure consistent and continual compliance
- Focusing on customer satisfaction
- Setting measurable quality objectives and targets throughout the company groups and divisions
- Training and developing our managers and employees and cultivating their personal and business skills
- Encouraging processes for incident reporting, investigation, and cross-organizational learning
- Integrating our suppliers as partners in order to meet our quality goals
- Investing in the implementation of advanced tools and methods that contribute to our products' level of quality, safety, and reliability.
- Joining in mutual efforts as members of professional societies and associations that lead the industry to quality improvements.

As a part of this commitment, all IAI's engineering, manufacturing and supply chain activities in our groups and divisions own a

valid AS9100 certification issued by the Standard Institute of Israel (SII). All IAI's support divisions at the headquarters hold an ISO 9001 certification.

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

Avoidance of counterfeit parts

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

Environmental management system ISO 14001:2015

All IAI's divisions hold a valid ISO 14001:2015 certification issued by the Standards institution of Israel (SII). For more details, see the environmental management section in this report (pages 56-57).

Safety management system ISO 45001:2018

All IAI's divisions hold a valid ISO 45001:2018 certification issued by the Standards institution of Israel (SII). For more details, see the safety management section in this report (see pages 45-46).



Responsible supply chain

2-6 | 3-3 | SP | MT

The Aerospace and Defense industry has a highly complex and dynamic network of suppliers, requiring effective management of costs, quality and delivery timelines. The constant flow of materials and data presents many opportunities for sustainable thinking. A&D Original Equipment Manufacturers (OEMs) play a critical role in setting the expectations and leading the suppliers and subcontractors in following humane practices, implementing economic values and achieving environmental excellence.

IAI is a unique player in the A&D supply chain, since it serves as the OEM for some of its products and as a Tier 1, 2 and 3 suppliers for others. As such, IAI is exposed to an intricate network of relationships and has varying degrees of impact on the sustainability practices of its suppliers. Regardless of IAI's position in a certain product's supply chain, we believe that raising the bar translates into higher standards for all those who engage in business with us.

Suppliers' certification process

As an OEM, IAI is working only with suppliers that are certified by our company. These suppliers are obligated to hold valid and current permits, authorizations, and standard certifications relevant to their business. In addition, IAI is investigating their economic stability prior to engagement and continues to track their financial performance throughout the entire business relationship.

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

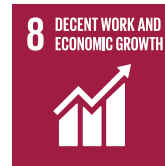
- A system for supplier quality assurance management, designed to assure that the quality of the products supplied meets IAI requirements and includes the implementation of any follow-up requests. Our goal is for all our suppliers to embrace the same standards and commitments that IAI has set for itself as a supplier to other OEMs.
- An online Suppliers' web portal (IAI SupplierNET), containing all the data and information required by suppliers that engage

in business with IAI. Through this portal, the suppliers report on any use of sub-contractors and TIER 2 suppliers, thus enabling higher levels of supply chain transparency and control.

- Keeping our Israeli supply base up-to-date through different initiatives regarding requirement changes, supplier delivery schedule, accounting, and billing through e-sources.

Sustainable practices in the supply chain

UN SDG targets: 8.1 | 8.2



IAI's procurement and logistics organization manages structured processes and mechanisms that ensure that sustainability considerations constantly guide decision-making. In 2022, the procurement and logistics organization continued to lead in-depth processes with the aim of bringing about excellence, implementing the agility and tightening cooperation and transparency between headquarters and the divisions. This included:

- Use of dashboards that allow transparency and standardization of purchasing indicators' measurement and control.
- Developing procurement employees through e-learning and trainings that relate to the Code of ethics and interpersonal communications, with emphasis on interactions with suppliers.
- Implementing a one-stop-shop portal for suppliers management (SRM).
- Use of a central logistics center that promotes the company's Industry 4.0 approach, decreases storage spaces and excess inventory, and enables traceability and automation of manual processes.
- Support of local suppliers ("blue and white"), small businesses, and suppliers from peripheral regions in Israel is strategically managed by the company in order to increase their capabilities



Business continuity

3-3 | Limited assurance | SP | MT

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

IAI has embedded clear procedures and work instructions to ensure continuous operations and projects in the event of potential, unexpected and severe incident occurrences, such as major fires, earthquakes, and cyber or terror attacks. By defining and establishing effective response procedures during an incident, utilizing trained emergency response teams from within the company, and employing rehabilitation strategies and crisis management methodologies when necessary, IAI ensures the survival and continuous functioning of its core critical processes. These mechanisms directly contributed to the company's resilience in the face of the global COVID-19 pandemic.

As a learning organization, we keep improving the company's business continuity plans, including sustainability aspects as part of our 2019-2023 sustainability roadmap. For example, the company performed an business impact analysis for potential climate-related risks (transition and physical), as part of its overall climate risk assessment in 2022.



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

2-6 | 3-3 | SP | MT

and their portion of the international aerospace and defense industry.

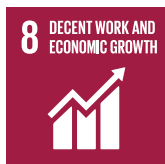
- Setting annual savings targets, inventory values and distribution targets for raw materials, services and procurement of resources via database system, and preventing the purchasing of items marked as unnecessary.
- IAI is participating in the ESG engagement workgroup in IAEG, aiming to address suppliers' reporting on social, environmental and governance issues (see page 12).
- Implementing human rights protection as part of our company's human rights statement (in process of completion and approval), for the establishment of long-term, respectful and fair relationships with our suppliers.

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

Local procurement

3-3 | 203-2 | 204-1 | Limited assurance | MT

UN SDG targets: 8.1 | 8.2



As a government-owned company, IAI contributes to the development of Israel's economy in general, while paying particular attention to purchasing locally ("Blue-and-White"). The majority of our suppliers overseas are engaged based on economic grounds, expertise, and requests of our customers or by the terms of reciprocal trade (offset obligations). In 2022, an increase of 45% was noted in the Company's spend on local procurement, and our total procurement from local sources increased to 63%.



Performance scorecards

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

Indicator	2020	2021	2022
Sales (Million \$)	4,184	4,477	4,973
Tax income (Million \$)	0	0	0
Total economic value produced (income) (Million \$)	4,184	4,477	4,973
Operating costs (including salaries and benefits) (Million \$)	3,989	4,260	4,657
Finance expenses (Million \$)	21	29	31
Tax expenses (Million \$)	46	46	77
Dividends (Million \$)	0	0	0
Total economic value distributed (Million \$)	4,056	4,335	4,765
Total economic value gained ¹ (Million \$)	128	142	208
Net income (Million \$)	133	148	213
EBITDA (Tens of thousands \$)	39,700	43,600	56,000
Government support: R&D grants (Million \$)	7	5	7
% Revenues by operating segments: Systems, Missiles and Space	35.7	38.3	38.7
% Revenues by operating segments: Military Aircraft	11	11.5	10.9
% Revenues by operating segments: Elta	27	25.6	24.2
% Revenues by operating segments: Aviation	26	24.6	26.2
% Revenues by operating segments: Other	0.3	0.04	0
Spend on local procurement (Bn\$)	1.6	1.93	2.8
% local procurement (of total procurement)	51	61	63
Number of patents granted ³	54	36 ³	48⁴
Number of patents applications ^{2,4}	50	43 ³	34⁴

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

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

³ From the 2021 annual report of Israel's patents office (latest report available in March 2023).

⁴ Internal data only.



INTRODUCTION

STRATEGY &
VALUE CREATION

GOVERNANCE

EMPLOYEES AND
COMMUNITIES

ENVIRONMENT

GRI CONTENT INDEX



A person wearing a white lab coat is holding a test tube in their right hand. The background is a dimly lit laboratory with various pieces of equipment, including a large circular object and a small screen displaying a person's face. The word "Governance" is overlaid in white text at the bottom.

