2015

IAI

Israel Aerospace Industries Ltd.

Sustainability Report

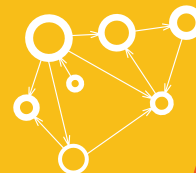# WHEN
RESULTS
MATTER

IAI

2015 in a nutshell

3.7 billion$ in Sales

90 Active in over countries worldwide

52% of procurement is Local

8.59 Backlog of billion$

One of top 3 companies leading in Israeli Patents

Largest high-tech company in Israel

IAI

15,734 employees

12,611 volunteering hours

Sustaining over **50,000** households nationwide

8ᵗʰ **"best place to work"** in Israel

33% hazardous waste recycled or reused

51% non-hazardous waste recycled or reused

375 GWh saved since 2007

Message from our Board of Directors

We are delighted to present IAI's very first sustainability report.

Since its early days in the 1950's, IAI has established a vision of social welfare and economic growth, while demonstrating environmental responsibility in all our operations. As most companies in today's global market begin to acknowledge, there are remarkable opportunities to be found in a solid, cross-organizational implementation of sustainability practices.

The coming decades will be crucial in determining the future generations' chances of having a good quality of life in a fast-paced world. This new era is full of known and unknown demands and requirements that must be thought of today, for our children's sake.

IAI is planning to continue bringing forward more innovative solutions in space, in the air, on water and land, as well as mastering current threats in cyberspace. The way to do so is by substituting materials in aerospace design, investing in cleaner production and manufacturing lines, introducing more automation, maintaining fair trade and human rights throughout the supply chain and moving forward while attending to our stakeholders' views.

Through this report, we hope to introduce you to various processes and examples of the tremendous work that goes into making IAI more sustainably-conscious every day. We hope you will find it insightful.

Dr. Ayal Itzkovitz
Chairman of the Board of Directors' Sustainability Committee

Message from our President and CEO

We are celebrating the introduction of our first annual sustainability report.

IAI's activities have a considerable social, economic and environmental influence. Recognizing our responsibility, IAI has adopted a sustainability management approach in all business operations.

Many of our long-standing traditions in IAI's design and development, manufacturing and sales processes had been aligned, throughout the years, with the sustainability principles of community care, product innovation, environmental management, empowering work environment and ethical conduct. Currently, we are focusing on solidifying those espoused values across the company, as well as constantly adding relevant and updated ones to augment our true value.

IAI had been operating at the heart of Israel's defense and economy since its early days, and grew as a living demonstration of the "start-up nation" spirit. With over 15,000 devoted employees, IAI is the largest Hi-Tech company in Israel and a national center of excellence for advanced technologies, which has a direct impact on the livelihood of 50,000 households.

IAI takes pride in its commitment to local industry, with over 50% procurement from israeli suppliers. While operating in more than 90 countries, we continually demonstrate our "can-do" innovative spirit toward customers, current and new alike.

IAI is considered pivotal within the communities we operate in. Acknowledging this responsibility, we extend our helping hand through our dedicated employees, in technological education and numerous voluntary initiatives.

We strongly believe that investing in sustainability will drive our financial strength and ultimate growth, and we continue to integrate our sustainability goals within our long-term company strategy, and pave our way to becoming more responsible while accommodating the growing global trends of a connected and dynamic world.

This report is an important milestone, representing the commitment made by the Board of Directors and IAI's Senior Management to making our sustainability journey count.

Mr. Joseph Weiss
President and Chief Executive Officer

Company Profile
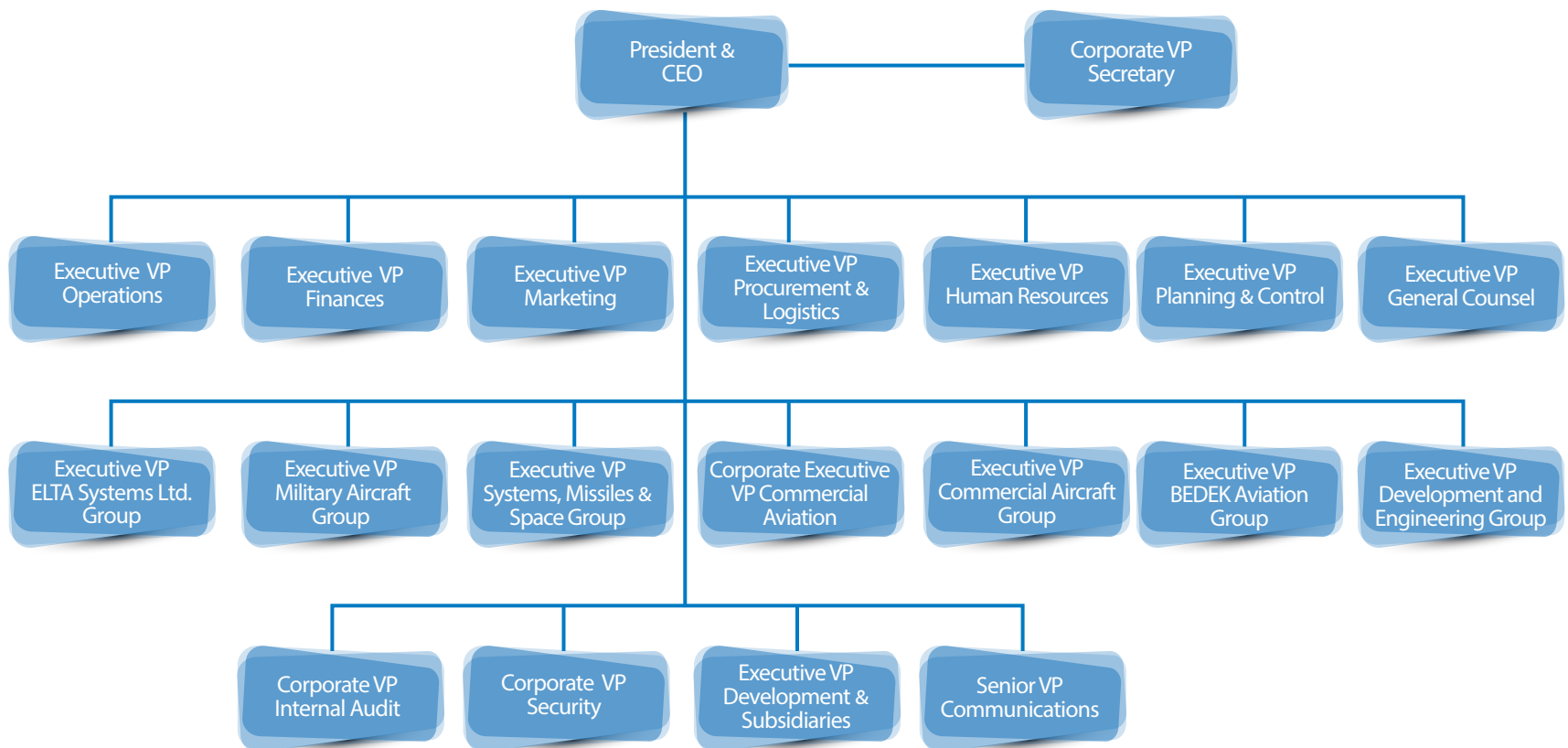
Israel Aerospace Industries (IAI) is a world leader in the delivery of state-of-the-art sea, air, space and cyber technologies and systems for defense, commercial and homeland security applications. Drawing on over 60 years of experience developing and supplying innovative solutions for customers around the globe, IAI tailors optimized products that respond to the unique security and commercial challenges faced by each customer.

IAI is the largest government-owned defense and aerospace company in Israel. Over the years, IAI has delivered, supplied and supported advanced systems for the Israeli Ministry of Defense as well as many demanding customers worldwide.

As a national center of excellence for advanced technological fields IAI maintains extensive research and development (R&D), engineering, manufacturing and testing capabilities for the development, production, certification and support of both complete systems and constituent elements - from components, sensors and sub systems to large scale full-integrated system of systems. IAI is the largest employer of engineers in Israel, with R&D representing approximately a quarter of the company's annual budget.

President & CEO

Corporate VP Secretary

- Executive VP Operations
- Executive VP Finances
- Executive VP Marketing
- Executive VP Procurement & Logistics
- Executive VP Human Resources
- Executive VP Planning & Control
- Executive VP General Counsel

- Executive VP ELTA Systems Ltd. Group
- Executive VP Military Aircraft Group
- Executive VP Systems, Missiles & Space Group
- Corporate Executive VP Commercial Aviation
- Executive VP Commercial Aircraft Group
- Executive VP BEDEK Aviation Group
- Executive VP Development and Engineering Group

- Corporate VP Internal Audit
- Corporate VP Security
- Executive VP Development & Subsidiaries
- Senior VP Communications

* Organizational Chart is updated as of January 2017

Global Market Presence

IAI is active in over 90 countries worldwide, with about 80% of our sales taking place overseas.
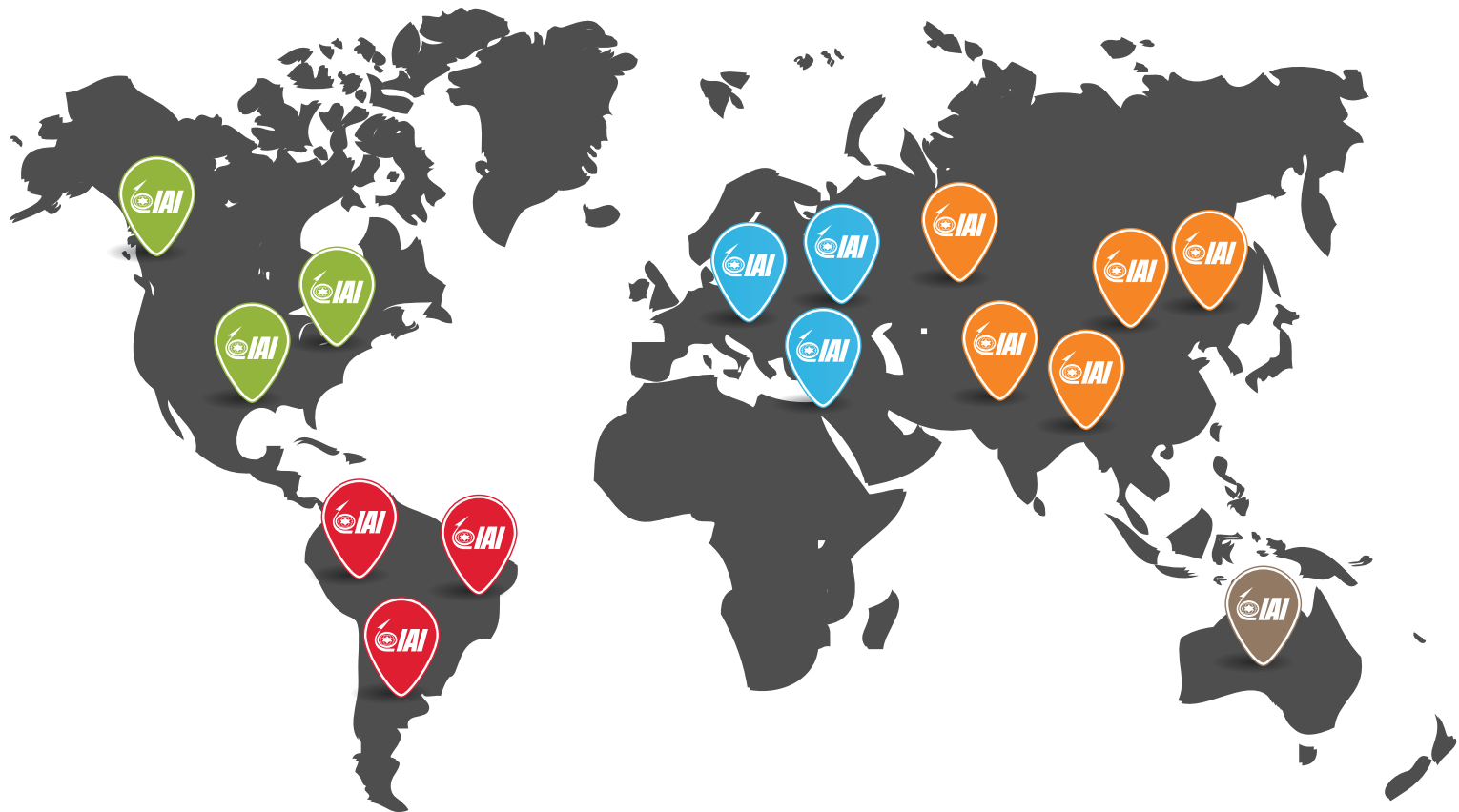
Sites in Israel

IAI was established in 1953 in Lod, Israel, as BEDEK Aviation Ltd. We became Israel Aircraft industries Ltd. in 1966 and Israel Aerospace Industries Ltd. in 2007.

IAI is a "wholly owned Governmental Company," as defined in the Israeli Government 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.

IAI's headquarters is situated at Ben-Gurion Airport, Lod.

The company's Board of Directors oversees its policy execution by the Senior Management - IAI President and Chief Executive Officer and the Vice presidents.

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

IAI has eight operational sites in Israel, employing 15,734 workers, 6,064 of which are engineers. We sustain over 50,000 households nationwide taking into consideration all circles of employment.

Map of Israel showing sites: Bnei - Yehuda, Yehud, Ben Gurion Airport (Lod), Be'er Ya'akov, Ashdod, Ein Shemer, Jerusalem, Be'er sheva

Main Products and Services

Missile Defense

IAI has led the development of Israel's multi-layered missile defense program since 1990, as the prime contractor for the ARROW 2 and 3 missile defense systems and provider of key sensors for other widely deployed air and missile defense systems. IAI is also leading the groundbreaking BARAK 8 program, an advanced surface-to-air missile (SAM) that provides ultimate protection against a variety of aerial platforms, in both land and naval scenarios.

Unmanned Systems

IAI is a global leader in the design, development, and manufacturing of unmanned systems, supporting a wide range of advanced unmanned aerial vehicles (UAV), unmanned ground vehicles (UGV) and unmanned surface vessels (USV). As a pioneer with over 40 years' experience, over 50 customers worldwide and 1,500,000 operational flight hours, IAI's systems perform intelligence gathering and targeting missions in support of key military operations.

Naval Systems

IAI offers comprehensive naval solutions ranging from integrated systems - including maritime radars, EO payloads, sensors and command and control for vessels, helicopters, and aircraft - to security systems and unmanned vessels for coastal and offshore platform security applications. The naval solutions also include Naval Self Protection Systems such as Missile Approach Warning Systems and response systems (i.e. Smoke, Chaff and/or Flare), all of which are designed to increase the survivability of naval platforms against various threats, including coastal weapons. IAI's defense systems include the Barak family of anti-air and anti-missile defense system and the GAVRIEL anti-ship attack missile.

In addition, IAI offers the SUPER DVORA Class of Multi-Mission Patrol & Attack Boats – the ideal purpose designed high speed/high endurance platform for a diverse variety of military and non-military missions.

Intelligence Surveillance, Reconnaissance (ISR)

IAI delivers real-time reconnaissance, electronic intelligence capabilities through turnkey solutions focusing on strategic and targeting assets. These include Signal Intelligence (SIGINT), Image Intelligence (IMINT), Synthetic Aperture Radar (SAR) technologies, and day & night EO/IR systems, all implemented through integrated, networked and connected system of systems.

Aircrafts and Helicopters Modernization and Upgrade

IAI has been implementing modernization and upgrade programs for military aircrafts and helicopters for over four decades. Based on its extensive track record as an aircraft manufacturer, IAI has successfully transformed previous generation platforms on aircraft and helicopters of Eastern and Western origin into advanced, effective systems capable of meeting current and future most demanding mission requirements. Modernization packages often include a comprehensive life extension and system upgrades with advanced avionics, training equipment, simulators, and mission planning and debriefing systems. IAI also offers Airborne Self Protection Systems, such as Missile Approach Warning Systems and response systems. These systems are installed on military aircrafts and helicopters, as well as on VIP and Commercial aircrafts.