Governance



Corporate governance

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

IAI's corporate governance structure

Israel Aerospace Industries Ltd. ("IAI") is a private corporation wholly owned by the State of Israel, (i.e. A Government Company as defined in the Government Companies Law - 1975 (hereafter - "the Government Companies Law")). In 2007 IAI conducted its first public offering of debt and became a reporting corporation. The Government Companies Law stipulates various instructions and corporate governance regulations which are applicable for the Company as a Government Company, including, inter alia, instructions regarding the composition of the Board of Directors and its work, the powers of the Board of Directors, qualifications of the Directors and the process of their appointment, Directors' compensation, and regulations ensuring the accuracy of the financial statements and the Director's Report. Similar and additional corporate governance provisions appear in the Companies Law -1999 (hereinafter - "the Companies Law") and the provisions thereof apply to the Company, subject to the regulations of the Government Companies Law. The Articles of Association of the Company are included in a prospectus published on December 29, 2011 (Document No. 2011-01-379344). Being a "Reporting Corporation" the Company is also subject to the regulations of the Securities Law - 1968. IAI applies corporate governance principles in accord with its standing as a global company, active in the defense and international aviation sectors. The regulatory entity to which IAI is subordinated is the Government Companies Authority (hereafter, the "Authority"). IAI maintains current communications with the Government Companies Authority, inter alia, through a representative of the Authority, present at meetings of the Board.

Company secretary

IAI's Company Secretary is responsible for the ongoing communication and coordination between IAI's Board of Directors and the Company's Management. Inter alia, the Company Secretary is entrusted with the management,

coordination, and documentation of Board Meetings, and is also responsible for the reception, training, and interfaces in between new directors and IAI. The Company Secretary is also responsible for the communication between IAI and the Authority as well as for reporting to the Securities Authority.

IAI's internal auditor

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

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

IAI maintains an internal enforcement plan with respect to the Securities Law, in order to respond to possible exposure cases relating to potential breaches of this law. The Board of Directors has appointed the Company's VP General Counsel as responsible for internal enforcement of these matters for IAI.

Limitations and supervision over the company

With respect to the restrictions and supervision over the Company see Section 21 in the Fourth part of the 2022 Financial Statement of the Company (in Hebrew), pages 107- 119.

Prohibition on financial contributions and donations

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



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Approval of financial statements

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

The Board and its committees

The Board of Directors is responsible for defining company policy and overseeing management activity, including decision-making on ESG-related impacts. The company's management is responsible for implementing this policy in practice and reporting to the Board of Directors. In 2022, the following committees convened:

(I) Financial Statements review, investments and Business Development Committee, (II) Audit Committee, (III) Remuneration Committee, (IV) Sustainability, Corporate Governance and Diversity Committee, (V) Risk Management Committee. In 2022, the company's Board of Directors and its committees held 43 meetings.

Prevention of conflict of interest

Members of the Board of Directors sign a declaration verifying non-conflict of interests, and also undertake vis-a-vis the

Authority, to refrain from conflicts of interest between their activities in the Company and their activities in other spheres. The prevention of conflict of interest is included in the company's procurement policy and code of ethics (see page 36) and exercised based on internal procedures. The Chairman of the Board does not serve in a managerial role at IAI.

Board nomination, composition & tenure

As a governmental company, IAI's Directors are appointed by the Minister of Finance, in consultation with the Government Authority committee. Generally, directors are selected from the "Israel Board of directors Team". The nomination approval, including the review of the Directors' skills, complies with the Government Companies Law. Directors undergo further professional training, including for ESG impacts, as part of their tenure at IAI. Directors' performance evaluation is not conducted at IAI.

Accounting and financial expertise

In accordance with Section 92 (a) (12) of the Companies Law, the Board of Directors has determined, in its meeting of May 27, 2015, that the minimum number of Directors with Accounting and Financial Expertise required by the Company, is one (1). For the Directors' expertise see Section 14 in the Fourth Chapter of the 2022 Financial Statement of the Company (in Hebrew), pages 15-18.

Independent directors

According to Sections 219c and 239 of the Companies Law, at least two external directors are required to serve in a "Debenture Company". In addition, an independent director is serving in the company.



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The diversity of the Board of Directors

UN SDG targets: 5.5



In 2022, five out of nine of our board members were women. Board diversity is achieved through coordination with the relevant regulatory functions.

The ESG responsibility of the Board of directors

The Sustainability board committee was established in 2012 (under the name "the corporate governance and sustainability committee"). The sustainability committee is responsible for overseeing aspects and impacts of corporate responsibility; corporate governance; sustainable development; and internal enforcement of the securities laws. This committee discusses IAI's material topics, ESG-related processes and their outcome on a quarterly basis. The committee also discusses the annual sustainability reports and chooses whether to accept and approve their publication or seek further information, commentary, and/or revisions before approval.

IAI's ESG codes and policies

IAI operates according to various cross-company policies, which dictate our expectations from managers and employees and guide accountable and responsible business conduct. These policies cover a range of topics, including environmental, social, and ethics, such that our impacts are understood and internalized. ESG-related topics are also covered in our Sustainability policy and in our Human rights policy statement, which is in process of completion and approval. These policy commitments are overseen by the Board and implemented by the Senior Management Sustainability Steering Committee and the Sustainability and corporate responsibility directorate, including periodic review and update.

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

Senior managers reward policy

IAI has a policy in place for rewarding senior management, based on the company's risk management policy; The Company's size and nature; Components relating to the specific function, and his/her contribution to meeting the company's long-term goals. An updated reward policy was approved by the Board of directors in January 2022, based on the recommendations of the remuneration Committee, pending approval by the Government Companies Authority.



Compliance

2-25 | 2-27 | 3-3 | 205-2 | MT

IAI's commitment to comply with all laws and regulations applicable to our operations is uncompromising. A variety of compliance mechanisms are in place, to ensure the identification, prevention, control, and minimization of regulatory risks, and their integration into our Code of ethics and our bribery and corruption prevention program. In any case in which a disparity is identified, the senior management is notified and corrective actions are taken. Whenever appropriate, the event is reported to our Board of Directors and/or external auditors and, if the relevant criteria are met, is disclosed to the public. For further details, see Section 21 in the Fourth part of the 2022 Financial Statement of the Company (in Hebrew), pages 107- 119. For environmental compliance see page 54, for safety compliance see page 45, and for competitiveness see page 38.

Internal compliance program

IAI manages its business activities in unrelenting and strict compliance with the applicable laws of the State of Israel and of other countries in which it operates, and is committed to running its business with integrity, fairness, reliability, and professionalism. As part of its operations, IAI has integrated and implemented a compliance program for the prevention of corruption and bribery of foreign public officials, which is regularly updated according to current regulations and the company's risk assessment. The company's Board of Directors appointed the company's Compliance Officer. The Compliance Officer is in charge of the appropriate execution of the compliance program and reports directly to the CEO and every two years to the Board. The comprehensive anti-corruption and bribery prevention compliance program reflects the State of Israel's adherence to the OECD's Convention on Combating Bribery of in International Transactions, and IAI's values, upholding zero tolerance of violations. According to the company's program and as part of its implementation, the company applies analysis, supervision and control measures in relevant areas, as well as strict recording of all the program's processes based on risk management that considers regional, sectorial, due diligence and activity-related exposures. IAI is enlisted as a member in the International Forum on Business Ethical Conduct (IFBEC) since 2021 and regularly publishes the main elements of the compliance program, alongside the

company's code of ethics and an anonymous hotline for reporting on possible violations. Furthermore, employees who conduct business affairs on behalf of IAI receive an annual training focusing on the prevention of corruption and bribery of foreign public officials, and communicating IAI's strict policy in this matter. In 2022, with accordance to the annual work plans, these training sessions were routinely conducted to all relevant populations in both management and employee levels, either frontal or through web-based learning, depending on the individual level of interaction with third parties in various disciplines – marketing, contacts, finance etc. Additionally, a wide risk management survey was done to evaluate the capacity of the compliance program and its controls vis-à-vis the company exposures (accompanied by external advisors), alongside the implementation of a new software for internal use for the conduct of independent due diligence, in order to widen the population monitored by the compliance unit.

Export control

IAI is a defense and government-owned company and as such is acting in accordance with Israel's Export Control laws and regulations. The Defense Export Control Law, 5766-2007 (hereinafter "The Export Law") regulates the aspects of exporting defense-related equipment, knowledge, and services through the Israeli Defense Export Controls Agency (hereinafter "DECA") in the Israeli Ministry of Defense (IMOD). Among others, the Export Law requires obtaining licenses for either marketing, exporting, or an exemption, prior to any defense export deals. In addition, IAI is obligated to appoint a senior employee as the Chief Defense Export Control Officer, approved by DECA. The Chief Defense Export Control Officer is in charge of handling all aspects of export control and is responsible for implementing the laws, regulations, and associated orders within IAI, to be knowledgeable and up-to-date with any changes made by DECA, to serve as an expert in these issues and to ensure appropriate training program with regards to the Export Law. IAI had implemented designated e-learning for this important issue, alongside an annual training program that is carried out within IAI's divisions and groups. For further information, see Section 21.3 in the Fourth part of the 2022 Financial Statement of the Company (in Hebrew), pages 113-116.



Business ethics

2-16 | 2-23 | 2-24 | 2-26 | 3-3 | 205-2 | Limited assurance | SP | MT

Our code of ethics

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

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

The code was verified by IAI's senior management and the Board of Directors at the end of 2022.

Employees' ethics training

All new employees sign the Code upon commencement of employment. A refresher course is then conducted once every two years and is mandatory for all employees. The training covers various topics from the Code and demonstrates real-life dilemmas faced by IAI employees over the years. 92% of our employees have completed the web-based training as part of a bi-annual cycle. An updated web-based training was released in 2022.

Preventing workplace harassment

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

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

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



Link to the code of ethics

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



Sustainable risk management

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

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

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

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

IAI's Enterprise Risk Management is a managerial tool that manifests as a continuous process that is performed as part of the company's ongoing management, aiming to provide reasonable confidence to prevent risks occurrence by carrying out a systematic process for assessing potential risk impacts and probabilities, setting mitigation plans and required investment, and monitoring mechanisms.

In 2020, the company conducted a full and comprehensive risk survey process that included, among others, the company's structure and activities, the company's strategy, changes in the business environment, examination of managed risks in other companies, etc. The survey reviewed and included, inter alia, all risk categories defined in the requirements of the Government Companies Authority and international methodologies (e.g. Operational risks, financial risks, compliance and regulatory risks, reputation risks, information technology risks, embezzlement and fraud risks, ESG risks, etc.).

Following the analysis of the survey's results, the company's key risks were set. These risks are validated and updated as needed by the company's CEO and Board of Directors, on an annual basis.

Project-level risk management

A specific mechanism exists under IAI's project management methodology, to ensure the identification and mitigation of all risks, including environmental risks. Direct risk management responsibility in our projects rests with project managers, and during a project evaluation phase, a project risk manager is assigned to map, track, and maintain a risk list, including its classification (based on severity and probability). Designated teams are established to mitigate and control identified risks, and an external official from the company is assigned to monitor the outcomes of such efforts. Risk identification and classifications continue throughout the entire project term and are recorded in an online tool.



Cyber defense and information security

3-3 | Limited assurance | MT

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

IAI's IT and computing systems organization, ITC, was one of the first defense industries in Israel to be certified by the Standard Institute of Israel (SII) to the ISO/IEC 27032 standard in 2016. The certification was awarded following the demonstration of cutting-edge capabilities of IAI's cyber defense center and processes, including a unique operational methodology, advance cyber forensics capabilities, enhanced cyber detection and real-time status capabilities, as well as an effective combination of ISO 27032 and ISO 27001 (Cybersecurity standards).

ITC's cyber defense activities provide end-to-end information and cyber security coverage for IAI's computer and network infrastructure, including an advanced center for cyber security that monitors and responds to threats and enables the investigation of complex cyber threats. ITC continues to be at the forefront of the most advanced international standards regarding Cyber Incident Response (IR) plans, Cyber Security Operational procedure, and Cyber Forensics capabilities, along with regular exercises and internal and external audits.

IAI's expertise in this area is also present in our products and services for cyber defense (see page 22).

Competitiveness

3-3 | 206-1 | MT

Most markets in which IAI operates are characterized by intense competition, both from local and international companies. Further restrictions in local contract requirements by both customers and authorities continue to form, alongside a growing global competition against regional companies, due to, but not limited to, mergers between large international organizations and preferences of governments favoring domestic defense contractors, which is usually also backed up by binding laws and regulations in these countries. IAI continued its implementation of a strategic growth strategy, including various initiatives and actions that aim to support our position in existing markets and allow growth in our market share. Further information on our markets and their development, see Section 8 in the Second part of the 2022 Financial Statement of the Company (in Hebrew), pages 10-14.

IAI is committed to fair competition and refrains from anti-competitive activities, creating monopolies or illegal partnerships with competitors. We expect our employees and anyone who works on behalf of the company to maintain the privacy of IAI's customers in every context, and not to engage, discuss or make use of insider information that is not public. IAI participates in tenders in accordance with the rules detailed in them, and according to the laws and regulations of the country in which each tender is published.

To the best of our knowledge, and up until the date of issuance of this report, no sanctions, fines, or letters of violations were submitted to IAI in relation to competitiveness practices in 2022.



Performance scorecards

2-9 | 2-12 | Limited assurance

The data represented in this table is based on a cutoff analysis from December 31st 2022.

Indicator	2020	2021	2022
Number of general assembly Board meetings	44	20	13
Number of Board committees meetings	53	28	30
Number of Board sustainability committee meetings ¹	5	1	4
Number of Senior Management Sustainability Steering Committee meetings	4	3	4
Number of Directors (Total)	6	10	9
Number of Directors in the Sustainability committee	3	4	3
Number of women members of the Board	3	4	5
Number of men members of the Board	3	6	4
Number of independent Directors	3	3	3
Number of Directors with accounting and financial expertise	2	3	3
Number of Directors representing a minority ²	1	1	1
Number of Directors, ages 30 and under	0	0	0
Number of Directors, ages between 31-50	0	2	2
Number of Directors, ages 51 and over	6	8	7
Number of reported cases to IAI's hotline: Code of ethics issues	3	3	3
Number of reported cases to IAI's hotline: Sustainability issues	0	0	0

¹ Of the total number of board committee meetings.

² From the Druze community.





EMPLOYEES AND COMMUNITIES



Human capital management

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

UN SDG targets: 8.5



IAI is proud to have an exceptional team of employees, whose enthusiasm and professionalism promote our business value through demonstrable innovative achievements and outstanding products. Our “can do” spirit lies at the basis of all our invaluable

relationships - employees, retirees, customers, contractors, suppliers, and the communities we live and operate in. IAI operates in accordance with Israel's labor laws, respects the human rights of its employees, and implements organization-wide procedures and processes for managing the excellence of our human capital.

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

In 2022, IAI ranked 7th "best place to work" in Israel's BDIndex, reflecting our long term commitment to foster a great work environment. From in-house service facilities such as large catering halls, banking, employee shuttle transportation, gyms and synagogues, through health care offered by our 24/7 occupational health clinics and social workers, to processes and training programs to advance active listening and enhance internal communications.

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

We continue to provide extensive training and personal development programs, scholarships, intra-organizational mobility, general wellbeing activities, and a smooth retirement through tailored processes.