Main Products and Services

Homeland Security (HLS)

Operational in some of the world's most sensitive conflict areas, IAI's C4I systems, sensors, radars, and electro-optical payloads are securing a wide range of protected sites; from borders and coastlines, national symbols and strategic infrastructures, to populated centers. IAI's comprehensive, integrated solutions utilize airborne, ground-based, maritime, or mobile sensors, augmented by unattended platforms like aerostat or unmanned patrol vehicles, through secure information networks.

Ground Systems

IAI develops advanced systems and capabilities for use by land forces, including state-of-the-art battle management and communication systems supporting on-the-move broadband communications and integrated targeting and navigation technology for precision guided weapons. IAI also offers a wide range of combat support systems – from guided missiles to obstacle breaching, countermine, and counter-IED. Additionally, IAI delivers combat-proven radar-based early warning systems for Armored Vehicle Protection, mounted on tanks, APCs, and other combat vehicles, allowing a timely activation of adequate interceptors.

Electronic Warfare (EW) Systems

IAI develops and supplies advanced Electronic Counter Measures systems; jamming pods for combat aircraft and Communication Jammers.

Mission Aircrafts

IAI's combat-proven solutions include Airborne Early Warning System (AEW), Airborne Integrated SIGINT system (AISIS), Multi-Mission Airborne Reconnaissance and Surveillance System (MARS2), and Maritime Patrol Aircraft (MPA). Each mission aircraft is tailored to the user's needs, from the mission super system to the airborne platform (jet or turboprops-based).

Aerospace Engineering and Development Center

IAI maintains an excellence center for aerospace engineering and development. As a member of the exclusive club of civil aircraft OEM's (FAR 25 & FAR 23 categories), IAI has full capabilities to design, develop and certify new air-vehicles and provide engineering, upgrade and conversion services for any aircraft type: from initial concept definition to prototype testing and certification, from fast prototype to full scale development of manned and unmanned, commercial and military aerial platforms. With unique synergy of industry experts, highly-skilled engineers and experienced Israeli test-pilots, combined with a legacy of comprehensive disciplines, cutting edge technologies and innovative laboratories and test centers, IAI's Engineering and Development Center is designed to build the aircrafts of tomorrow - turning a vision into a flying machine.

Main Products and Services
G4-4 | G4-8

Commercial Aviation

IAI designs and manufactures business jets for nearly 45 years, from the early Westwind, the Astra and the Galaxy, through the G100, G150 and the G200 for Gulfstream, to the super midsize intercontinental range G280. The G100, G150, G200 and the G280 business-jests are an integral part of the Gulfstream family of business-jets. Furthermore, IAI 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.

Aircraft Conversions and MRO

IAI is a recognized global leader in aircraft passenger-to-cargo conversions, with over 40 years of experience and more than 200 converted aircraft delivered to date. IAI develops its own STC (BDSF) for a range of aircraft cargo conversions, for both commercial and military markets, and all STCs are approved and validated by leading Aviation Authorities. Moreover, IAI developed Boeing 767 conversion for Multi-mission tanker/transport aircraft and air-refueling platforms.

IAI also provides an expert, one-stop-shop for large passenger and cargo aircrafts, with full maintenance, repair, and overhaul (MRO) of aircrafts, engines, and components. IAI's MRO processes are approved by 18 Aviation Authorities from around the world.

Space

Positioned as Israel's leading Integrator of space technology, IAI has a proud legacy of dozens of satellites deployed in space. IAI develops and manufactures a wide range of cutting edge satellites and satellite equipment, including observation and communication satellites, scientific/research satellite systems, ground control stations, mission centers, and launchers.

With the latest members of OPTSAT-3000, an electrical-optical imaging satellite product line, TECSAR (Synthetic Aperture Radar), an observation satellite line, and the AMOS communications satellite product line, IAI provides top performance and cost effective solutions for both national security and commercial applications.
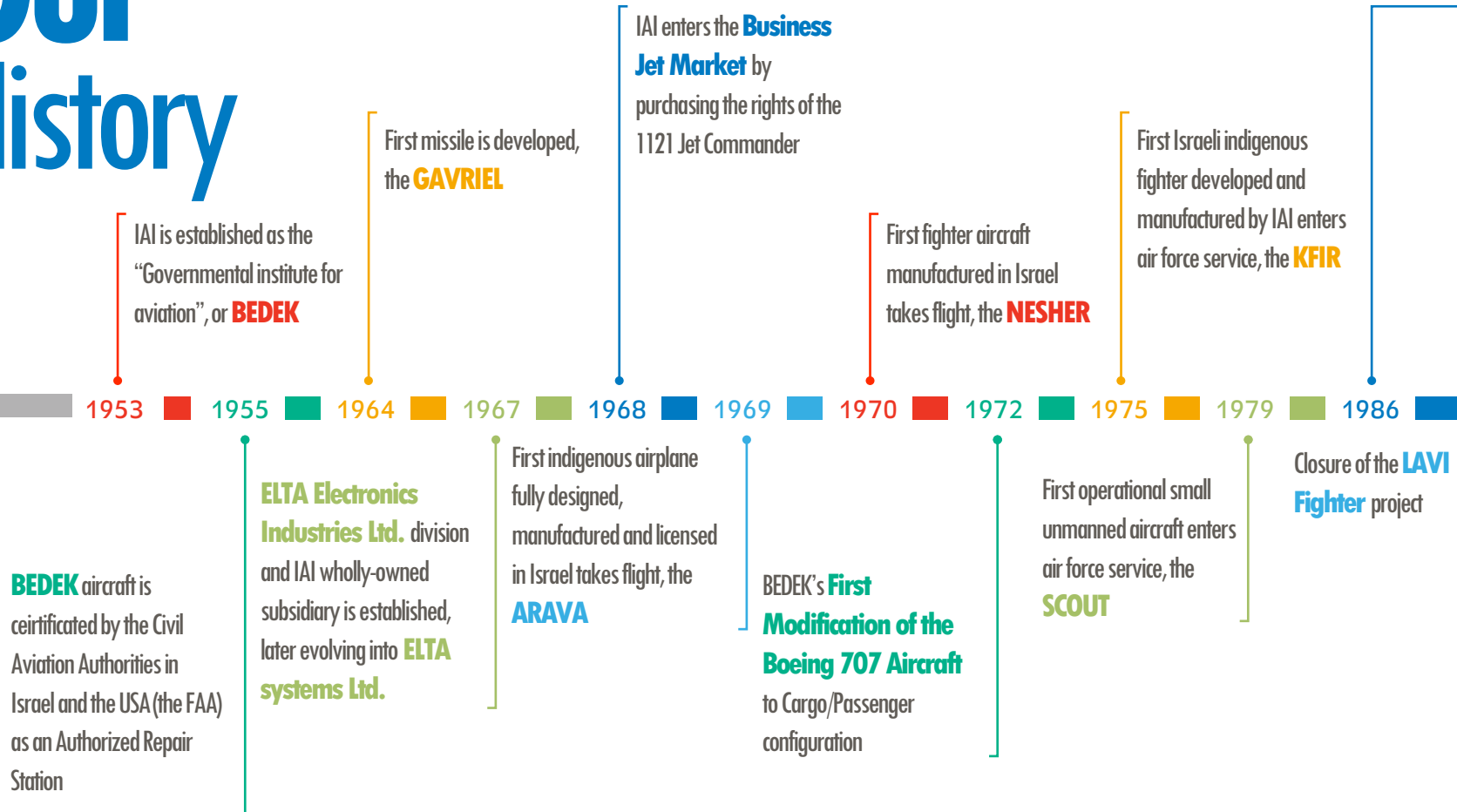
Cyber

IAI offers a comprehensive suite of cyber-intelligence, cyber early warning, and cyber training and simulation systems for defense, intelligence, and law enforcement and homeland security applications. IAI's capabilities address all operational levels, from signal interception and analysis, to advanced, user-directed monitoring, assessment, and targeting. IAI's Cyber solutions also include National Cyber Centers and comprehensive solutions for airports cyber security.

Robotics

IAI's robotics center is at the cutting edge of the robotics technology in autonomous navigation, C4I, sensor fusion, communications, high and low level control, and micro robotics. IAI's robotics development methodology is integrated with operational experience, creating practical robotic solutions for a wide variety of operational fields and missions. IAI's robotics building blocks include: platforms, navigation technology, world sensors, and world modeling technology, communication systems, and command & control (training simulations).
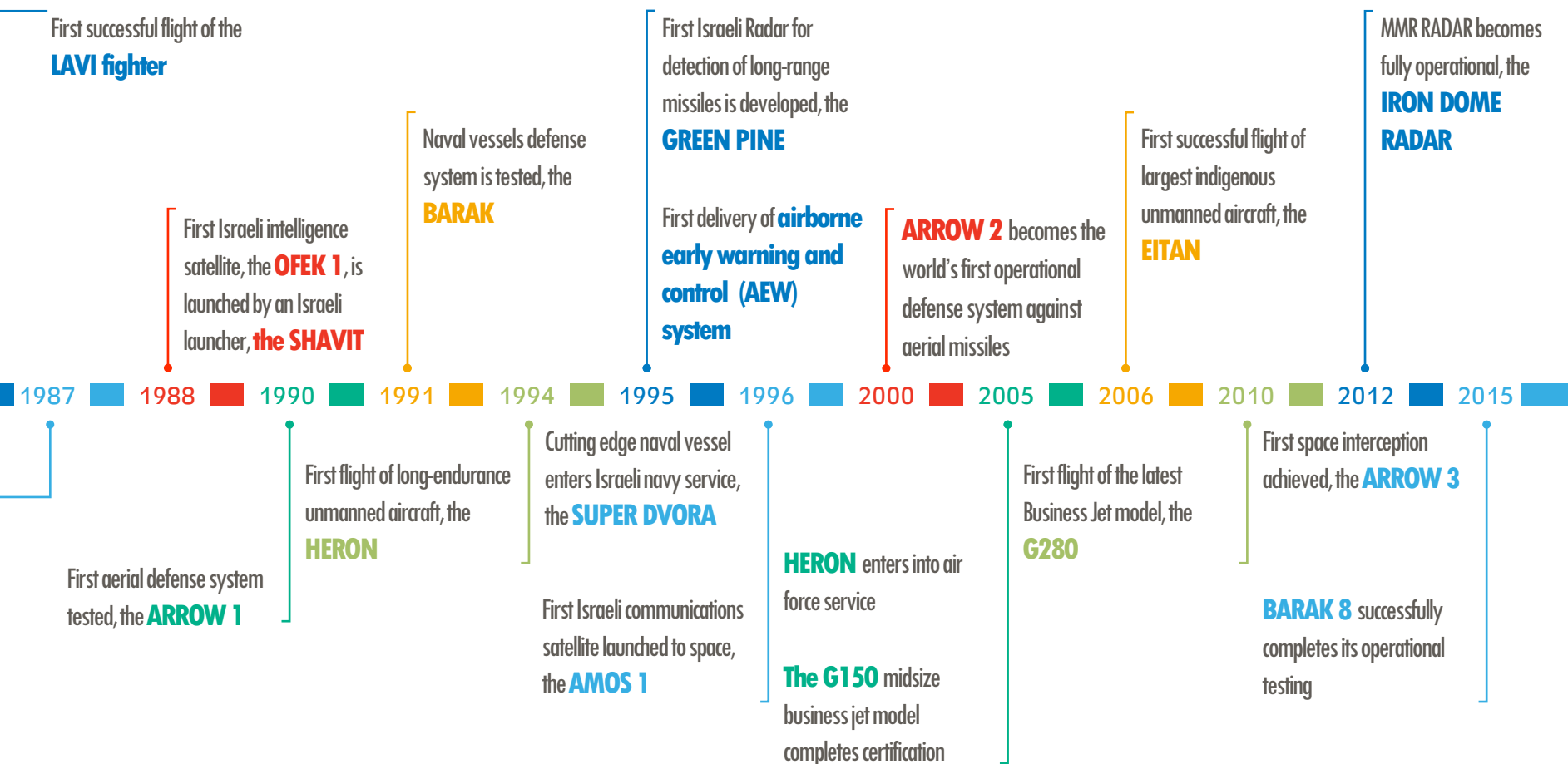
Our History

1917-2011

IAI is established as the "Governmental institute for aviation", or **BEDEK**

First missile is developed, the **GAVRIEL**

IAI enters the **Business Jet Market** by purchasing the rights of the 1121 Jet Commander

First fighter aircraft manufactured in Israel takes flight, the **NESHER**

First Israeli indigenous fighter developed and manufactured by IAI enters air force service, the **KFIR**

1953 | **1955** | **1964** | **1967** | **1968** | **1969** | **1970** | **1972** | **1975** | **1979** | **1986**

BEDEK aircraft is ceirtificated by the Civil Aviation Authorities in Israel and the USA (the FAA) as an Authorized Repair Station

ELTA Electronics Industries Ltd. division and IAI wholly-owned subsidiary is established, later evolving into **ELTA systems Ltd.**

First indigenous airplane fully designed, manufactured and licensed in Israel takes flight, the **ARAVA**

BEDEK's **First Modification of the Boeing 707 Aircraft** to Cargo/Passenger configuration

First operational small unmanned aircraft enters air force service, the **SCOUT**

Closure of the **LAVI Fighter** project

Al Schwimmer
IAI's Founder and First CEO

Employee Spotlight

Timeline

1987 — First successful flight of the **LAVI fighter**

1987 — First aerial defense system tested, the **ARROW 1**

1988 — First Israeli intelligence satellite, the **OFEK 1**, is launched by an Israeli launcher, **the SHAVIT**

1990 — First flight of long-endurance unmanned aircraft, the **HERON**

1991 — Naval vessels defense system is tested, the **BARAK**

1994 — Cutting edge naval vessel enters Israeli navy service, the **SUPER DVORA**

1994 — First Israeli communications satellite launched to space, the **AMOS 1**

1995 — First Israeli Radar for detection of long-range missiles is developed, the **GREEN PINE**

1995 — First delivery of **airborne early warning and control (AEW) system**

1996 — **HERON** enters into air force service

1996 — **The G150** midsize business jet model completes certification

2000 — **ARROW 2** becomes the world's first operational defense system against aerial missiles

2005 — First flight of the latest Business Jet model, the **G280**

2006 — First successful flight of largest indigenous unmanned aircraft, the **EITAN**

2010 — First space interception achieved, the **ARROW 3**

2010 — **BARAK 8** successfully completes its operational testing

2012 — MMR RADAR becomes fully operational, the **IRON DOME RADAR**

Timeline years: 1987 · 1988 · 1990 · 1991 · 1994 · 1995 · 1996 · 2000 · 2005 · 2006 · 2010 · 2012 · 2015

Starting as an apprentice to an aircraft mechanic in his high school years, Al Schwimmer played a critical role in the establishment of IAI.

After serving in the US air force during World War II, Schwimmer retook his position at TWA Company as a flight engineer. When traveling in post-war Europe, he was deeply moved by the fate of the Jewish people, and began assisting the Israeli HAGANA paramilitary organization by acquiring various cargo and heavy bomber aircrafts for the newly-established Israeli Air Force. He also recruited many of the first pilots, mechanics, and technicians to service those planes during the 1948 Israeli War of Independence.

In 1951, Schwimmer, who had established a small aircrafts maintenance and repair plant in California, received a historical visit by David Ben Gurion, first Prime Minister, along with Shimon Peres, Director-General of the Ministry of Defense. They persuaded Schwimmer to permanently become an Israeli citizen, and establish similar operations here, to support the young state. The foundations were finally set to ensure Israel will have a cutting-edge defense force in the skies.

Schwimmer served as CEO of BEDEK Aviation, and later on, the Israeli Aircrafts Industries, for 25 years, making IAI a thriving enterprise.