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

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

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



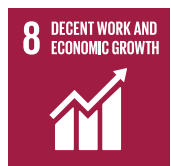
Career at IAI

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

UN SDG targets: 5.1 | 8.5



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



Recruitment

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

Mobility and talent management

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

Retirement

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



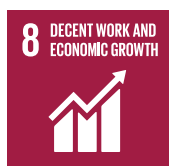
Link to IAI hiring (in Hebrew)
<https://www.iai.co.il/heb/jobs>



Diversity, inclusion and gender equality

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

UN SDG targets: 5.1 | 8.5



IAI employees are the human power that makes IAI into what it is. We believe in respect and equality without discrimination and equal opportunities in employment, and seeks to increase the number of underrepresented populations in our workforce, including Israelis of Ethiopian origins, as well as members of the Druze community, Ultra-orthodox Jewish community, and people with disability. In addition, IAI regularly welcomes new employees over the age of 45. Moreover, out of a desire to create a better, more equal and fair society

in Israel, even before the intake stage of employees at IAI, we lead and participate in a variety of social impact projects in accordance with the company's diversity policy. As part of our strategic human capital management, we continuously review and update our diversity and inclusion indicators as they appear in our sustainability reports and internal objectives. This allows us to fine-tune the targets and objectives most relevant to our core operations, and focus the reporting on performance in matters where the company has the most impact.

Diversity and inclusion

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

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

- Expanding collaborations with multi-sector offices, institutions, and NGO.
- Celebrating diversity holidays, such as the international day for people with disability, the Sigd festival and more.

Gender equality

IAI is striving to change the traditional management composition that typically characterizes A&D and technology companies worldwide, by gradually expanding the number of women in its management roles. This requires long-term investment in training and advancing women from junior management roles, as well as encouraging women to advance while implementing work-life balance. The percentage of women at IAI in 2022 was 24%, and the percentage of women in management (from the level of a unit director and up) was 19%. In 2022, we continued many activities that support our strategic aim to advance women to positions in core technological professions and management positions. As part of this strategy, the company established the gender equality forum, led by IAI's compliance officer, who was appointed as gender equality officer by the CEO. The forum leads strategic work plans in this area. For instance:

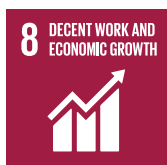
- Establishing the "opportunity" initiative, which allow women from the company to request various activities that can support their advancement and professional development, including specific training, mentoring, personal coaching etc.
- Establishing the "future CEOs academy", which trains women to become top managers in defense companies.
- Dedicated media campaigns for women in recruitment.
- Collaboration with various relevant NGOs.
- Advertising positions for graduates of our social impact projects (see pages 48-49).



Occupational health and safety

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

UN SDGs targets: 8.8



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

Directorate is the professional authority that sets out the company's policy and procedures, initiates strategic processes, cross-organizational targets and objectives for managing safety, occupational health, the company's emergency plans, and provides professional guidance to division- or group-level safety officers.

In 2022 there was an additional decrease in the rate of accidents, a key target in the 2019-2023 strategic sustainability roadmap.

ISO 45001:2018

The safety management system (SMS) provides a basis for continuous and ongoing improvements, periodic surveys, and management reviews. All IAI's operational divisions have valid business licenses and ISO 45001:2018 certification. The scope of the safety management system includes all activities.

Safety committees

Expert Safety, Health and Environment committees offer specific guidance and training requirements for issues identified as major aspects by risk assessment processes. The committees work to establish safety procedures, work instructions, guidelines and training on topics that serve as a basis for a healthy and safe work environment.

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

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

In addition, each division operates its own safety committee, chaired by a senior manager. These safety committees are made up of 50% representatives of management and 50% representatives of employees, and safety issues derived from collective labor agreements are integrated into the annual work plans.

Managing safety and health risks

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

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

Safety incidents prevention and response

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



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

fully explore all aspects of the incident. In addition, the company's procedure includes a structured "before-action review" in order to assess potential risks and preventable future failures.

Safety and health training

All our employees are trained in general safety issues upon their intake. Refresher training on various work safety issues takes place annually for all employees. A web-based system enables monitoring the validity of certifications and refreshers.

Medical services for employees

The following services are provided at our occupational clinics:

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

Contractors and suppliers' health and safety

IAI includes Occupational Health and Safety practices clauses in all contracts. All contractors on-site receive Health and Safety training, and measures are taken to verify they have all procedures and resources needed for safe on-site work.

Traffic safety

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

Both TNUFA division, which is responsible for traffic safety at IAI's sites, as well as Missiles and Space group, hold a valid Israeli standard certification ISO 9301, relating to traffic safety and quality. The major activities in 2022 included:

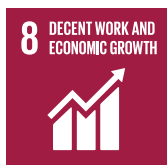
- Continuation of signage maps to all sites.
- Enforcement actions and handling of violations.
- Year-round campaigns throughout the company, and a special focus during traffic safety week, including internal communications.
- Implementation of a new system - Pointer, for monitoring traffic violations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



Empowering workplace

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

UN SDG targets: 4.4 | 8.2 | 8.5



Our work allows us to express ourselves and our abilities, and find meaning and value through our profession and organizational belonging. Rapid business and technological changes redefine organizational needs, roles, their nature and requirements, and as a result, the ways employees are trained and their career management. The new era of employability requires us to rethink, redesign and update employee recruitment, development and retention processes, and to map their skills and talents. A special emphasis is required for

populations who struggle with various socio- economic and other barriers, on their way to a solid job.

Professional training and certification

IAI greatly invests in its managers and employees training. Our training infrastructure is one of the leading in Israel, responsible, among other things, for the development of advanced technological courses and managerial and regulatory certifications, done through various training programs and advanced learning platforms, online and in-class. These are all important components in our employees' career path and their personal and professional development. Our training programs are designed to support:

- New employee orientation (including safety, occupational health and ethics)
- Knowledge and skills in various fields of expertise (technologies, project management and more)
- Annual refreshers on mandatory or regulatory topics
- Managerial level training (for existing and future management)
- Career and professional change

- Retirement readiness and knowledge transfer
- Generic enrichment courses

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

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

Sustainability-related training

Our employees regularly participate in various online courses (web-based training), focusing on ethics, environment and social issues, such as: sustainability, cyber and information security, internal use of information, traffic safety, energy savings, safety and ergonomics and the code of ethics. These trainings support an organizational culture that is based on our material topics (see page 15), and emphasize the importance that the company places on promoting them.

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

Performance evaluation

We believe that managing a performance evaluation process and feedback conversations allows us to empower our employees and increase their motivation in achieving IAI's business goals, while strengthening their organizational engagement. Through feedback conversations, the manager and employee discuss goals and tasks completed in the passing year, as well as the employee's development and learning, and define targets for the new year. The process includes all IAI employees.



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

Payroll service center

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

Employees' wellness and benefit plans

IAI's employee benefit plans and pensions are reported in Section 20 in the Third Chapter of the 2022 Financial Statement of the Company (in Hebrew), pages 50-57. For example: accommodating working mothers; paid vacation; Paid sick days; Paid overtime (by pre-approval); Paid participation in conventions and professional training; Meals and shuttle transportation to and from work; Innovation grants; Sports activities and more.

Medical care and coverage

IAI operates internal clinics for occupational health and immediate medical care at its sites, available to all employees (see page 46). In addition, each permanent employee owns an extensive medical insurance and has an option to insure his family members at discount premiums. Furthermore, all employees are entitled to a once-a-year medical checkup, for early detection of various illnesses and their prevention.

Freedom of association

UN SDG targets: 8.8



At IAI, our employees exercise their rights of freedom of association and collective bargaining. In 2022, 63% of our permanent employees were covered by collective bargaining agreements.