Sustainability Management at Israel Aerospace Industries

G4-48

Our sustainability program is built upon a solid foundation of management systems and compliance with standards. It is honoring our past contributions and achievements, and pushing us forward towards new visions.

IAI sustainability management is cross organizational, including all groups, divisions, operations, and subsidiaries. The program starts at the top, with a Board of Directors' Sustainability Committee, overseeing a Senior Management Sustainability Steering Committee led by the Executive VP of Operations which, in turn, supervises IAI's Sustainability and Environmental Organization. The Board Committee is responsible, among other things, for the approval of IAI's periodic sustainability reports. Through these authorities, we form manageable, measurable, and consistent working plans, strategically directing the company's progress in sustainability matters.

Board of Directors' Sustainability Committee

Senior Management Sustainability Steering Committee

Sustainability and Environment Organization

Operational Sustainability Representatives

Our Stakeholders

G4-24 | G4-25 | G4-26 | G4-27

We firmly believe that our business cannot operate and grow effectively without strong and nurturing ties to all of those who hold an interest in us. Healthy relationships with both internal and external stakeholders serve as a fantastic opportunity to learn, share, and improve wherever applicable and feasible. We already closely engage with our major stakeholders through customer service, joint community initiatives, industry-specific committees, memberships and activities, ongoing communications with the authorities, employees' families, our retirees and more. As we move forward, we expect to further expand our roundtable platforms. Our main stakeholders were identified in an inclusive process covering the management and the employees' organization, the media, private and public information requests, regulatory demands, internal policies, etc. Our major stakeholders are: the Israeli Government, Customers, Employees, Suppliers and contractors, Communities and the Future Generations.

Employees

Our personnel are the heart of the company. Our employees, at all levels of authority, are the true value-makers of IAI. We hold the belief that their invaluable day-to-day contribution shapes and grows this company. We strive to develop and support our employees in their roles and responsibilities while reaching to their families and providing comprehensive retirement plans. Our employees' organization forms a collective voice and represents the interests of our employees in all aspects concerning work environment and wellbeing.

The Israeli Government

As our owners, we walk hand in hand, facing the challenges posed to our country each day. We endeavor to work responsibly and formulate business strategies and principles in order to continue to grow and prosper, while maintaining the full trust placed by the government in our ability to create a sustainable and remarkable operation. In addition, we strive to establish strong ties with local authorities in order to keep in compliance with all their requirements.

Customers

We go to great length to ensure that our customers receive outstanding support and services provided by our products, services, and solutions. We are continuously attentive to our customers' feedback, in order to improve and exceed their expectations.

Communities

In our desire to prosper for the years to come, we find that engaging with local communities in the vicinity of our operational sites while focusing on their concerns, issues, and needs are mutually beneficial, creating a shared value and making a real difference.

Suppliers and Contractors

Through our supplier selection and management processes, we engage a multitude of contractors and suppliers – from development and manufacturing, to security, catering, transportation, etc. The invaluable cooperation in our value chain is promoting mutual growth and adoption of progressive standards.

Future Generations

As our founders envisioned, we care about leaving a legacy of which our children, their children, and grandchildren can be proud of and continue to share. While future generations cannot voice their minds, we do acknowledge their entitlement to a healthy and resource-abundant planet and thriving work prospects. As a result, we strive to consider and take responsibility for the long-term impacts of our current business.

Materiality

The Materiality Matrix was created through a systematic assessment. Our aim was to identify the key corporate responsibility issues, which we as a business consider material to the environment, the society and the economy, based on internal roundtables. We also included insights from work undertaken as part of cross-organizational sustainability practices and processes. We have also taken into account those issues that our stakeholders, such as governmental authorities, sector colleagues, and the public in general, consider to be most relevant. The outcome enabled us to define the report contents in alignment with the GRI-G4 reporting principles of completeness, our approach to sustainability and our stakeholders.

The assessment stages were:

1 Defining the Process Scope and Goals

During this phase, the goals of the assessment were defined, as well as the process roadmap, its contributing parties, and the means by which to measure and validate the results. The entire process was governed by the Senior Management Sustainability Steering Committee and accomplished by the Sustainability and Environment Organization.

2 Identifying Potential Material Aspects

An initial list of potential material aspects had been formed, based on multiple sources, including IAI's overall risk assessment analysis (see page 65), internal documentation (policies, procedures, training, etc.), international standards such as the GRI and the Sustainability Accounting Standards Board (SASB) suggested list of topics, Aerospace and Defense sector-specific data, local and International media reviews and governmental guidelines. It contained both major and minor issues in environmental, social, economic and corporate governance areas.

3 Categorizing the Material Aspects

The Comprehensive list from stage 2 was then sorted and clustered into categories in order to make the ranking process more viable and meaningful. A special emphasis was given to the number of sub-topics per each category, to support an accurate weighing process later on.

4 Validating the Material Aspects

A secondary revision of all the categorized aspects was done in additional discussions led by an Extended Management Steering Committee, with the participation of additional key IAI personnel, to ensure they fairly represent both the company's interests and the stakeholders' agenda.

5 Ranking of the Material Aspects

The finalized list was distributed for ranking by the Steering Committee members, managers at different organizational levels and key functionaries within the organization that have direct impact on major or strategic processes. All ranking participants were specifically trained on the process prior to their ranking.
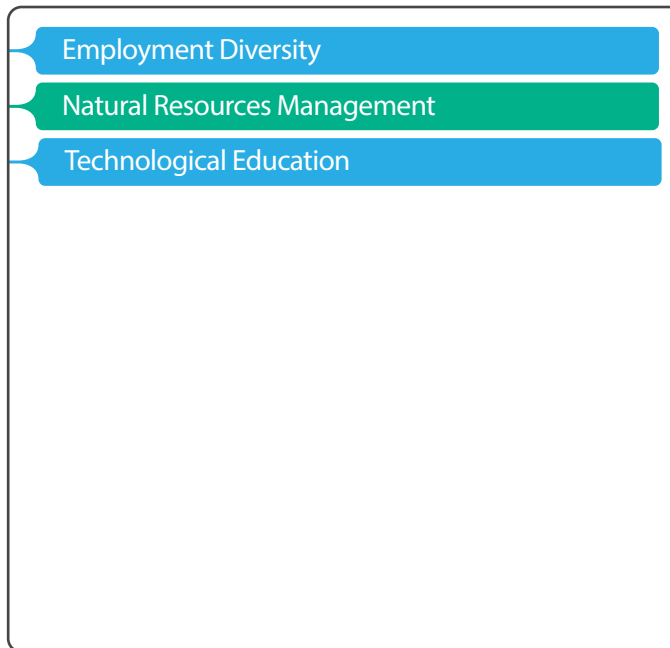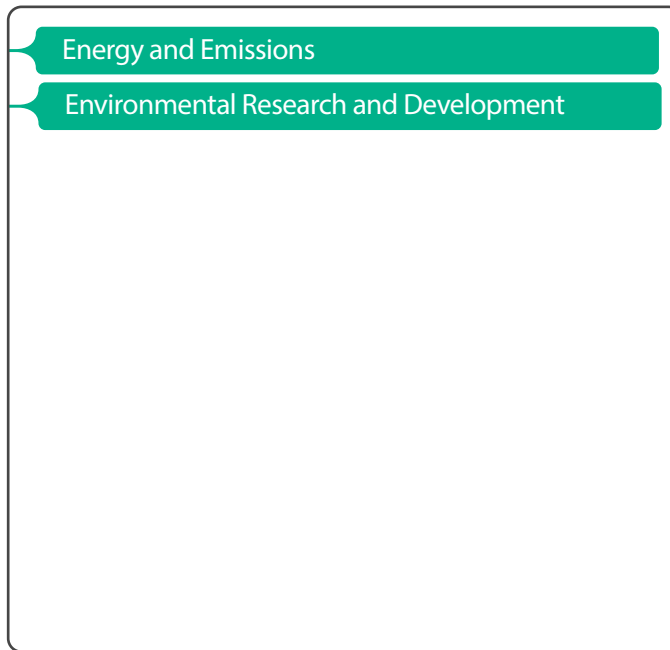
6 Management Review

The final materiality matrix results were then validated and presented for management review at the Steering Committee level, detailing the weighing process, statistical support and discussions on the validity of both the apects and the ranking.

7 Stakeholder Feedback (future)

We welcome any feedback from our stakeholders on the material aspects in the matrix. We plan to expand our platforms for stakeholders dialogues through which we expect to discover either new aspects or reinforce existing ones.

Significant to Stakeholders

Top Left Quadrant
- Energy and Emissions
- Environmental Research and Development

Top Right Quadrant
- Corporate Governance Management
- Product Responsibility and Customer Service
- Compliance
- Anti-Corruption and Bribery Prevention Practices
- Waste and Effluents

Bottom Left Quadrant
- Employment Diversity
- Natural Resources Management
- Technological Education

Bottom Right Quadrant
- Business Development and Performance
- Technological Innovation
- Human Resources Management
- Supply Chain Management
- Employees' Organization
- Cyber Defense
- Occupational Health and Safety
- Future Regulations
- Sustainable Risk Management
- Impact on Israel
- Crisis Management

Strategic to Business

Legend:
- Environmental
- Social
- Corporate Governance
- Economic

Materiality

Our 21 material aspects are categorized according to business focus areas: corporate governance, social, environmental, and economic, and are further detailed throughout this report (please refer to pages 103-104 for aspect boundaries classifications).

Interestingly, we see how well reflected in our matrix are the growing global concern with businesses taking responsibility for good governance practices, as well as accelerating innovation and advanced thinking on acute environmental and social issues.

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Technological Innovation
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Impact on Israel
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HR Management
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Employment Diversity
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Product Responsibility & Customer Service
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Compliance
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Future Regulations
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Business Performance & Development
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Energy & Emissions
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Natural Resources Management
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Sustainable Risk Management
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Anti-Corruption and Bribery Prevention Practices
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PART 1

Innovation and Economic Performance
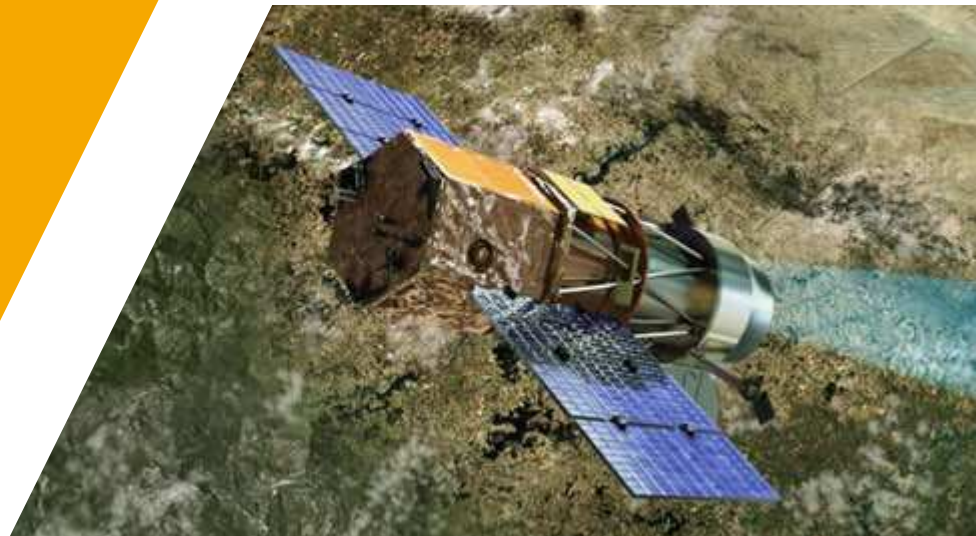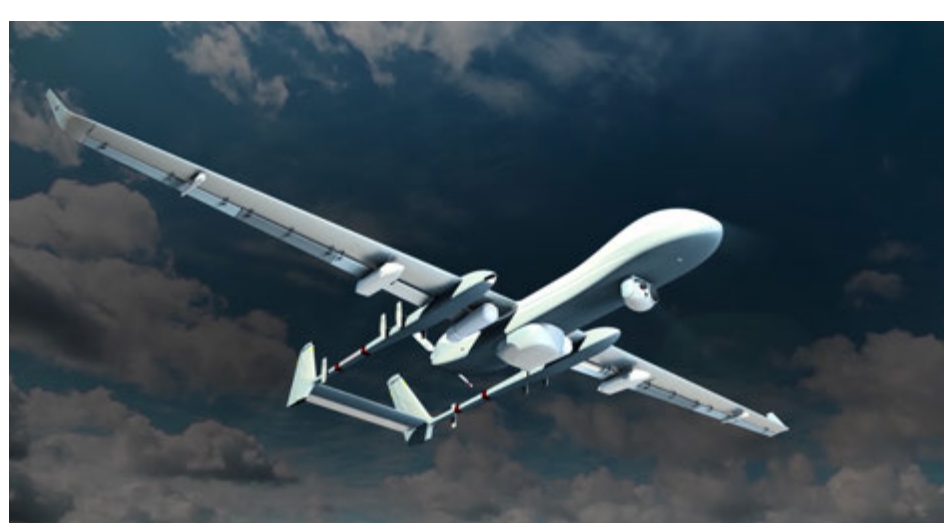
Being Part of the "Start-Up Nation"

Israel is internationally known as the "Start-Up Nation", topping the global charts in number of startup companies per capita, innovative applications and groundbreaking products. IAI is proud to be part of this extraordinary phenomenon, with multitudes of breakthroughs and records through the years acheived by our relentless thinkers.

Radars
IAI is Israel's radar systems technological powerhouse, with global leadership in its various applications.

Passenger-to-Cargo Conversion
In the early seventies, IAI's BEDEK Group was the first company in the world to be licensed by the Boeing Company to convert 707 passenger aircrafts into cargo aircrafts. To date, over 200 airplanes from multiple OEM companies were converted.

Satellites
All Israeli intelligence satellites, and some commercial communications satellites, are launched by the SHAVIT, a space launcher developed and manufactured by IAI.

UAVs
The first modern version of unmanned aircrafts, the SCOUT, was developed by IAI in 1976, marking our becoming a global leader in this domain.

Patents
IAI continuously ranks in the top three of the Israeli Patents Chart.

Business Jets
Only a handful of companies worldwide (IAI in Israel, alongside others in the US, Canada, France and Brazil) are able to develop and certify a Business Jet conforming to the FAR25 business jet certification category.

Making Tomorrow's Products

Material Aspect

IAI's Initiation Program

Being a large company might be an obstacle in identifying and properly investigating great ideas conceived by our employees throughout our sites. This was the grounds upon which our initiation program (HANBATA) was established by the Aircraft Advanced Design and Development Directorate in the Development and Engineering Group five years ago, meeting on a bi-weekly basis ever since. The forum is methodologically designed to direct potential innovations to the right audience of experts and interested parties. These experts (Engineers, system engineers, marketing, production personnel, test pilots, etc.) are able to judge the materials based on their vast experience.

Ideas need to be properly collected, sorted, filtered, and then investigated until the truly valuable ones are identified and moved further up in the evaluation process. Aside from helping with directing ideas to the right audiences, the forum assists in overcoming insecurities regarding ideas developed by people who do not have the academic background to judge their technical feasibility. This prevents "shooting down" initiatives just because one does not hold a position within IAI that is linked to his idea.

To make the forum accessible, a dedicated page was added to the company's INTRANET, where employees can upload their ideas with sketches, word documents, presentations, etc. Requests for review are then sent to the Preliminary Design and Development Department, operating within the Engineering Division, in the Development and Engineering Group.

As the division provides preliminary design services to all IAI sites, the unit can easily identify which professional disciplines need to be engaged in the review process, as well as the potential customers in IAI's production divisions. All ideas are recorded in the system, owned by their originators, until a patent is issued, if one is issued indeed.

In addition to the technical review, the initiation team assists the idea's originator to prepare a business plan, so that the financial gains and other business impacts are ready to be presented to the management, if and when the idea is ripe for project development.

The forum also serves as an integrator in cases of ideas somewhat removed from aerospace and aviation, helping the idea's originator to connect with interested parties that develop or produce solutions in other core processes (such as electro-optics, sustainability etc.).

Some of IAI's noted assets in both existing and future projects originated in our initiation program and we continue its tradition proudly.

Making Tomorrow's Products

Take-Off Day

The Aircraft Advanced Design and Development Directorate in the Development and Engineering Group hold an annual event, the Take-Off Day. During this exhilarating 24-hour session, IAI's customers are invited to see how internal teams are developing and offering brilliant solutions to their operational needs.

Making Tomorrow's Products

G280 Business Jet

The development of our latest Business jet, the G280, was inaugurated in 2006. The aircraft began selling in 2012, with over 100 units already manufactured and delivered to date. It is a descendant of a long line of business jets of our making, beginning the early sixties and including: the Commodore jet, the Westwind, the ASTRA, the G100, Galaxy G200 and eventually G150 and G280.

The G280 is considered best-in-class in the super-midsize category, with new world records set by its speed and prominent presence in the professional literature. The development process was conducted according to IAI's New Product Introduction (NPI) methodology, leading all the way from preliminary design to development, manufacturing, assembly and certification, all done by IAI.
The G280 is an integral part of the Gulfstream Company family of business jets co-developed and certified jointly with Gulfstream.

| Feasibility study and product definition | Early development and detailed development | Transfer to production and assembly |

The aircraft development included extensive tests and analysis (such as our in-house wind tunnels) of various structural components, as well as the operating systems (SYSTEM OF SYSTEMS), so that all were integrated for achieving best performance, safety regulations compliance and meeting the business parameters and the economic model.

Following the first ignition, ground tests were performed to prove the theoretical design, and a runway tests series lead to the first flight. At this stage, a series of flight tests were conducted, and when all compliance tests with the aviation administration regulations were completed with a certification of the aircraft, it went on sale to customers.

The G280 allowed us once again to dream big, and demonstrate our motivation and sense of mission and passion to aviation.

Environmental R&D

Material Aspect

Becoming environmentally innovative is well aligned with IAI's drive for new and exciting developments. With worldwide escalating struggles for clean water, clean air and climate change mitigation and adaptation, there are many opportunities to utilize our engineering know-how for the greater good.

TaxiBot

IAI's LAHAV division, part of the Military Aircraft Group, devised an innovative concept for a towbarless (TBL) towing vehicle which enables commercial aircrafts to taxi without having to start their engines. The TaxiBot (Taxiing Robot), a semi-autonomous vehicle, is controlled by the pilot from the cockpit, while using the aircraft tiller and brakes. The TaxiBot provides a major safety improvement in pushback and maintenance towing, alongside increased traction on slippery surfaces.

The TaxiBot includes a unique mechanism that provides protection to the Nose Landing Gear (NLG) of the aircraft, from exceeding the maximum allowed fatigue load.

The TaxiBot has two models that serve:

>> Narrow body single-aisle airplanes (for BOEING 737-757 and AIRBUS 318-319-320-321)
>> Wide body twin-aisle airplanes (for BOEING 747-767-777-787 and AIRBUS 330-340-350-380)

The TaxiBot allows an 85% net reduction in fuel consumption and CO_2 emissions during taxi, as well as a significant reduction of noise and Foreign Objects Damage (FOD). The TaxiBot improves the operations and aircraft traffic efficiency at the airport gates.

The TaxiBot has been operated on commercial flights of Lufthansa airlines at Frankfurt international airport. The operations in Frankfurt have been serving as a demonstration to other leading airlines and airport operators that consider using the TaxiBot.

Environmental R&D

CLEAN SKY

IAI has espoused the environmental improvement of aerospace technology as one of its strategic business goals, and is actively involved in these global efforts for the last 20 years. Our endeavors cover both waste treatment solutions at the end-of-pipe and the development of innovative technologies with improved efficiency and environmental capabilities that reduce the product's overall footprint. We truly believe that the best action is through prevention of environmental risks wherever feasible, and this belief corresponds with global progress and customer support and cooperation on industrial ecology.

CLEAN SKY is a joint undertaking of the European Commission and the European Aeronautics industry, 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 create feasible technologies for reducing CO_2 emissions and noise levels produced by aircrafts today.

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

The global warming reduction potential of our three demos was over 50%. One of these demos was a low weight green metallic fuselage section, a component proposed to integrate newer high-strength and low density alloys, green manufacturing processes and non-chromate advanced surface treatments, in order to optimize environmental benefits and reduce weight compared with the conventional fuselage section.

With projects such as CLEAN SKY, IAI is demonstrating state-of-the-art developments in different phases of a product's life-cycle, achieving better energy performance, higher manufacturing efficiency, new materials introduction and waste minimization.

Low weight green metallic fuselage section

Environmental R&D

In an extremely conservative industry such as A&D, having the ability to revolutionize and challenge some of the most applied engineering practices is exciting and raises hope for a complete remodeling in the future.

Dr. Yehudit Mirovsky, head of R&D in IAI's Materials and Development Directorate in the Development and Engineering Group, is leading this vision with great zeal. Dr. Mirovsky began her journey as an IAI environmental technology expert following the LAVI fighter project closure, and the rise of ozone depleting gases phase-out in the industry. But even earlier, as part of her PhD thesis on solar cells, Dr. Mirovsky was already regarding environmental considerations as a must in every technological development. These days, she co-leads the ecoTECH innovative eco-friendly airframe consortium under the framework of CLEAN SKY 2, and alongside partners from Germany, Spain, Greece and the Netherlands, she develops a set of new technologies (materials, manufacturing processes and methods, recycling operations etc.) to reduce the environmental footprints of aircraft production from a global life-cycle perspective, while using life cycle assessment methodologies. In the final stage of the project, key enabling technologies will be used to manufacture four demos (Thermoplastics, Thermoset, Metallic and Biomaterial) to verify the novel technologies.

Desalination

The water shortage is a growing challenge worldwide, as climate change impacts, combined with rising human demand, are creating distress in both water availability and quality. IAI is viewing this issue as an opportunity to develop feasible solutions that will provide relief and progress in both existing and new markets.

The desalination project was inaugurated in 2011, as IAI's engineering center , which is part of the Development and Engineering Group, took upon itself to begin research on current technologies and potential areas for improvements. The goal was to design a system that would eventually allow selling desalinated water at a low cost.

Two approaches were considered in parallel:

>> Evaluating where and how IAI's existing know-how and technologies could be integrated into desalination facilities, and
>> Looking for innovative ways to improve current leading desalination technology.

Two major components were identified as areas for game-changing:

>> Devising ways to significantly cut the energy use of a desalination facility
>> Solving corrosion damage occurring when high salinity water is pumped through metal piping.

As of 2015 we have progressed as far as:

>> Designing and building a demo facility to test a new energy saving technology.
>> Developing anti-corrosion components, as a spin off from decades of developing aerospace structure components.

Financial Performance

G4-9 | G4-EC1 | G4- EC4 | G4-DMA

Material Aspect

IAI is a global Aerospace and Defense company, the largest A&D company in Israel, and ranked in the top third out of 100 companies in the international A&D sector 2015 index by Defense News.

The Government of Israel holds 100% of the shares of IAI.

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.

Financial item	2015 (Million US $)
Total economic value produced (income):	**3,708**
Operating costs (including salaries and benefits)	3,661
Finance Expenses	24
Tax Expenses	13
Dividends	9
Total economic value distributed:	**3,707**
Total economic value gained*	**1**
Net income	**9**
Governmental support:	
R&D grant by the Chief Scientist of the Ministry of Economy	**14**

* Calculated as total value produced less total value distributed.

At 31st December 2015, IAI held a backlog of order amounting to 8.59 billion US $ that equals to 2.3 years of activity.

Total company equity stands at 1,006 million US $ and total company debt stands at 3,701 million US $.

As a governmental company, IAI is not allowed to donate in accordance with section 17 of the Israeli Government Companies Law – 1975.

Revenues by operating segments

Military Electronics
27%
1,116M$

Commercial Aircrafts
12%
524M$

Military Aircrafts
20%
815M$

Aircrafts Maintenance
12%
488M$

Other
179M$
4%

Systems, Missiles and Space
25%
1,022M$

Business Development

The goal of IAI's Business Development Organization is to identify and develop new business areas and markets, where IAI can achieve a relative advantage. In addition, the organization is responsible for forming a business growth realization strategy, maximizing IAI's sustained competitiveness and position as a dominant leader in its core businesses.

The major instruments used to carry business development into effect are: establishment of joint ventures that create added value through business synergy; acquiring required technologies for continual development; offering business support for innovative programs; converting military technologies to civilian applications; setting up technological hubs and gaining finances through venture capital funds.
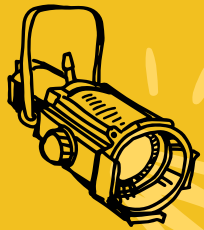
Product Spotlight

IRON DOME Radar System

IRON DOME is Israel's active defense system, designed to scan, identify, alert and shoot down any aerial threats to civilian territories. The system is operational since 2011 and considered particularly effective against missiles, rockets and UAVs. IRON DOME system is mobile, and can be quickly and easily transferred to any location based on risk level assessment.

ELTA systems Ltd. one of IAI's groups, are the designers and current manufacturers of the system's RADAR component, a mobile multi-mission radar (MMR) type. The RADAR has a wide electronic scanning capability for azimuth and elevation, as well as detection, classification and tracking ability for different targets. It demonstrates adaptability in data transfer to the control and monitoring systems and can successfully handle salvo with high precision with 360 degrees rotation in aerial defense mode.

The Current threat destruction rate is over 90%.

When a threat is identified by the RADAR, data on the threat's speed and route are transmitted to the missiles control system and to Israel's Home Front Command. The control system is calculating the potential hit location. If a populated area is bound to be hit, a defense missile is activated to shoot down the threat and simultaneously sounding an alarm in the attacked region. At this point, the RADAR will control the defense missile until it approaches the threat, and then the defense missile explodes to destroy the adjacent threat, away from any settled areas.
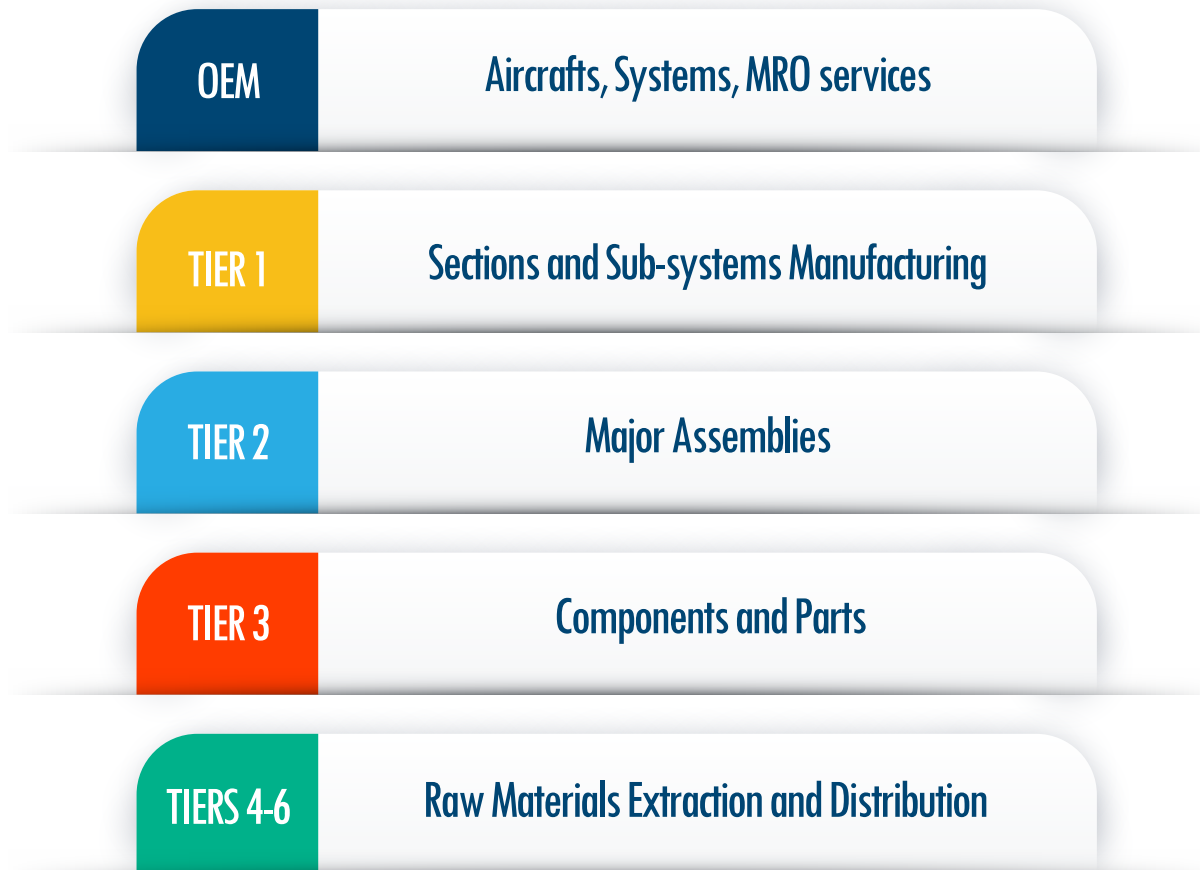
IAI's Supply Chain
G4-12

Material Aspect

A&D Industry Supply Chain

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

Tier	Description
OEM	Aircrafts, Systems, MRO services
TIER 1	Sections and Sub-systems Manufacturing
TIER 2	Major Assemblies
TIER 3	Components and Parts
TIERS 4-6	Raw Materials Extraction and Distribution

A&D Generic Supply Chain Structure

IAI's Supply Chain

IAI's Supply Chain Management

IAI is a unique player in the A&D supply chain, since it serves as the OEM for some of its products and as 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.

As an OEM, IAI is working only with TIER 1 suppliers that are certified by our company. These suppliers are obligated to hold valid and current permits, authorizations, and standard certifications relevant to their business. In addition, IAI is investigating their economic stability prior to engagement and continue to track their financial performance throughout the entire business relationship. We are now moving to implement these same requirements from our TIER 2 suppliers.

Suppliers Certification Process

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

>> A Central system for supplier quality assurance management, designed to assure that the quality of the products supplied meet IAI requirements, and includes the implementation of any follow-up requests. Our goal is for all our suppliers to embrace the same standards and commitment that IAI has set for itself as a supplier to other OEMs.

>> An online Suppliers' portal, 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. This significantly minimizes the use of paper, and makes the transfer process more efficient and much shorter.

IAI's Supply Chain

IAI's Procurement and Logistics (P&L) Organization sets structured processes and mechanisms demonstrating the triple-bottom-line combined with ethics and governance.

Economic
Expanding and adding to our over-arching framework agreements, in both operations and project management, to take advantage of our economics of scale and yield higher rates of savings. Savings are further achieved by maximizing the standardization across the company for purchases of items such as furniture, cell phones, printing materials etc.

Environmental
Setting annual savings, inventory values and circulation targets for raw materials, utilities and resource procurement through the use of a database system and by blocking the option for purchasing items marked as superfluous.

Social
Supporting local suppliers ("Buying Blue-and-White"), small businesses, and suppliers from rural areas as a strategy, to augment their capabilities and share in the global A&D industry.

Ethics and Governance
P&L personnel training includes codes of ethics, organizational culture as well as interpersonal communications, with special emphasis on interactions with suppliers for the mutual development of quality products and maintaining long-term, fair and honorable partnerships.

Local Procurement

Material Aspect

As a governmental company interwoven with Israel's welfare, IAI is striving to encourage the development of Israel's economy in general, and in the country's rural areas in particular. This is locally known as "buying Blue-and-White", as the colors of Israel's flag.

In 2015, we have spent 1.2 Billion US $ on procuring from 3,385 Israeli suppliers, equaling to 52% of our total annual procurement.