Social impact

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

UN SDG targets: 4.3 | 4.4



IAI considers social impact as an important topic, and worked, throughout the years, to strengthen technological education based on a belief that today's investment in youth is paramount for the business and national security leadership of Israel. Moreover, IAI encourages its employees to take active and meaningful part in various community volunteering activities. The desire of IAI's employees for community engagement is another way in which their everyday work of developing and manufacturing advanced products and systems for Israel's defense, creates value. IAI's social impact strategy focuses on inspiring the next generations' pursuit of STEM learning in Israel, while emphasizing gender equality and inclusion. The social impact program is managed by IAI's social responsibility manager, who provide the policy, guidelines and the professional support to the annual work plans of the designated social leaders within the company's groups. IAI operates numerous partnerships and collaborations year-round with many NGOs and organizations. In 2022, our total volunteering hours reached 12,912 hours, carried out by 1,450 employees. Here are some examples of our social impact initiatives:

Women engineers of tomorrow

A unique project established to address a pressing national need to develop and expand Israel's workforce with STEM (Science, Technology, Engineering, and Mathematics) skills, and to maintain Israel's stand as a "startup nation". The 6th cohort of the project took place in 2022, with refocus on those who can follow STEM learning. Participating female students were chosen from middle schools, to allow a more effective intervention closer to the point in time when these students decide on their major in high school. Students are now also selected for participating on the grounds of their technological interest, rather than academic excellence, to support their drive to use technology for social impact. Women



413-1 | Limited assurance

engineers from IAI serve as the project's mentors. To assess impact, the project was done alongside a study, which indicated that post-project, more than 70% of participants declared they would study physics and mathematics, and nearly 50% expressed a growing interest in studying electrical engineering in the future. The results demonstrated with statistical significance that the students' attitudes shifted, concerning a technological-engineering career, following their participation.

Code for Israel

A volunteering movement of Israeli high-tech people, which relies on software developers, product designers, hi-tech professionals, and entrepreneurs who contribute to developing technological solutions to Israel's most meaningful social challenges. Within this framework, IAI's employees led the ACCESS IS REAL project with "access Israel" NGO, by developing a VR headset to promote awareness for people with disabilities. The headset, a feature from the gaming world, serves as an advanced platform with various capacities for professional use that relies on high imaging. The team designed a scenario with several audio-visual tasks that simulate the effects the disability has and its implications for carrying out a task. Only a few minutes of experience with the scenario leads to a deep sense of solidarity with those who are dealing with disabilities every day.

The "Israeli teen girl" week

By collaborating with the Israeli "SHAVOT" NGO, 70 women from IAI participated in the "Israeli teen girl" week, representing the diverse and complex technological worlds IAI is engaged with, aiming to inspire teens by sharing real-life career paths. The employees engaged with 2,800 teen students throughout the nation during this week.

FIRST Israel

A local chapter of the global nonprofit robotics community, in cooperation with the TECHNION (Israel Institute of Technology). Its aim is to inspire and encourage children and teens to become scientific and technological leaders, by taking part in a robotic program that is based on practical learning. The program allows the participants

to experience a creative, inclusive, and exciting learning environment which exposes them to engineering and software programming while working collaboratively on an annual robotics challenge. The community includes pupils, mentors, educators, volunteers, alumni, and sponsors in 110 countries around the world. IAI employees joined this impact opportunity both as group mentors and as contest judges.

Community engagement month

During the month of May, IAI's employees engaged, for the second time, in an extensive volunteering project, focused on communities that are adjacent to our operational sites. 1,000 employees participated in numerous activities, such as building learning spaces at schools, giving lectures on Space, renovating a school for children with disabilities, assisting in harvesting, cleaning natural reserves, planting community gardens, and packaging food for families in need.

The socio-economic forum partnership

The socioeconomic forum was established by the directorate of the business sector to augment the power of companies and civil organizations into an integrated strategic action toward solving the challenges facing Israeli society. Within the forum, IAI leads an employers' coalition for advancing women in technology. Together with the Israeli Innovation authority, the High-tech companies association and IDF, a unique program was developed, aiming to increase the number of women joining tech professions, while leveraging the potential of women IDF soldiers recently discharged from service, and accompanying their professional development from discharge to work recruitment. In 2022, 75 women soldiers from non-tech professions completed the program.



Performance scorecards

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

Details regarding our HR information in 2022 is specified in footnotes to this table. The data represented in this table is based on a cutoff analysis from December 31st 2022.

Indicator	2020 ¹	2021 ¹	2022 ¹
Number of employees (women, permanent and personal contract)	-	-	2,908
Number of employees (women, temporary)	-	-	64
Number of employees (women, students)	-	-	306
Number of employees (women, total)	3,298	3,187	3,278
Number of employees (men, permanent and personal contract)	-	-	10,079
Number of employees (men, temporary)	-	-	334
Number of employees (men, students)	-	-	181
Number of employees (men, total)	11,033	10,538	10,594
Number of employees (Total) ²	14,331	13,725	13,872
Number of engineers	6,682	6,489	6,614
Number of managers (women)	94	106	112
Number of managers (men)	429	481	493
Number of managers (Total) ³	523	587	605
% managers from local communities	100	100	100
% women at top 10% salary-level	11.6	11	11.5
% employees from Ethiopian origins	2.1	2.2	2.3
% employees from the Ultra-orthodox community	2.5	2.4	2.4
% employees from the Druze community	0.2	0.2	0.2

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

² Total number of workers, including those under employment relations) was 14,963 in 2022.

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



Performance scorecards

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

Details regarding our HR information in 2022 are specified in the footnotes to this table. The data represented in this table is based on a cutoff analysis from December 31st 2022.

Indicator	2020 ¹	2021 ¹	2022 ¹
% employees with disabilities ²	2.8	2.4	3
% employees, ages 30 and under	12	10	11
% employees, ages between 31-50	53	55	55
% employees, ages 51 and over	35	35	34
% managers, ages 30 and under ³	0	0	0
% managers, ages between 31-50 ³	33	37	36
% managers, ages 51 and over ³	67	63	64
% managers with disability ^{2,3}	2.5	1.5	0.1
Number of new employees (Total)	846	698	1,335
% new employees (women, in all professions)	31	33	34
% new employees (women, in core professions)	26	30	30⁴
% new employees (men)	69	67	66
% new employees from Ethiopian origins	0.95	3.7	1.4
% new employees from the Druze community	0.83	0.7	0.15
% new employees with disabilities ³	0.83	0.6	1
% new employees from the Ultra-orthodox community	2.6	1.9	2.5
% new employees, ages 30 and under	48	50	45
% new employees, ages between 31-50	46	44	49
% of new employees, ages 51 and over	6	6	6

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

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

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

⁴ Compared with the benchmark of 28%, from the the 2022 "women in Hi-tech" report by Israel Innovation Authority.



Performance scorecards

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

Indicator	2020	2021	2022
Annual total compensation ratio ¹	-	-	4
Number of training hours (frontal)	274,503	382,122	391,794
Number of training hours (non-mandatory)	21,343	18,360	84,468
Average Number of training hours per employee (incl. e-learning) ²	24	32	34
% employees completing sustainability-related training	86	80	80
% employees covered by collective bargaining agreements	66	64	63
Number of absence days : Aviation ³	1,424	1,160	877
Number of absence days: Elta systems ³	204	342	257
Number of absence days: Systems, missiles and space ³	175	370	148
Number of absence days: Military aircraft ³	149	101	99
Number of absence days: Supporting units ³	29	182	8
Number of absence days: Management ³	184	5	0
Number of absence days (Total)	2,165	2,160	1,389
Number of absence days (Total per 1000 employees)	151	157	100

¹ For further information on employees compensation, see Section 16 in the Fourth part of the 2022 Financial Statement of the Company (in Hebrew), pages 96-103.

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

³ The data represented in this table is based on a cutoff analysis from March 2023. Since the Israeli law allows 5-year intervals for accident reporting, some of the data appearing in earlier reports may be restated due to late-reporting of events.



Performance scorecards

2-7 | 403-9 | Limited assurance

Indicator	2020	2021	2022
Number of accidents :Aviation ¹	50	37	34
Number of accidents: Elta systems ¹	15	15	11
Number of accidents: Systems, missiles and space ¹	9	8	6
Number of accidents: Military aircraft ¹	3	5	3
Number of accidents : Supporting units ¹	2	7	1
Number of accidents: Management ¹	3	1	0
Number of accidents (Total) ¹	82	73	55
Number of accidents (Total per 1000 employees) ¹	5.7	5.3	4
Number of accidents (Total per working hours)	-	-	0.39
Number of accidents: contractors ²	11	4	8
Number of fatalities	0	0	0
Number of traffic accidents	29	20	24
Number of pedestrian injured	1	2	4
Volunteering hours ³	1,260	10,214	12,912

¹ The data represented in this table is based on a cutoff analysis from March 2023. Since the Israeli law allows 5-year intervals for accident reporting, some of the data appearing in earlier reports may be restated due to late-reporting of events.

² Data is based on insurance claims only.

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





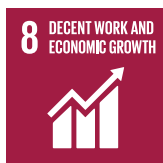
ENVIRONMENT



Environmental management and compliance

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

UN SDG targets: 8.4 | 9.4 | 12.2



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

At the corporate level, the Environment, Health, and Safety (EHS) Directorate and the Sustainability and corporate responsibility Directorate set out policy and provide tools, information gathering infrastructure, and professional support to the divisions, as well as reduce risks at the corporate level and ensure that IAI meets its strategic environmental targets as part of the 2019-2023 strategic roadmap for sustainability. In addition, a strategic perspective of environmental issues is integrated into a wide variety of processes at the company, such as design processes (see pages 62), merger and acquisition (see page 20), and in the supply chain (see page 25). Environmental management also includes emergency preparedness activities by means of defined emergency teams, response procedures, action plans, designated equipment, and periodic drills, whose purpose is to enable the company to continue to protect its staff and the environment, including in cases in which the operational routine could be disrupted.

IAI's sustainability program is based on our uncompromising commitment to abiding by all laws and regulations applying to our business activity. Due to a large number of processes,

transactions, and activities, we need to comply with many legal requirements on an ongoing basis. To this end, the company employs the following mechanisms:

Environmental regulatory watch (Israel)

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

Environmental regulatory watch (International)

The production, operation, maintenance, and end-of-life of existing aerospace and defense technologies produce a significant environmental footprint. In addition, a global shortage of materials is an increasing cause of concern for continuous production, along with stricter regulations, which lead to the removal from use of many raw materials in the industry. As members of the IAEG organization (see page 12) we continuously track regulatory updates on these materials in the international markets that have a direct impact on uses in the aerospace and defense sector. These updates are used by IAI as part of its reporting processes vis-à-vis customers and the development of environmentally-friendly alternatives.



2-25

Environmental regulatory enforcement

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

To the best of our knowledge, up to the date of publication of this report, no violation letters, fines, or sanctions were imposed on IAI in relation to our environmental performance in 2022.

Environmental risks management

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

For more on environmental risks (including statutory regulations related to decision-making) see Section 20 in the Fourth Chapter of the 2022 Financial Statement of the Company (in Hebrew), pages 105-106.

Soil and groundwater surveys and treatment

Based on the requirement of the Government Unit for Licensing Security Enterprises, in 2011, IAI conducted Phase I historic surveys, which included collecting relevant information regarding potential areas of environmental concern from past

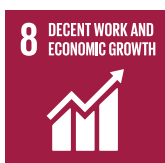
use in the company's real estate properties in all its sites. A detailed multi-annual plan for additional surveys and treatment of known contamination was delivered and authorized by the relevant authorities for additional site investigations and treatment of soil and groundwater, which are prioritized, based on the extent of operations in each site. For an up-to-date progress, see Section 21 in the Third Chapter of the 2022 Financial Statement of the Company (in Hebrew), page 56.



Energy management

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

UN SDG targets: 8.4 | 9.4 | 12.2 | 13.1



All manufacturing industries consume energy for operation and growth. Globally, countries are looking for ways to increase the renewable energy share in their total energy consumption, as opposed to the consumption of the dwindling quantities of non-renewable energy sources, responsible for air pollution and climate change. We strive to operate our infrastructures in optimal conditions, maximum economic efficiency, and eco-friendliness. Each IAI division and some of the supporting units have an Energy Officer, responsible for energy management, including data collection and reporting. Division managers conduct programs of energy efficiency, including replacement of inefficient HVAC, lighting, and manufacturing processes. The divisions also train Energy Trustees for monitoring and following up on designated facilities, promoting employees' awareness and ensuring preventive maintenance, as well as reporting on the facility's performance to the division energy officer.



The following divisions hold a valid certification of ISO 50001:2018 standard for energy management in operations: the Military aviation group, the Missiles, and Space group, and TNUFA, which are responsible for the company's overall energy infrastructures management.

Electricity consumption

Beginning in 2021, IAI's electricity consumption is mostly based on a private supplier, which produces electricity based on Natural gas, and the rest from direct renewable energy production and consumption in-house.

As of 2007, IAI established a continuous working plan to implement cross-organizational efficiency and saving measures. Since 2007, nearly 860 GWh were saved in relation to the "business as usual" scenario. Savings were achieved alongside a rise in total electricity consumption in 2022, due to new buildings being populated and new processes implementation.

IAI did not sell any energy (electricity, cooling/heating or steam) during 2022.

Renewable energy

In 2022, IAI continued to utilized renewable energy sources based on photovoltaic installations on its premises, which were installed as part of the 2019-2023 sustainability roadmap for the reduction of greenhouse gases and our energy savings. All renewable energy produced were self-consumed by IAI operations.

Fuel consumption in industrial uses

In 2022, additional decrease was noted in fuel consumed for industrial uses and in liquefied petroleum gas (LPG), compared with 2021.

Fuel consumption in transportation

IAI operates a fleet of leased vehicles for its employees, as well as a fleet of carpooling vehicles for short trips between its sites. The total of all trips in 2022 was 63,272,748 kilometers. This is estimated based on the total consumption of fuel for vehicle transportation and average usage of 12 km per liter for the vehicles. IAI continues to invest in the diversification of its fleet of leased vehicles as part of the 2019-2023 strategic sustainability roadmap, by introducing hybrid and plug-in vehicles, and replacing in-house operational utility vehicles with electrical-based ones.



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

Jet fuel is consumed mainly in the aviation division, and is divided into marginal consumption by the activity of the business jet factory, and the main consumption by maintenance, repair, and overhaul (MRO) activities, for the purpose of delivering the aircraft to overseas customers.

Shuttle service

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

Carpooling

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

Water and effluents

303-1 | 303-2 | 303-4 | 303-5 | Limited assurance

Israel is situated in a geographical area that suffers from water shortage, leading to a globally-acknowledged leadership in water technologies. IAI regards water consumption in its operations as a significant resource that needs to be efficiently managed. Total freshwater consumed in 2022 was 795 megaliters, including all water sources in use in all the company's sites. The increase in consumption was due to operational loads. Water consumption data is based on direct internal and external consumption monitoring and billing information.

Effluent treatment

3-3 | MT

The vast majority of the company's industrial wastewater flows from the Ben-Gurion Airport site to a nearby treatment facility under an organized wastewater quality and composition agreement, and in relevant streams, following a designated pre-treatment for hazardous components. In 2022, an increase in the amount of wastewater was noted in comparison with 2021, due to growing operational activities. All wastewater use figures are based on internal and external monitoring and billing information.