The majorities of our suppliers overseas are engaged based on economic grounds, expertise, and request given by our customers or by the terms of reciprocal trade (offset obligations). Through these same relationships, IAI has also obligated its foreign suppliers to further expand their procurement from Israeli sources, a requirement covered by the Israeli Mandatory Tender regulations - 2007, in full partnership with The Industrial Cooperation Authority at the Ministry of Economy and Industry.

Product Responsibility and Customer Service

Material Aspect

The IAI is fully committed to serving all its customers, past, present and future. A key feature of this service is Product responsibility and customer support. Each IAI operating Division is the primary customer support contact for all products and services provided by the company.

Our customer service Pledge

Delivering optimal Aviation Solutions and First Class Customer Service
We deliver cost-effective, high quality products and services with exceptional performance and reliability.

Observing the highest Ethical Standards
We observe the highest ethical standards in all our relations with customers and vendors, we are accountable for our actions and follow through with our commitments.

Making Customized Solutions
We tailor optimized solution to each customer's specific requirements.

We are firmly committed to act upon the Voice of the Customer
We welcome feedback from our customers and promptly respond to their feedback, using it to improve the products and services we offer.
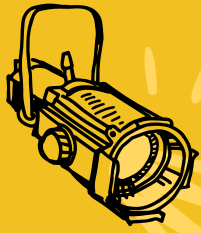
Initiative Spotlight

Product Responsibility and Customer Service at ELTA systems Ltd.

Products designed and manufactured by ELTA Systems Ltd. are sold on the basis of a detailed contract, including all commitments regarding long term support of the purchased product. This commitment is set to support the customers' ability to successfully operate the acquired product in the long term. Various deliverable components may include: Hardware, Software, Spare Parts, Testers and Simulators, Tools, Technical literature and Training.

The agreement is signed based on the customers' requirements (Technical demands, timetables, destination, government regulations etc.) and in the context of ELTA's policy and compliance with the Israeli laws and regulations. This commitment includes 2 levels:

Warranty Period:

A direct support given through the products' Warranty period, covering any troubleshooting or failure recovery needed during the product's operation. This responsibility includes repair or replacement of failed parts within an agreed timeframe, as well as attending to all types of inquiries raised by the customer. In some cases, repair teams are sent to the customer's location to resolve issues when there is no way of sending parts/systems for repair in ELTA's facilities. ELTA's experts are available to answer any queries arising in regard of the product's operation.

Product support:

A general logistics and engineering commitment and support for an agreed period of time following the delivery of the product to the customer. This includes a continuous response on a wide range of aspects, including modifications, repairs or other technical elements.

Customers' satisfaction is of supreme value to ELTA's management. An annual customers' survey, based on a detailed questionnaire, is distributed by the specific ELTA points of contacts in order to receive feedback, ratings and evaluations regarding the products and their support.

PART 2

Social Responsibility

Social Responsibility at IAI

Material Aspect

IAI is based on extraordinary people leading technological breakthroughs on a daily basis. Very few companies in Israel are so intertwined with the development and prosperity of this country, and our "Israelism" is reflected through our invaluable relationships with our employees, retirees, customers, contractors, suppliers, and the communities we live and operate in.

As our vice president of Human Resources (HR), Mrs. Irit Klipper-Avni states, the HR organization's primary mission as a supporting organization **is connecting to people and tuning into business to enhance performance.** This dual responsibility reinforce cooperation with added value, and is systematically managed via three operational circles – the employee at the center, our work environment, and our community involvement.

Employee at the center

Work Environment

Community Involvement

Our employee, as the cornerstone of business realization, is supported by our extensive training and personal development programs, entitled to scholarships, position transfers, innovation hubs and general wellbeing activities, and retirement through tailored processes designed to accompany the employee during outplacement or pension. In 2015, IAI ranked 8th "best place to work" in the Israeli BDIcode Index, and 3rd in "employment stability" in Israel's Globes 100 DUN's Hi-Tech Companies Index. This is backed by one of our long-standing sources of pride – most of our employees remain in the company for many years, most until their retirement age.

We continually invest in improving the work environment; from in-house service facilities such as large catering halls, banking, employees transportation, gym and synagogues, through health care offered by our 24/7 occupational health clinics and social workers, and 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 encouraging promotion to management roles. Also, specific opportunities are established for the integration of employees with special needs into IAI's work environment.

Social Responsibility at IAI

G4-DMA

In 2015, we reorganized our multiple volunteering and community involvement activities toward a stronger focus on technological education while maintaining our long-standing dedication to aiding those in need.

The following pages convey our commitment to making IAI a great place to work in, and to augmenting our social reach in the value chain and the communities we are involved with.
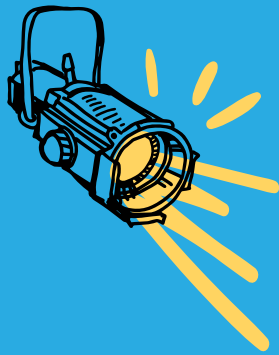
Employee Spotlight

Career at IAI: Dr. Avital Schrift

Dr. Avital Schrift holds a B.Sc. and M.Sc. in Electrical Engineering (with distinction) from the Technion – The Israeli Institute of Technology; and a Ph.D. degree in Applied Mathematics and Computer Science from the Weizmann Institute. Her work has been published in several scientific and professional journals.

Dr. Schrift started her employment in 1991 at ELTA Systems Ltd., IAI's subsidiary and group, as the first system engineer of the "Green Pine" radar, the Israeli solution for early warning and fire control of Tactical Ballistic Missiles, as part of the Arrow Weapon System (AWS). Dr. Schrift was awarded the 2003 IMOD national award for her contributions to the Arrow Weapon System. Dr. Schrift also managed the system engineering department, handling the definition, development, integration and testing of major phased array radar programs. Throughout all her projects, she testifies that her direct manager, the late MOTI PELEG, served as her mentor. His professional expertise and business thinking guided her during times of exertions and eventually encouraged her to pursue the next career level. In 2005, she was appointed to head ELTA's air defense systems directorate. In 2010, Dr. Schrift was appointed Deputy General Manager of ELTA's Land & Naval Radars & Systems Division, with direct responsibility for all strategic air defense radar system programs in ELTA.

Since 2014, Dr. Schrift has been IAI's MBT Missiles division General Manager, in the Systems, Missiles and Space Group. Her division offers Precision Guided Munitions, Light-Weight Laser-Guided Missiles with pinpoint accuracy at long ranges for air, land and naval applications, unique Loitering Weapon Systems, State-of-the-art Naval Attack Missiles and Naval Combat Suites, Short and Very Short Range Air Defense Systems, all based on combat proven systems and integrated advanced technologies.

Dr. Schrift was named 2014 "Lady Globes" Woman of the Year by Globes, a leading business and economics newspaper in Israel.

Empowering our Employees
G4-10 | G4-11 | G4-EC6 | G4-LA12

Material Aspect

IAI is the largest governmental employer in Israel, with 15,734 employees in total, including permanent and temporary employees, as well as contracted employees, students and apprentices.

>> 12,499 are Men (79.45%) and 3,235 are Women (20.55%).

>> Age wise, 8.5% of our employees are younger than 30, 43.8% are between 31-50 years old, and 47.7% are over 51.

>> All of our permanent employees (about 70%) are signed under collective agreements.

>> 100% of our management and board of directors are hired from the local community.

Diversity

Material Aspect

IAI believes in equal opportunities in the workplace, and we continually work to improve our diversity. A unique program was developed for intake of Israelis of Ethiopian origins, as well as members of the Druze community. 3% of our employees are workers with special needs.

We have 68 employees in our top management ranks, comprised of 62 men and 6 women. Age wise, our management includes: 0% are younger than 30, 16.1% are between 31-50 years old, and 83.9% are over 51.

Employees Training and Devleopment

IAI invests extensively in training its employees and establishing a long-term development plan for their continual individual evolution within the organization.

One of our operational divisions is MHT, which, among other responsibilities, is our powerhouse for training both in-house and external trainees in numerous general and expert-specific courses. It offers technical, aviation, and managerial training for employees at different levels, experience, and knowledge-base, serving as a meaningful tool to help employees in their career development at the IAI, as directed by our Human Resources organization. MHT is also considered a certifying and registration entity on behalf of the Israeli Aviation Authority, the American Federal Aviation Administration (FAA) and the European Aviation Safety Agency (EASA). Training is available as frontal and online courses, and is utilizing IAI's INTRANET for tracking completion of both mandatory and elective requirements. We conduct academic studies towards practical engineering and Bachelors level degrees within our facilities, and support collaborations with authorized academic colleges and universities in Israel for the accreditation of Masters and Doctorate level degrees for our employees.

Empowering our Employees

Our training programs are designed to support:

>> New employee orientation (including safety, occupational health and ethics)

>> Professional and managerial level training to advance employees through roles from the bottom-up

>> Annual Refreshers on mandatory topics

>> Regulatory-required training

>> New technologies instructions

>> IAI's future managers training

>> Career change classes

>> Retirement readiness

>> Enrichment courses

>> Academic bachelors, masters and doctorate degrees

In 2015, a total of 431,902 training hours was provided, which amount to 27 hours per employee on average.

Building our Future Management

As part of our long term vision, IAI has established a unique program for the development of our future managers' pool, by investing simultaneously in three dimensions:

01. Empowering HR personnel as business partners in their respective units and divisions, while establishing designated HR training programs to advance their skills-building.

02. As business leaders, current and locating candidates based on leadership, ethics, personal overall career opportunities

future managers at IAI require specific emphasis, from their potential to develop their capabilities in and project-based capabilities and expanding at IAI.

03. Diversifying HR services between units, internal a high standard work reinstate our "one

and processes to include employee transfers communications and more, so that we sustain environment and level of satisfaction and company" values.

HR personnel development

Managers development

Work routine as "one company"
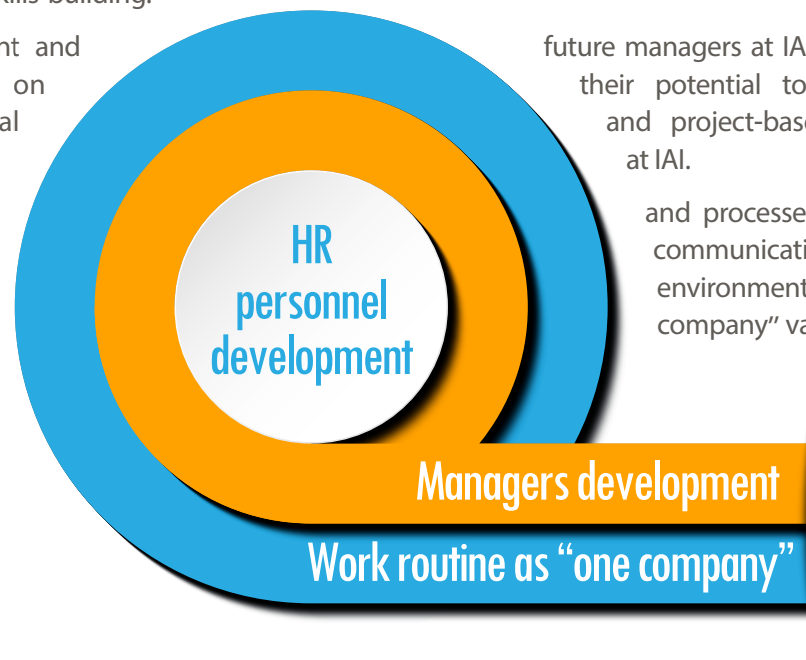
Empowering our Employees

Employees Benefit Plans

IAI's employee benefit plans and pensions are reported in the 2015 financial statement, Note 3 section (m), pages 38-40.

Medical Care and Coverage

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

Working Mothers

In addition to complying with all legal requirements (such as a paid, daily 1-hour off for breastfeeding), special attention is bestowed on working mothers returning from their maternity leave:

>> Designated working schedules for working mothers

>> Designated transportations for mothers of children up to 8 years old, facilitating early pick-up from daycare and schools

>> IAI is sharing in daycare costs for employees with young children
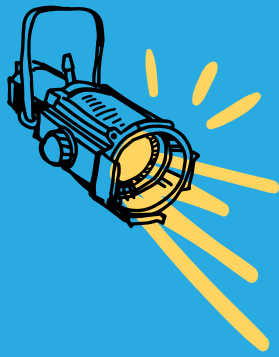
Employee Spotlight

The Chairman of IAI's Employees' Organization

Material Aspect

Ehud Noff, the current chairman of the employees' organization, believes that all employees should enjoy equal rights, regardless of their seniority, so that IAI will remain an attractive and caring workplace.

Our strength originates from the unique labor relations established between the Employees' organization and IAI's management. As a trade union linked to the Israeli general federation of labor, the organization is representing all IAI's employees on work issues, covering four sectors: manufacturing, engineers, technicians, and administration workers. IAI employees' organization operates 29 different committees, focusing on a multiple interests of our employees and their families. The employees' organization supports the employees throughout their working years at IAI.

In 1979, a collective agreement was signed between the management and the employees' organization, including an extensive pension program and the establishment of designated committees to support the employees and their families' wellbeing. Since then, the relationship between the management and the employees' organization's chairmen is based on a continual cooperation in many aspects. It is important to note that no work disruptions occurred in the last 25 years in IAI. Noff adheres to his predecessors' principles – using the power of the employees' organization for the company's good and progress toward higher peaks of innovation and growth.

Many initiatives that began in IAI impact the general Israeli economy, such as restoring lost rights under the nursing care insurance plan, currently reviewed by the government. These cases demonstrate social responsibility thinking in the broadest sense.

The employees' organization is focused on maintaining IAI's economic strength and supports the development of advanced systems.
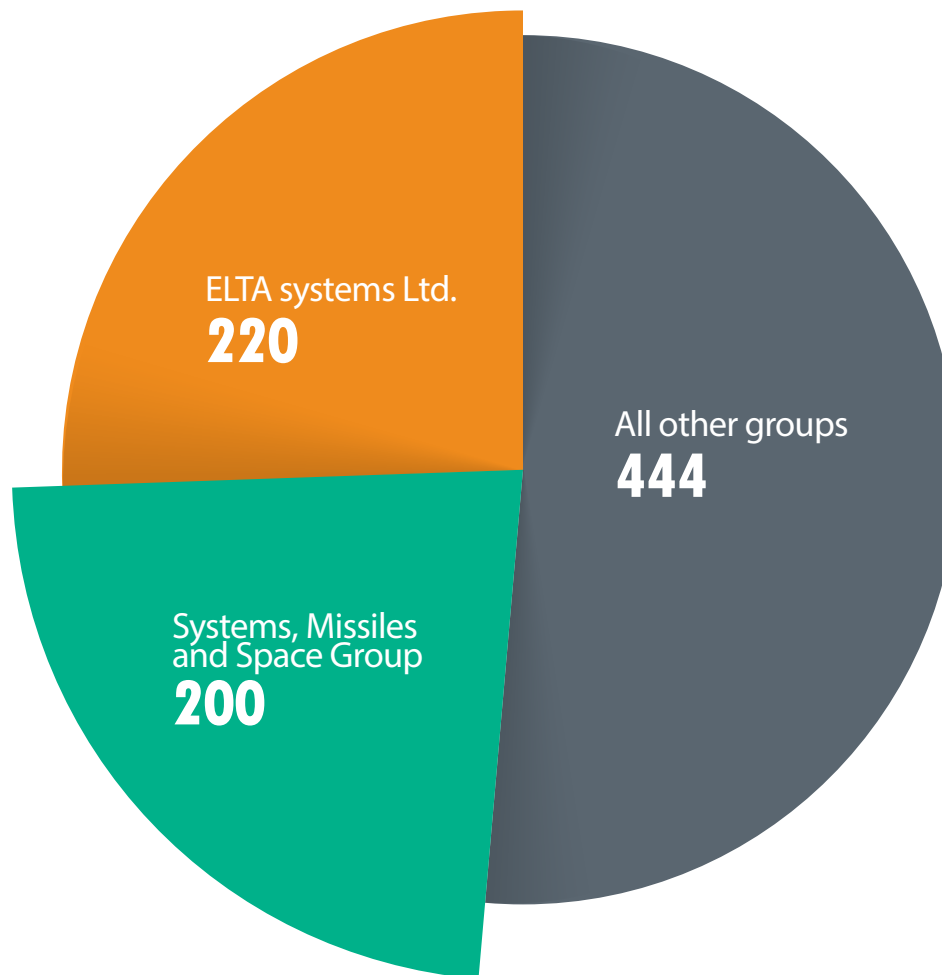
Organizational Transitions

G4-LA1 | G4-EC3

New Employees

In 2015, IAI has welcomed a total of 864 new employees, 66.1% men and 33.9% women, out of whom 409 are students, and the rest are on various types of employment contracts. The balance between the number of retirees and new employees stood on 112 workers.

ELTA systems Ltd.
220

All other groups
444

Systems, Missiles and Space Group
200

Organizational Transitions
G4-LA10 | G4-EC3

Retiring from IAI

IAI has an extensive program for its retirees covering both early- and age-based retirement, aimed to ensure a smooth transition to their new life phase, including:

>> 4-day retreat for the retirees and their spouses, covering lectures and workshops around the impact of retirement on family life, retirees' social security rights, savings and pension, rights reserved specifically for IAI retirees and ways to maintain contact with the company, volunteering opoortunities, impact on relationships, health care, etc. Top management representatives join some of the sessions for Q&A – the company's President and CEO, the chairman of the employees' organization, the Company's Executive VP HR and others. This program was attended by 99% of our retiring employees in 2015.

>> A retiree club, open to all retiring employees, where they can access specific guidance, as well as continue enjoying activities such as arranged tours, travels and courses.

>> A newsletter is issued periodically to all retirees, keeping them up-to-date with all the company's latest news and stories.

Knowledge Management and Transfer

Successful technology companies constantly compete to develop, design, and manufacture less costly products, with increasing sophistication. Inherent to this is the accumulated knowledge existing throughout the organization. This information base is complex, eclectic, and usually company specific, making knowledge management essential. As IAI faces the retirement of many of its workers from the LAVI fighter generation, preserving their accumulated experience and know-how is crucial.

The sustainability of an organization is reinforced by systematic knowledge management, through:

>> Empowering employees with specific expertise and recognizing their accumulated experience

>> Creating accessible knowledge assets (R&D reports; intellectual property such as patents; company specifications and design guides or trademarks)

>> Building a network of interdisciplinary associations within the organization and establishing learning communities based on these associations

>> Encouraging knowledge sharing

>> Making use of mentoring and training where appropriate

>> Generating means of classification, cataloguing and access to organizational data

>> Making the company more resilient and agile in facing internal transitions such as retirement and the intake of new employees.

Since 2015, IAI's Chief Knowledge Office is headed by a senior engineer and is overseen by the Executive VP of Operations and an Organizational Knowledge Committee, in cooperation with Human Resources and the Security personnel responsible for enforcing information security. A holistic approach was adopted with a specific methodology for dealing with engineering know-how.

Four critical questions are to be asked regularly by managers throughout the company:

>> Do we know what we know?

Information required by a unit or project team may often already exist in a different unit within the company. Developing simple mechanisms for data search and sharing through cross-organizational forums and the company's INTRANET may save time, money, and resources.

>> Do we know all there is to know?

This begins with the most basic indentification of what one needs to know in order to achieve the desired results. Do we know where to look for information, both within the company and from external sources?

>> Is knowldge missing? if so, do we know who to ask?

We need to be able to identify focal-points of accumulated knowledge and personnel with specific expertise and experience, who can be consulted whenever necessary.

>> Are we able to reconstruct accumulated knowledge?

By making data readily available and accessible in real time, knowledge attrition can be prevented or at least minimized. Implementing processes for transferring knowledge from personnel with a critical know-how and approaching retirement can assist in the long-term preservation of information. This knowledge must be stored in such a form that it is available for cross-referencing from the overall company database.
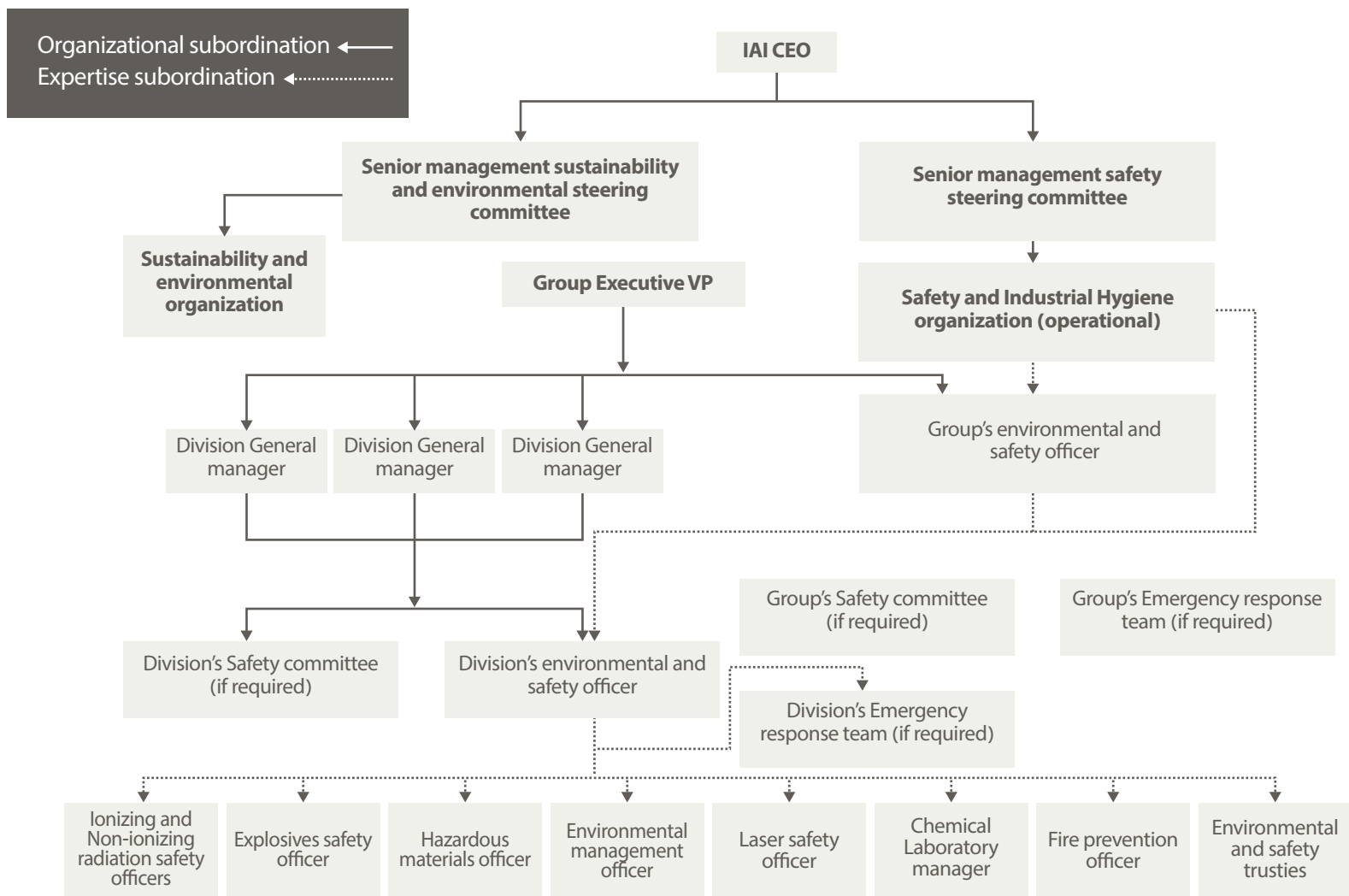
Occupational Health and Safety

G4-LA8

Occupational Health and Safety Management at IAI

IAI's Safety, Health and Environmental issues are operationally managed by all levels in a matrix responsibility and reporting organization, and overseen by a Senior Management Steering Committee.

Occupational Health and Safety

G4-LA5 | G4-LA6

Expert Safety, Health and Environment committees were formed to establish specific guidance and training requirements for issues identified as major aspects. These include: establishing safety procedures and work instructions, compliance to laws and regulations, environmental management, hazardous materials, contractors safety, aviation safety, explosives safety, noise, electromagnetic radiation, ionizing and laser radiation, elevation tools, electricity and electrical tools, construction safety, ergonomics, personal safety equipment, accessibility, event safety, maintenance safety, microwave products development safety, catering and food safety, cleaning safety, chip processing safety, production route card and handling of general hazards.

Compliance with OSHAS 18001

All IAI's operational divisions own valid business licenses and OSHAS 18001 certifications. The company has enlisted with an online service for safety and environmental laws and regulation updates, and all divisions maintain annual safety and environmental programs based on ISO 14001 and OSHAS 18001 guidelines. The Safety Management System (SMS) is run for continuous improvements with periodic surveys and management reviews, and a designated annual budget committed by all division managers.

The Budget covers:

>> Training and refreshers

>> Monitoring, sampling and control requirements

>> Periodical reviews and checks of facilities and equipment

>> Medical checkups

>> Potential Hazard corrections and ongoing infrastructure maintenance

The divisions' safety committees comprise of 50% management and 50% employee representatives from the employees' organization. The safety and occupational health issues are handled on an annual basis as part of the company's safety plan are also derived from the joint collective agreements between management and the employees' organization.
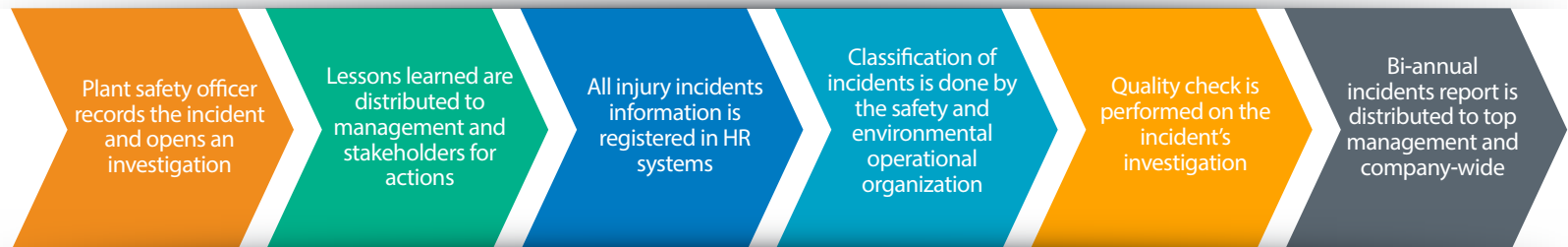
Table: Number of accidents and employees' absence days due to either injury or sickness

Group	No. Accidents	No. Absence days
BEDEK Aviation	36	881
ELTA systems Ltd.	16	540
Engineering and Development	6	88
Systems, Missiles and Space	17	523
Commercial Aircraft	21	906
Military Aircraft	10	388
Headquarters and Supporting Units	9	151
Total per 1000 Employees	**7.3**	**221**

Occupational Health and Safety

Incidents Investigation and lessons learned

IAI is operating an in-house software application for collection and record of all safety and environmental incidents, including those involving contractors. A systematic approach is practiced to ensure corrective actions, learning and further improvements can be gleaned from each incident:

| Plant safety officer records the incident and opens an investigation | Lessons learned are distributed to management and stakeholders for actions | All injury incidents information is registered in HR systems | Classification of incidents is done by the safety and environmental operational organization | Quality check is performed on the incident's investigation | Bi-annual incidents report is distributed to top management and company-wide |

Contractors and Suppliers Health and Safety

The IAI includes Occupational Health and Safety practices clauses in all contracts. Information regarding these aspects of supply chain will be presented in future reports.

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 exists managing all transportation requirements, ensuring adherence to traffic laws and regulations, performing traffic accidents investigations and follow up traffic accidents and speeding incidents, and continually improve our transportation systems. The major improvements in 2015 included: blocking dangerous parking spaces, updating signed sitemaps at all sites, extensive planning of new parking spaces, training traffic officers throughout the company, assimilation of On the Job (OJT) e-learning, record and control of all driving-related incidents in the SAP system and establishment of an internal unit responsible for enforcement of traffic laws. The organization completed a pilot certification to the ISO 9301 Traffic Safety Standard. TRAFFILOG, an INTRANET-based system is used to document and record events of exceeding allowed speed limits. Car damages and traffic accidents are documented and investigated to ensure learning and implementation of corrective actions takes place.

in 2015, 30 traffic accidents and 1 pedestrian injury were recorded within IAI's facilities.

Our Flagship Social Program

G4-SO1

**Material Aspect**

Technological Education

Towards the end of 2015, a multi-disciplinary steering committee led by our VP for Human Resources, inaugurated a new flagship social program. This new strategy was set to unify the long standing community involvement and volunteering initiatives throughout the company. The program is designed to implement a company culture encouraging a social commitment to values shared by the community and IAI and its employees, while maintaining ongoing community relationships wherever we do business.

The committee has set a target for annual employees volunteering hours' division between two major objectives:

Supporting
weakend communities
in need

25%

75%

Technological
education
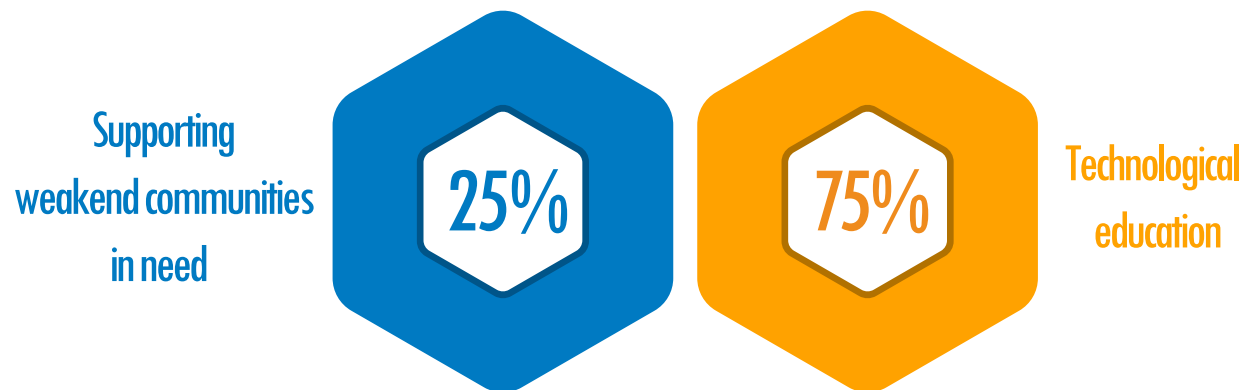
We feel it is our national obligation to promote the next generations' aptitudes in technology, sciences, cyber and space – both in commercial and in military applications. As a leading high-tech company with a critical body of knowledge, experience, and creativity, we feel that developing a successor generation that will lead Israel and IAI to new horizons is a true win-win.

In addition, we wish to continue our dedication to the needs of the communities adjacent to our operations, and connect with less opportune people who may benefit from our support.
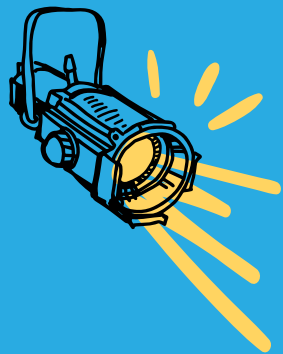
Employee Spotlight

ORT IAI High School Principle

In 1963, IAI established a vocational school in Lod, in order to realize an educational vision – allowing youth to receive a diploma and gain a profession. The school is part of the national ORT school chain spread throughout Israel. This unique model combines conventional studies with a weekly day of practical employment at the IAI's Hi-Tech production facilities. Out of 3,600 graduates to date, 1,200 alumni have returned to IAI as employees, and about 1,200 developed careers in other aerospace-related companies. In 2015, about 70 students continued their studies beyond the 12-year requirement, to achieve a technician or practical engineer degrees prior to their military service.