Emissions

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

Greenhouse gas emissions

UN SDG targets: 13.1



According to the American space agency (NASA), 2022 was measured to be the fifth-warmest year on record. The transition to a low-carbon economy has been identified as the central tool for countries to combat climate change along with developing the ability to adapt to the changes expected to occur in the coming decades around the world.

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

- Aligning our climate change focus with the UN SDGs (Goal 13: Climate action)
- Annual disclosures to the CDP climate and to the voluntary GHG reporting scheme led by the Israeli Ministry of Environmental Protection. IAI has been reporting to both since 2017.
- Following specific internal goals for emission reductions, including in-house production and consumption of renewable energy via solar photovoltaic installations, greener transportation and effective energy utilization
- Supporting reductions of GHG emissions in aviation, through our participation in the Clean Sky 2 program, and the Clean Aviation program
- Collaborating around climate action and emissions reporting in the A&D supply chain, both locally and internationally (see page 12)

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

Climate-related risk assessment

The company performed climate risk assessment as part of the strategic plan, which included impacts of transitioning into low-carbon economy, both locally and globally, and potential physical impacts to infrastructure (acute and chronic). The assessment was done for operations in Israel, based on TCFD recommendations and climate-related databases of various Israeli authorities.

Air emissions

UN SDG targets: 12.5



Air pollution emissions are closely linked to impacts on the health of the public and the environment. IAI works within the framework of the 2019-2023 sustainability roadmap, to reduce the use of hazardous materials in its production processes, and to reduce air pollution emissions from its industrial production processes and from transportation sources.

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



Waste management

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

UN SDG targets: 12.5



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

looking for more waste management opportunities while implementing:

- Efficient raw material consumption in production
- Investing in environmentally-friendly substitute development for hazardous materials in products
- Adopting circular economy principles wherever feasible
- Maximizing landfill avoidance in accordance with the possibilities offered by the waste contractors

IAI's operations generate hazardous waste that mainly includes chemicals, paints and mineral oils, and works with licensed third parties for its end-of-life reuse, recycling and waste-to-energy opportunities or compliant disposal. In 2022, 21% of the hazardous waste generated were diverted from landfill.

Many of our non-hazardous waste streams are separated at the source to allow for effective reuse and recycling, including office waste (such as paper, cardboard, plastic) and operational waste (such as wood, metals, used cooking oil and scraped parts). In 2022, and 46% landfill avoidance was accomplished by reuse and recycling processes.

Circular economy

Circular economy offers an innovative concept of the way companies can create sustainable business value by transitioning from linear production and raw materials consumption and waste generation patterns to circular ones. The principles of circular economy are already applied at

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

The "Air Salon" project

IAI is a leader in passenger-to-cargo aircraft conversions. As part of these projects, an aircraft's fuselage is taken apart, and is usually destined for scrapping due to the complexity of its structure. In 2022, IAI continued its unique collaboration, in which industrial designers were invited to use these aircraft items to design furniture for donation to NGOs or for sale, with the proceeds going towards charity.



Environmental R&D

201-2 | SP

UN SDG targets: 9.4 | 12.2 | 13.1



Design for sustainability methodology supports design and manufacturing perspectives which consider the whole environmental life cycle of a product or service and integrates both environmental risk management and opportunity leveraging from the earliest stage of definition. Adopting DFS practices allow the developed products and services to become more flexible in a tightening regulatory atmosphere, reducing short-term and long-term risks throughout the life cycle, and systematically contributing to overall cost reductions. The expansion of our innovative DFS program is part of our 2019-2023 strategic sustainability roadmap. In 2022 we continued

our internal activities along with external collaborations on developing environmentally-friendly materials substitutes for products, and our collaborations for circular economy.

Our HERON UAV, for example, is certified as a product compliant to green specification by the Israeli Standards Institute (SII). The design, manufacturing, use and end-of-life are all based on specifications aiming to minimize the ecological footprint of the UAS. For instance, using unleaded and used fuel; testing the fuel systems based on fuel substitutes; using non-chromated paints and environmentally- friendly thinners; specific instructions for users, designed to extend the shelf-life of parts, as well as end-of- life recycling; design of the ground control station for low energy consumption.

Clean Sky 2 and Clean Aviation

In recent years, IAI has been a significant participant in the European Joint Undertaking CLEAN SKY (Associate Partner in the Eco-Design ITD), CLEAN SKY 2 (Core Partner in the Airframe ITD, Coordinating the OPTICOMS and ecoTECH projects) and SESAR (participating in AIRPASS, SAFEDRONE and AW-DRONES projects). CLEAN SKY is a joint undertaking of the European Commission and the European Aeronautics industry, originating as part of the HORIZON 2020 research and innovation program. It is considered the most ambitious aeronautical R&D program ever launched in Europe, aiming to develop feasible technologies for reducing emissions and noise levels emitted by aircraft technology today.

In CLEAN SKY 1 IAI addressed the selection, development, and demonstration of materials and technologies, for the reduction of overall aircraft weight, cost, energy consumption, emissions of noxious effluents, hazardous materials elimination, and recycling. IAI continues to lead the ecoTech innovative eco-friendly airframe consortium under the framework of CLEAN SKY 2, alongside partners from Germany, Spain, Greece, and the Netherlands. The consortium develops a set of new technologies to reduce the environmental footprint of aircraft production while using life cycle assessment methodologies. In the final stage of the project, key enabling technologies will be used to manufacture four demos (Thermoplastics, Thermoset, Metallic, and Biomaterial) to verify the novel technologies. IAI now takes part in the recently launched CLEAN AVIATION framework, partnering with major European aeronautics companies, academia, research centers, and SMEs in a mission towards climate-neutral aviation in the EU by 2050. The framework will allow the development of disruptive technologies for aircraft that will enable a significant portion of the global fleet to transition into low-to-zero CO₂ emissions flights.



Performance scorecards

302-1 | 302-4 | Limited assurance

Indicator	2020	2021	2022
Built area (m ²)	894,635	926,515	927,059
Electricity consumption: heating/cooling (TJ)	396	397	385
Electricity consumption: lighting (TJ)	94	95	91
Electricity consumption: air compressors (TJ)	50	45	47
Electricity consumption: manufacturing (TJ)	173	152	154
Electricity consumption: other (TJ)	76	78	76
Electricity consumption: Total (TJ) ¹	789	767	753
Electricity consumption per built area: Total (GJ/m ²) ¹	0.9	0.83	0.82
Fuel consumption: industrial diesel fuel (GJ)	29,318	17,492	16,438
Fuel consumption: liquefied petroleum gas (GJ)	40,325	32,958	27,662³
Total fuel consumption for industrial uses per built area (GJ/m ²)	0.08	0.06	0.048
Fuel consumption, automotive: diesel (50) (Mega-liter)	524 ²	450 ²	448²
Fuel consumption, automotive: gasoline (95) (Mega-liter)	4,898	5,027	4,824
Fuel consumption, aviation: jet fuel (Mega-liter)	866 ^{3,4}	761 ⁴	1,894⁴
Fuel consumption, aviation: jet fuel (Liter/Aviation group gross profit)	0.011	0.013	0.015
No. of hybrid vehicles in company's fleet	1,055	1,059	935

¹ Including renewable electricity manufactured and consumed in-house.

² used by operational fleet only.

³ The sources used for this data were updated.

⁴ Data reflects jet fuel that was consumed directly by IAI.