The school's training is based on three specializations: Aircraft Mechanics, Electrical and Electronic Systems and a newly developed expertise in Unmanned Aircrafts. These fields of expertise enable the students to smoothly integrate in the Israeli Air force. A New initiative is planned to establish an innovative learning campus to serve the future educational needs of the students.

IAI fully supports the operational and educational aspects of the school, from arranging daily transportations and catering, to giving frontal lectures, tours and practical lessons in the different divisions, as well as assisting students through English and Mathematics private lessons. The students are also being compensated on their weekly employment, including all social allocations. IAI's involvement helped turn the school into one of the leading industrial schools in Israel.

Mr. Yehuda Horev, the current School principal, embarked on his mission in 1989 and returned to the principle role after a 10-year interval, with a strong belief that no youngster should be left behind, and having faith in these students is the driving force behind their success. He takes great pride in the students' motivation to give back to the community – from volunteering in a rehabilitation factory, which employ youth with special needs, through home improvement initiatives in weakened population areas to instructing IAI's retirees in computers and the Internet.

Our Flagship Social Program

Women Engineers of Tomorrow

The "Women Engineers of Tomorrow" project was launched towards the end of 2015, to address a pressing national need to develop and expand Israel's workforce with technological and engineering skills. One way to reach this goal is to increase the number of female students studying and working in these fields, starting from high school. IAI has selected 100 outstanding high school girls who chose technology and sciences as their major, and offered them a unique experience designed to encourage them to keep the STEM (Science, Technology, Engineering and Mathematics) route in their future careers.

Following an opening ceremony attended by the Minister of Education, The girls came to our facilities once a week for 3 months, from all over the country. They became acquainted with the company, met leading women from different technological fields and worked on a range of engineering projects and challenges, alongside 22 women engineers of IAI who accompanied them as mentors.

The girls devised feasible technological solutions to known challenges: accessible seats for the disabled in airplanes, landing small and sensitive cargos based on Bio-mimicry principles, preventing "forgotten baby syndrome", locating and preventing the presence of foreign objects in aerospace manufacturing lines, designing aircrafts for single travelers, flying unmanned aircraft, providing 3D-printed supplies in real-time, etc.

At the end of the project, the prototypes and business ideas were demonstrated in the presence of the girls' families, IAI employees and management, as well as the Israeli minister of defense.

A team of one mentor and three of the participating girls traveled to the UN and presented their innovative solutions at a special event organized by the Israeli ambassador to the UN, Mr. Danny Danon. The event was attended by the UN Secretary-General's Envoy on Youth, Mr. Ahmad Alhendawi of Jordan, and the Assistant Secretary-General and Chief Information and Communication Technology Officer Ms. Atefeh Riazi of the USA, as well as guests from the local Jewish community and other embassies.

The message that these girls received in this project was clear: you are young, but you can overcome challenges and build an incredible future of excellence and outstanding achievements. We hope the experience the girls went through will inspire them to continue and pursue their careers in science and technology, paving the way for the future generation of Israel's female engineers and scientists.

ברוכות הבאות

מהנדסות העתיד

IAI ynet

Community Involvement and Volunteering

G4-SO1

IAI employees are continuously involved across our sites in Israel in numerous activities. The complete majority of our community operations were implemented by local community engagement and development programs based on assessments of local communities' needs. In 2015, over 500 employees were involved in volunteering projects; about 8,000 food packages were donated to families in need during Jewish holidays (Hanukah and Passover).

Technological Excellence Projects

Pupils from 14 Junior and high schools across Israel were tutored by IAI employees, exposing them to technologies in production, engineering, aviation and space, as well as systems assembly, mechanics and chip processing. The focus and length of the programs varied– from weekly mentoring and private lessons through bi-weekly lectures and workshops to quarterly tours within IAI's facilities. The goal of these activities was to inspire the youth attending all types of classes - from excellence to vocational - to choose a STEM career in the future and empower them to trust their abilities.

A total of **3,814 volunteer hours** was provided in Technological Excellence projects during 2015.

Aid to Weakened Communities and Individuals and Groups with Special Needs

The majority of weakened community outreach projects were carried in local communities in the vicinity of our operational sites in Israel.

The activities were versatile – from celebrating BAR MITZVA (for boys) and BAT MITVA (for girls) in families who cannot afford it, through collection of school supplies, to renovation of community buildings and kindergartens. From providing arts and crafts workshops for the elderly, through engaging youth at risk in afternoon sports initiatives, to picking excess agriculture produce for distribution, and training families in debt on how to better manage their family budgets. In addition, many of our employees who volunteer with disabled individuals or groups find it motivating to use their professional know-how in developing viable technological solutions, making the daily lives of the physically handicapped much easier. Other endeavors include the employment of special needs workers at electronic waste recycling sites, and joint celebration of the Jewish holidays in various centers for populations in need throughout the country.

A total of **8,797 volunteer hours** was provided in aid to communities and individuals with special needs during 2015.
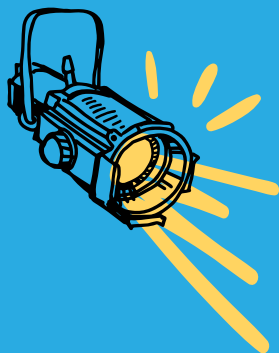
Initiative Spotlight

The IAI's Prisoner Program at Zalmon Prison

The Aircraft wiring training program led by IAI's LAHAV division from the Military Aircrafts Group, in collaboration with the Israeli Prisons Service at Zalmon Prison, is one of the long-standing social initiatives in the company. Since its initiation in 1998 with just 13 prisoners, the program motivated the trainees to learn a profession in demand, on which they can rely on once their prison term ends. The course, described by prisoners as "Our Flying Course," is taking place within the prison walls in a specifically designed learning space (that was expanded over the years to accommodate up to 70 participants in each course) and lasting five months. On average, each course is attended by 25 trainees. To date, 12 courses were completed, including over 300 prisoners.

At the end of each course, a graduation diploma is awarded and the graduates start to work in the manufacturing line within the prison. The prisoners feel the that program has opened a new way of life for them and empowers them to stay away from their criminal past.

PART 3

Corporate Governance

Corporate Governance at IAI

G4-DMA | G4-34 | G4-38

Material Aspect

IAI's Corporate Governance Structure

Israel Aircraft Industries ("IAI") is a private corporation wholly owned by the State of Israel, (i.e. a Government Company as defined in the Government Companies Law – 1975 (hereinafter – "the Government Companies Law")). In 2007 IAI conducted its first public offering of debt and became a reporting corporation. The Government Companies Law stipulates various instructions and corporate governance rules which are effective 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 method of their appointment, Directors' compensation, and rules ensuring the accuracy of the financial statements and the Director's Report. The rules of the Companies Law -1999 (hereinafter – "the Companies Law") apply to the Company subject to the rules 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).

As it is a "reporting corporation" the Company is also subject to the rules of the Securities Law – 1968.
IAI applies corporate governance principles in accord with its standing as a global company, active in the defense and global aviation sectors.

The regulatory body to which IAI is subordinate is the Government Companies Authority. The Company maintains current communications with the Government Companies Authority, inter alia, through a representative of the Authority who is present at meetings of the Company's Board of Directors.

The Company's Board of Directors and its Committees

Company's Board of Directors is responsible for outlining the Company's policy and for supervising its management's activities. The Company's management is in charge of implementing these policies in practice and for reporting to the Board of Directors.
In 2015 the following Board of Directors' committees were active: (I) Financial Statements and Investments Committee, (II) Audit Committee, (III) R&D and Strategy Committee, (IV) Sustainability, Corporate Governance and Advancement of Women Committee, (V) Commissions Committee, (VI) Remuneration Committee and Personnel Committee.
The Company's Sustainability Committee was established in 2012 (currently the Sustainability, Corporate Governance, and Advancement of Women Committee). In 2015 the Committee was comprised of two Directors. The committee's responsibilities regarding sustainability and corporate governance are – corporate responsibility; corporate governance; sustainable development; and internal enforcement of the securities laws. In 2015 the Committee held three meetings.
Members of the Board of Directors of the IAI are appointed by the Minister of Defense and the Minister of Finance in consultation with the Committee for the Examination of Appointments of the Government Companies Authority. Candidates for Directors in Government Companies are chosen from a pool of Directors identified by the Government Companies Authority as part of the "Directors Team" project launched in 2013. The candidacy and qualification of the Directors are verified by the Committee for the Examination of Appointments as detailed in the Government Companies Law.

Corporate Governance at IAI
G4-DMA | G4-38

Accounting and Financial Expertise

In accordance with Section 92 (a) (12) of the Companies Law, the Board of Directors of the Company 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.

Independent Directors

According to Sections 219 c and 239 of the Government Companies Law, at least two external directors are required to serve in a "debenture company." As of December 31, 2015, five independent Directors serve on the Company's Board of directors (two of whom are external directors).
Members of the Board sign a declaration verifying non-conflict of interests, and also undertake towards the Government Companies Authority, to refrain from conflicts of interest between their activities in the Company and their activities in other spheres.

Board of Directors' Diversity

On December 31, 2015 the Board was comprised of two women and six men, one of whom was from the Druse community.

Company Secretary

IAI's Company Secretary is responsible for the ongoing connection and coordination between the Company'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 between new directors and the Company. The Company Secretary is also responsible for the connections between the Company and the Government Companies Authority as well as for reporting to the Securities Authority.

Board of Directors Activities

In 2015, IAI's Board of Directors held 14 general meetings and 57 Committee meetings.

Environmental Risks management

The Company's Board of Directors is committed to a sustainable development and to an organizational culture which fosters corporate responsibility. As part of its commitment to sustainable development and in compliance with the instructions of the Government Companies Authority in this matter, the Company's management holds discussions in relation to planning and implementation of such matters. In addition, management reports specifically on these items to the Sustainability Committee of the Board of Directors. With respect to environmental risks and the management of such risks, (including statutory regulations related to decision making) see Section 22 of the Fourth Chapter of the financial statement of the Company (in Hebrew) for 2015.

Corporate Governance at IAI
G4-DMA

Corporate Risks Management

According to a circular of the Government Companies Authority dated June 11, 2009, a government company is required to establish an organized process for risk management, and to establish control mechanisms. Within this framework, the Board of Directors has a duty to establish risk management policies and to supervise their implementation. The Company has created and implemented such processes and updates these from time to time.

Management of the Internal Enforcement Plan in respect of the Securities Law

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

The Board of Directors and Approval of the Company's Financial Statements

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

Limitations and Supervision over the Company

With respect to the restrictions and supervision over the Company (including legal regulations regarding decision making, etc.) – see Section 23 of the Fourth Chapter of the Company's financial statements for 2015 (page 111, in the Hebrew version).

IAI's subsidiaries
Subsidiaries' financial statements and structure are reported to the Board of Directors.

IAI's Internal Audit
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.

Corporate Governance at IAI
G4-DMA | G4-14

Sustainable Risks Management

Material Aspect

In 2013, IAI underwent an extensive process of cross-organizational Enterprise Risk Management Assessment. The process was based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) enterprise methodology, taking into consideration the company's vision, strategic objectives and values. The process was in line with the Government Companies Authority instructions and IAI's senior management was deeply involved in the process, which was directly overseen by the Board of Directors. 17 different risk classes, including governance and environmental risks, were prioritized. The management has appointed the VP of Planning and Control to serve as Chief Risk Officer, directly reporting to IAI's CEO and Board of Directors' Risk Committee on risk identification and mitigation plans. Furthermore, IAI's annual internal auditing plans take into account prioritized risks throughout the company.

As an outcome, an in-depth assessment was done on governance and environmental risks, aiming to link the company's risk management to more efficient mechanisms of planning, operating, measuring, and reporting in a sustainable way. In addition, the process took into consideration the changing regulatory environment and the Israeli Sustainable Development Guide to Governmental Companies - 2013. The assessment report continues to serve as the basis for the annual work plans of the Sustainability and Environment Organization, closely monitored by the Senior Management Sustainability Steering Committee.

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

Precautionary Approach in Action

The Sustainability and Environment Organization continuously tracks and analyzes sustainability risks to IAI's operations, leads mitigation efforts with group and division managers, and seek to leverage environmental, social and economic opportunities as part of our sustainability policy. Major sustainability risks are reported to the Senior Management Sustainability Steering Committee, and in relevant cases, to the Board of Directors Sustainability Committee, to ensure an appropriate response.

Corporate Governance at IAI

Crisis Management and Business Continuity

Material Aspect

IAI has embedded clear procedures and work instructions to ensure continuous operations and projects in cases of potential, unexpected and severe incident occurrences, such as earthquakes, cyber or terror attacks or major fires. By defining and creating effective response processes during an incident, utilizing trained emergency response teams from within the company, and employing rehabilitation strategies and crisis management methodologies when necessary, IAI is ensuring the survival and continuous functioning of its core critical processes in: human resources, supply chain, facilities, organizational key members, materials management, technology development, communications, information and Records and Security.

Cyber Defense

Material Aspect

IAI is a target of cyber threats in the virtual world and cyber space. From foreign governments to cyber activists, Hostile hackers continuously look for creative ways to disrupt routine operations, corrupt and steal essential data and perform industrial espionage for their benefit. With skills and technology already widely in use at MAMAN, IAI's IT and computing systems division, a new center for cyber defense was established in 2015, aiming to ensure optimal information and cyber security for IAI's computing and network infrastructures.

The Cyber Defense Center relies on MAMAN's technological know-how and vision, combined with its technical operation and control to effectively defend IAI from information security and cyber threats. The Cyber Defense Center main objectives:

>> Proactively monitor IAI's computing and network infrastructure for cyber events

>> Reacting to cyber events and managing cyber war room for all IAI's divisions

>> Providing real-time cyber situation awareness system to different stakeholders

>> Utilizing advanced cyber research and forensics lab for threats, anomaly threats and Zero Day Attacks

>> Incorporating cyber intelligence feeds to early-warning and actionable enforcement

>> Complying with international security standards such as ISO 27001 (Information Security), ISO 27032 (Cyber Security), NIST (American Information and Cyber Security) and more

An innovative system named CyberEye is utilized, to give a real-time analysis of cyber-attacks on IAI's computing and network infrastructure at any given moment, based on big data and advanced cyber analytics technology.

Code of Ethics
G4-56

IAI's Code of Ethics is the system of rules, principles, and procedures by which we define appropriate and acceptable behavior. The Code dictates a high standard of conduct by measures of integrity, fairness, and morality. IAI is requiring its managers and employees, through training, company procedures, work instructions, and supervision, to behave according to the code on a daily basis. The code of ethics is available on our website, and its training materials are available through the company's INTRANET. A refresher course is conducted once every two years, and is mandatory for all employees. It reviews different topics from the code, such as conflicts of interests, illegal benefits, employees' maltreatment, sexual harassment, environmental responsibility and more. Since its launch in 2015, a total of 14,068 employees, 89%, have completed the web-based Code of Ethics training.

IAI is encouraging its employees to voice their ethical concerns through designated Human Resources personnel or direct managers, particularly in cases that are not defined and clear-cut by law or the Code of Ethics.

The Code covers seven main topics:

1. Marketing and Sales
2. Quality, Sustainability, Environment, Safety and occupational Health
3. Employment and working relationships
4. Customers, partners, suppliers and owners
5. Conflict of Interest and illegal benefits
6. Protection of assets, privacy, information security and confidentiality
7. OECD compliance program

Internal Compliance and Anti-corruption

G4-SO4

Material Aspect

IAI manages its business activities while complying with the laws of the State of Israel and the laws of other countries in which it operates, and is committed to running its business with integrity, fairness, reliability, and professionalism. IAI has integrated and implemented a compliance program to prevent bribery of foreign public employees and updates such compliance program from time to time. As part of the program a Company Compliance Officer was appointed, approved by the Board of Directors.