Performance scorecards

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

Indicator ¹	2020	2021	2022
Stationary fuel sources (CO ₂ e, metric tons)	4,932	3,594	3,070
Mobile fuel sources (CO ₂ e, metric tons) ²	15,612	15,382	18,472
Total scope 1: direct emissions (CO ₂ e, metric tons)	20,544	18,976	21,542
Electricity consumption (CO ₂ e, metric tons)	96,858	95,808	93,933
Total scope 2: indirect emissions (CO ₂ e, metric tons)	96,858	95,808	93,933
Total emissions avoided by renewable energy consumption (CO ₂ e, metric tons)	-	716	919
Total scope 1&2 (CO ₂ e, metric tons)	117,402	114,784	115,475
Total scope 3: employees travel (CO ₂ e, metric tons)	3,560	6,022	15,714
Scope 1 GHG intensity ³	0.023	0.020	0.023
Scope 2 GHG intensity ³	0.107	0.104	0.101
Normalised, total scope 1&2 (CO ₂ e, metric tons/EBITDA)	2.96	2.63	2.05
Hazardous waste, treatment and/or landfill (metric tons)	1,749	1,741	1,662
Hazardous waste, recycling/reuse (metric tons)	280	41 ⁴	245
Hazardous waste, waste-to-energy (metric tons)	146	346 ⁴	198
Hazardous waste, total (metric tons)	2,176	2,128	2,105
Hazardous waste, total (metric tons/EBITDA)	0.055	0.049	0.038
Non-hazardous waste, treatment and/or landfill (metric tons)	4,236	3,491	3,588
Non-hazardous waste, recycle/reuse (metric tons)	2,215	3,451	3,074
Non-hazardous waste, total (metric tons)	6,450	6,943	6,662
Non-hazardous waste, total (metric tons/EBITDA)	0.162	0.159	0.119

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

² Data updated following the jet fuels consumption changes (see pages 3 and 63)

³ Calculated per built area.

⁴ The sources used for this data were updated during 2021.



Performance scorecards

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

Indicator	2020	2021	2022
Total water consumption (Mega-liter)	703	767	795
Total water consumption (Mega-liter/EBITDA)	0.018	0.018	0.014
Total water discharge (Mega-liter) ¹	184	179	194
Total air emissions, NOx (metric tons) ²	27	21.5	19
Total air emissions, SOx (metric tons) ²	2.8	2.4	2.2
Total air emissions, VOC (metric tons) ²	1.97	1.9	3.5
Total air emissions, PM (metric tons) ²	0.85	1.0	1.5

¹ Includes the Ben Gurion airport campus only.

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





GRI CONTENT INDEX



CONTENT INDEX ESSENTIALS SERVICE

2023

For the Content Index - Essentials Service, GRI Services reviewed that the GRI content index is clearly presented, in a manner consistent with the Standards, and that the references for disclosures 2-1 to 2-5, 3-1, and 3-2 are aligned with the appropriate sections in the body of the report. The service was performed on the English version of the report.

GRI standard	Disclosure	Page	Omissions
GRI 1: Foundation 2021	Statement of use	IAI has reported in accordance with the GRI Standards for the period 1 January 2022—31 December 2022	
	GRI1 used	GRI1: Foundation 2021	
	Applicable GRI sector standards	Not currently available	
General Disclosure: The organization and its reporting practices			
GRI 2: General Disclosures 2021	2-1	Organizational details	8, 20
	2-2	Entities included in the organization's sustainability reporting	3, 8
	2-3	Reporting period, frequency and contact point	3, 78
	2-4	Restatements of information	3
	2-5	External assurance	75-77
General Disclosure: Employees and workers			
GRI 2: General Disclosures 2021	2-6	Activities, value chain and other business relationships	3, 8, 22-20, 26-27
	2-7	Employees	44-42, 53-50
	2-8	Workers who are not employees	42, 50
General Disclosure: Governance			
GRI 2: General Disclosures 2021	2-9	Governance structure and composition	9, 34-32, 39
	2-10	Nomination and selection of the highest governance body	33

Confidentiality constraints: the company does not disclose countries of operations beyond Israel.



GRI standard	Disclosure		Page	Omissions
General Disclosure: Governance				
GRI 2: General Disclosures 2021	2-11	Chair of the highest governance body	33	
	2-12	Role of the highest governance body in overseeing the management of impacts	9, 13, 34, 39	
	2-13	Delegation of responsibility for managing impacts	9	
	2-14	Role of the highest governance body in sustainability reporting	14, 33, 34	
	2-15	Conflicts of interest	33	
	2-16	Communication of critical concerns	33, 34, 36	
	2-17	Collective knowledge of the highest governance body	33	
	2-18	Evaluation of the performance of the highest governance body	33	
	2-19	Remuneration policies	34	
	2-20	Process to determine remuneration	34	
	2-21	Annual total compensation ratio	52	
General Disclosure: Strategy, policy and practices				
	2-22	Statement on sustainable development strategy	4, 5	
	2-23	Policy commitments	34, 36	
	2-24	Embedding policy commitments	34, 36	
	2-25	Processes to remediate negative impacts	35, 56-57	
	2-26	Mechanisms for seeking advice and raising concerns	36	
	2-27	Compliance with laws and regulations	35, 56	
	2-28	Membership associations	12	
General Disclosure: Stakeholder engagement				
GRI 2: General Disclosures 2021	2-29	Approach to stakeholder engagement	10-11	
	2-30	Collective bargaining agreements	48, 52	



GRI standard	Disclosure		Page	Omissions
General Disclosure: Material topics				
GRI 3: Material Topics 2021	3-1	Process to determine material topics	14	
	3-2	List of Material topics	14-15	
Material topics: Corporate governance and business ethics				
GRI 3: Material Topics 2021	3-3	Management of material topics	32, 36	
Material topics: Anti-corruption and bribery prevention practices				
GRI 3: Material Topics 2021	3-3	Management of material topics	35	
GRI 205: Anti-corruption 2016	205-2	Communication and training about anti-corruption policies and procedures	35-36	
Material topics: Compliance				
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GRI 3: Material Topics 2021	3-3	Management of material topics	38	
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GRI 3: Material Topics 2021	3-3	Management of material topics	20	
GRI 201: Economic performance 2016	201-1	Direct economic value generated and distributed	28	
	201-4	Financial assistance received from government	28	
Material topics: Technological innovation				
GRI 3: Material Topics 2021	3-3	Management of material topics	23	



GRI standard	Disclosure	Page	Omissions
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Legal disclaimer

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

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

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

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

In the event of any inconsistency between the information in this report and any information in the company's public reports published on the ISA's filing system [<https://www.magna.isa.gov.il>] and/or the Stock Exchange, the information in the public reports on these websites shall prevail. Lastly, any assessments and estimates included in the document are the Company's alone, and as in any qualitative information, they reflect assessments and estimates which are subjective by their nature and which are not necessarily measurable.

External assurance

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

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



Independent Limited assurance

2-5

Independent Limited Assurance Report to the users/ readers of Israel Aerospace Industries Ltd. (IAI) 2022 Sustainability Report.

We were engaged by the management of Israel Aerospace Industries Ltd. to provide limited assurance on the Specified Subjects as mentioned in the table below (further referred to as “Specified Subjects”), regarding the information presented on IAI 2022 Sustainability Report for the year ended 31 December 2022 (further referred to as “the Report”).

IAI's management is responsible for A. the preparation and the presentation of the Report in accordance with the GRI Standards as described on page 3 of the Report, and the information and assertions contained within it B. for determining IAI'S objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues for reporting C. for establishing and maintaining appropriate performance management and internal control systems from which the information is derived, to be free from omissions and material misstatements whether due to fraud or error.

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

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

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

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

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

Limited Assurance is less than Absolute Assurance and Reasonable



2-5

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

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

Conclusion

Based on the limited assurance procedures performed and the evidence we have obtained, described in this Report, nothing has come to our attention to indicate that the Specified Subjects as mentioned in the table below, in IAI's 2022 Sustainability Report are not presented, in all material respects, in accordance with the GRI Standards and IAI's reporting criteria.

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



Ziv Haft
Certified Public Accountants Tel Aviv
March 30th, 2023

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



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

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***Where Courage
Meets Technology***