In 2015, 800 employees were trained via e-learning and 500 more employees were trained in frontal classes on anti-corruption. All participants were managers with any relationship to foreign customers, such as marketing, contracts, financial and more.

In a 2015 report on DEFENCE COMPANIES ANTI-CORRUPTION INDEX, published by Transparency International UK, IAI was noted as one of three companies which improved significantly compared with 2012 results (from band F to band C). Moreover, we were ranked among the five companies in our geographical region as top scorers in public information on:

>> Leadership, governance and organization

>> Risk management

>> Company policies and codes

>> Anti-corruption and bribery prevention Training

Compliance with the Laws and Regulations

G4-EN29

Material Aspect

IAI's sustainability program is founded on our uncompromising commitment to comply with all the laws and regulations applicable to our operations and businesses. With a multitude of processes, transactions and company activities, we are required to adhere to numerous legal requirements on a daily basis. Specifically for our environmental, occupational health and safety requirements, we have installed an online system in order to ensure effective controls and compliance with their most up-to-date versions.

The online system allows us to receive timely updates of current and future legal requirements, so that we can implement readiness plans in advance.

In the event that non-compliances are identified, senior management is informed and corrective actions are taken.

Furthermore, and whenever appropriate, the event or issue is reported to our Board of Directors and/or external auditors and, if the relevant criteria are met, disclosed to the public.

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 regarding our 2015 environmental performance.

Strategic Sustainability Memberships and Alliances

G4-15 | G4-16

IAI regularly participates in and contributes to various associations, forums, and alliances to broaden knowledge-sharing and identify collaborative opportunities in areas associated with sustainability, as well as with our professional expertise.

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. Some of those associations are: the Manufacturers Association of Israel (professional and environmental groups); the Standards institution of Israel; the Israeli users' association of advanced technologies in High-tech integrated systems (ILTAM, professional and environmental groups); the Israeli Institute of Energy and Environment; MA'ALA association for corporate social responsibility, etc.

International Aerospace Environmental Group (IAEG)

IAEG is a Trade association formed by major international aerospace companies, focusing on its members' preparedness to future laws and regulations regarding health and the environment in the global A&D sector (civil and defense). The association is advancing mutual efforts in transforming the A&D value chain to becoming more sustainable, to reduce potential risks and make aerospace products more environmentally-friendly. As sole Israeli participants in this association, IAI is involved in various working groups, such as Chemicals disclosure, Harmonized supplier questionnaire, and Green House Gases (GHG) sector guidelines.

International Transparency (IT) and Society of Corporate Compliance and Ethics

As an expression of our intent to practice good ethics and demonstrate more transparency, IAI chose to become a member in two international associations that assist organizational compliance officers in maintaining and upping the company's performance on these critical issues.

Quality Management and Voluntary Standards

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 manufacturing divisions own a valid AS9100 certification issued by the Israeli Standard Institute (SII). All other IAI's operational entities hold an ISO 9001 certification.

LEVEL-5 Capability Maturity Model integration for Development (CMMI-DEV)

The CMMI-DEV, developed at Carnegie-Melon University, consists of a structured collection of best practices in process areas such as Project management, Engineering, Organizational process areas and Support areas (e.g. Quality Assurance and Configuration Management). A special appraisal method, SCAMPI, is used to measure the level of compliance of the processes employed in an organization to the practices in the CMMI model. This level of compliance is called Maturity Level and rates from 1 (lowest) to 5 (highest). IAI implements continuous process improvement effort based on the Capability Maturity Model integration for Development (CMMI-DEV) since 2002. Currently, the Systems, Missiles and Space Group, as well as ELTA Systems Ltd. group, the Unmanned Aircraft division and the Engineering division are all rated at maturity level 5 of the CMMI-DEV model, and Lahav division is rated at maturity level 3. IAI organizations that implement CMMI-DEV based process improvement efforts undergo a formal SCAMPI-A CMMI appraisal every 3 years, and, in addition, 1-2 informal SCAMPI-B appraisals once a year, to ensure that their development processes are implemented properly, meet the CMMI model expectations, and to come up with new improvement opportunities.

Quality Management and Voluntary Standards

Environmental Management System ISO 14001

All IAI's divisions own a valid **ISO 14001 certification** issued by the Standards institution of Israel (SII). For more details, please refer to the environmental management section (see page 76) in this report.

Safety Management System OSHAS 18001

All IAI's divisions own a valid **OSHAS 18001 certification** issued by the Standards institution of Israel (SII). For more details, please refer to the safety management section (see page 52) in this report.

MALAM division Diamond Mark

PART 4

Environmental Management

Environmental Management at IAI
G4-DMA

Material Aspect

Environmental management and practices at IAI were first initiated in the mid 1980's, mainly toward increased employees' safety and improved handling of hazardous materials and waste. In 1994, a Steering Committee for Environmental Management was established, and initiated a thorough assessment of the company's operations and their impact on the environment. Following this meticulous review, the first environmental management policy was defined and the company began to measure and set goals for continual improvements. Today, with all of our manufacturing divisions certified to ISO 14001 standard as a basic practice, IAI is continually monitoring its environmental impact and strives for effective energy, air, water, sewage, and waste management while cooperating in confronting the challenges faced locally and globally by the A&D industry.

Environmental Challenges in Aerospace and Defense Industry

Flying allows human beings to fulfill one of the basic human rights as defined by the UN – the freedom of movement and accessibility. These are required so other rights can be met – establishing relationships, fair trade, competitiveness, equal opportunities, safety, etc. These social benefits need to be guarded and enhanced, when developing new solutions.

Aircrafts today generate environmental costs by relying exclusively on fossil fuels, a non-renewable energy source with a geopolitical sensitivity and significant emissions of air pollutants and greenhouse gases. The manufacturing, operation, maintenance, and scrapping of aircrafts present considerable environmental footprints. In addition, global material scarcity is a growing concern for continuous manufacturing, alongside tighter regulations, causing numerous raw materials to be phased-out by the industry.

IAI is joining these efforts through meticulous environmental management and by developing new solutions for aircrafts – from lighter composite structures that will reduce fuel consumption and cause fewer emissions, to choosing materials which are easier to reuse or recycle. We look forward to reaching new horizons by our participation in initiatives such as the European Union Horizon 2020 program, and the joint industry guidelines and solutions developed by IAEG (see page 71), as well as by keeping our own commitment to develop environmentally-friendly products, such as the TaxiBot.
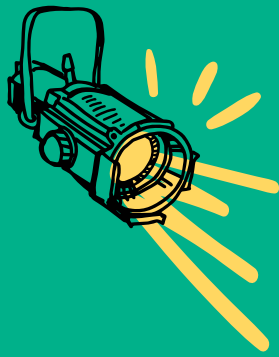
VERED Green Building
Initiative Spotlight

In 2015, MALAM division, from the Systems, Missiles and Space Group, completed their new Engineering building. The building design and construction were based on the **Israeli Green Building Standard 5281.** The 6,500 square meter construction was designed to serve various functions (offices, laboratories, training and manufacturing spaces), as part of the "Green Route" that was planned along the main transportation road at the site. The following elements were implemented as part of its design:

>> The building is located over a Brownfield that held an old industrial building from the 1950's. About 75% of the construction waste was recycled, mostly metals and cement.

>> The basement floor is naturally lit.

>> Extensive use of transparent glass was done internally, to create an open space full of light. The center of the building includes a set of glass elevators.

>> The building is modular, repetitive in structure and radial, which enabled an easier and faster construction phase, thus minimizing additional pollution and waste.

>> All construction and furnishing materials are Israeli-made, about 25% of which are recycled. Alternatives were used only when there was no available Israeli source.

>> The building exterior was designed with double insulation to prevent energy loss and allow the entrance of maximum light.

>> The ceilings are acoustic with a Noise Reduction Coefficient (NRC)>0.9 (over 90% of the noise is absorbed), recyclable and fireproofed.

>> The electricity usage, boilers, and air conditioning systems are fully measured and monitored 24/7 for energy efficiency and optimization. Motion detectors allow light and AC unit shutdown in currently vacant areas. The system also sets the level of lighting required based on natural light intensity. Moreover, the systems follow a pre-set shut down twice during the work day to prevent unnecessary use.

>> All external pavements are made from permeating tiles, allowing the permeation of rain water into the ground.

The building is crisscrossed by an array of roads, walking paths, gardens, and roundabouts, including a prominent shade tree boulevard and ornamentation shrubbery. This contributes to the employees wellbeing and their motivation to walk rather than use other means of transportation.

Energy
G4-EN3 | G4-EN6

Material Aspect

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 consumption of the dwindling quantities of non-renewable energy sources, responsible for air pollution and climate change. We feel that acting on energy consumption for both residential and industrial activities on our sites and, raising efficiency rates wherever possible are urgent commitments. Our vision is getting all our infrastructures (electricity, fuels, and natural gas) to operate in optimal conditions, maximum economic efficiency, and eco-friendliness. This requires efforts along several routes:

>> Design less wasteful processes
>> Operational efficiency to be improved through continual process analysis and implemented changes
>> Upgrading energy infrastructure by retrofitting wasteful consumers to efficient ones
>> Optimizing current capacities via smarter use by the consumers
>> Raising the awareness of employees to the impacts of their behavior on day-to-day energy consumption, and to making smarter choices in that regard
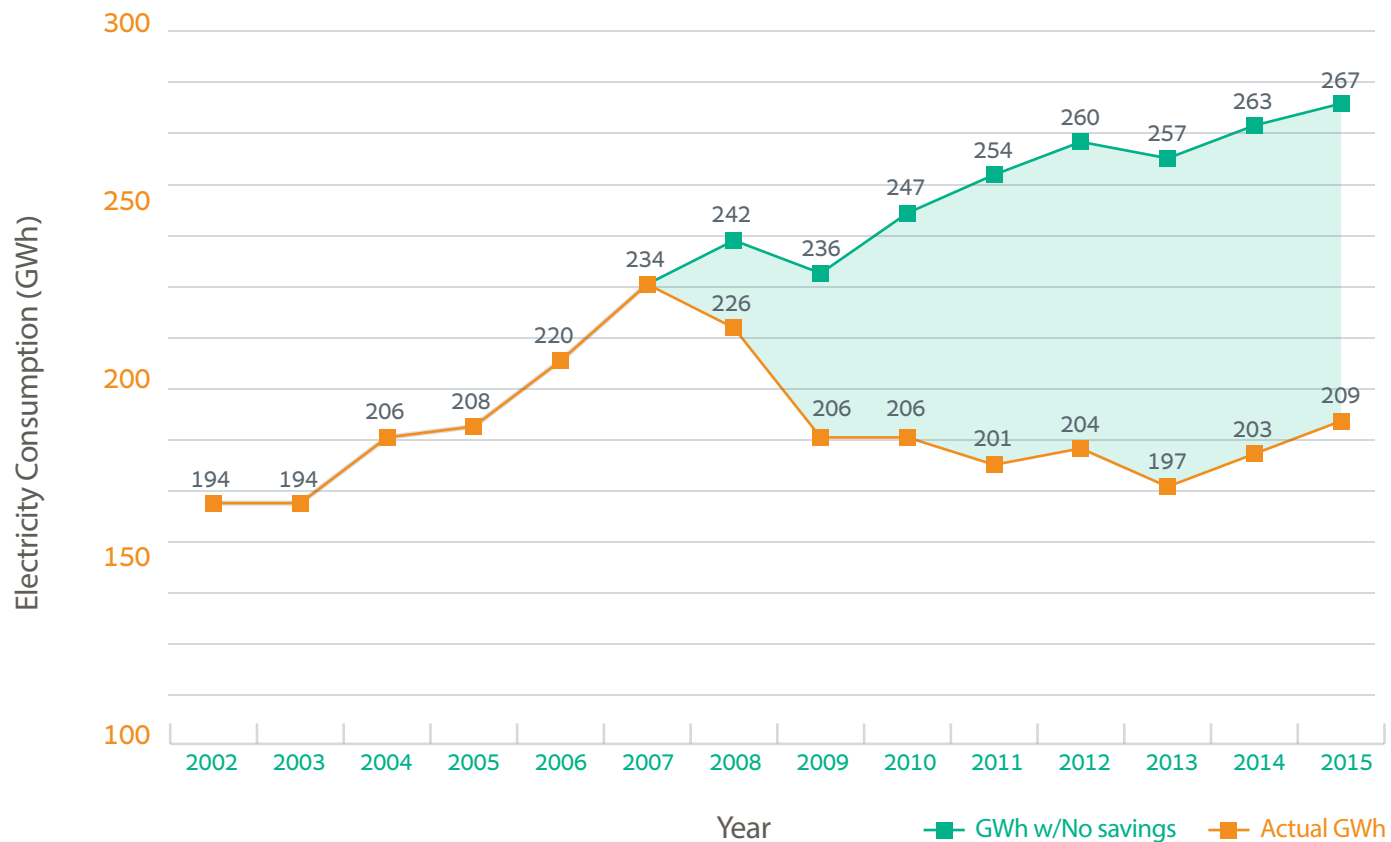
Each IAI division and some of the supporting units employ an Energy Officer, responsible for energy management, including data collection and reporting. Division managers conduct programs of energy efficiency, including replacement of inefficient HVAC, lighting and manufacturing processes. The divisions also train Energy Trusties 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.

Electricity Consumption

On May 2014, IAI has transferred all its electricity consumption to a private supplier, who is based 100% on Natural gas. 2015 was the first full year of this operation, which dramatically impacted our energy and subsequent Green House Gases (GHG) footprint (see page 82).
As of 2007, IAI established a continuous working plan to implement cross-organizational efficiency and saving measures. Since 2007, 23% savings were achieved with relation to the business as usual scenario, equaling to a total of 375 GWh.

Overall Electricity Consumption and Savings 2002-2015, in GWh

Chart data:

GWh w/No savings: 2007: 234, 2008: 242, 2009: 236, 2010: 247, 2011: 254, 2012: 260, 2013: 257, 2014: 263, 2015: 267

Actual GWh: 2002: 194, 2003: 194, 2004: 206, 2005: 208, 2006: 220, 2007: 234, 2008: 226, 2009: 206, 2010: 206, 2011: 201, 2012: 204, 2013: 197, 2014: 203, 2015: 209

Legend: GWh w/No savings — Actual GWh

G4-EN3 | G4-EN6

Some of the plan's major initiatives are:

>> IAI Energy standard definition: this internal standard aims to set specific lighting and air conditioning parameters for normal operations.

>> Energy waste identification: mechanisms were employed, such as company procedures and instructions, to ensure the identification of energy wasters and their elimination. For example: enhanced monitoring, patrolling, and periodical surveys.

>> Energy-efficient procurement: the procuring guidelines were updated to inform procurement and logistics personnel regarding the choice of energy efficient equipment.

>> INTRANET site for energy management: establishing cross-organizational sharing and management reviews via a single site.

>> ISO 50001: Certification of two divisions during 2015 – IAI's Industrial Services and MALAM from the Systems, Missiles and Space Group - for energy management, to be further expanded to other IAI divisions in the future.

During 2015, over 1,000 hours of training on energy supply and consumption were delivered to key employees, including division general managers, energy officers, and energy trustees. Over 2,400 lighting fixtures were replaced with energy-saving ones, bringing the total to over 22,000 fixtures replaced since the work plan began. In addition, the design phase of a new energy data center was completed for near-term execution.

Energy

G4-EN3

The total electricity consumed in 2015 was 752,140,084 MJ.
IAI did not sell any energy (electricity, cooling/heating or steam) during that year.

Other
75,214,008

Manufacturing
150,428,017

Heating/Cooling
368,548,641

Air compressors
60,171,207

Lighting
97,778,211
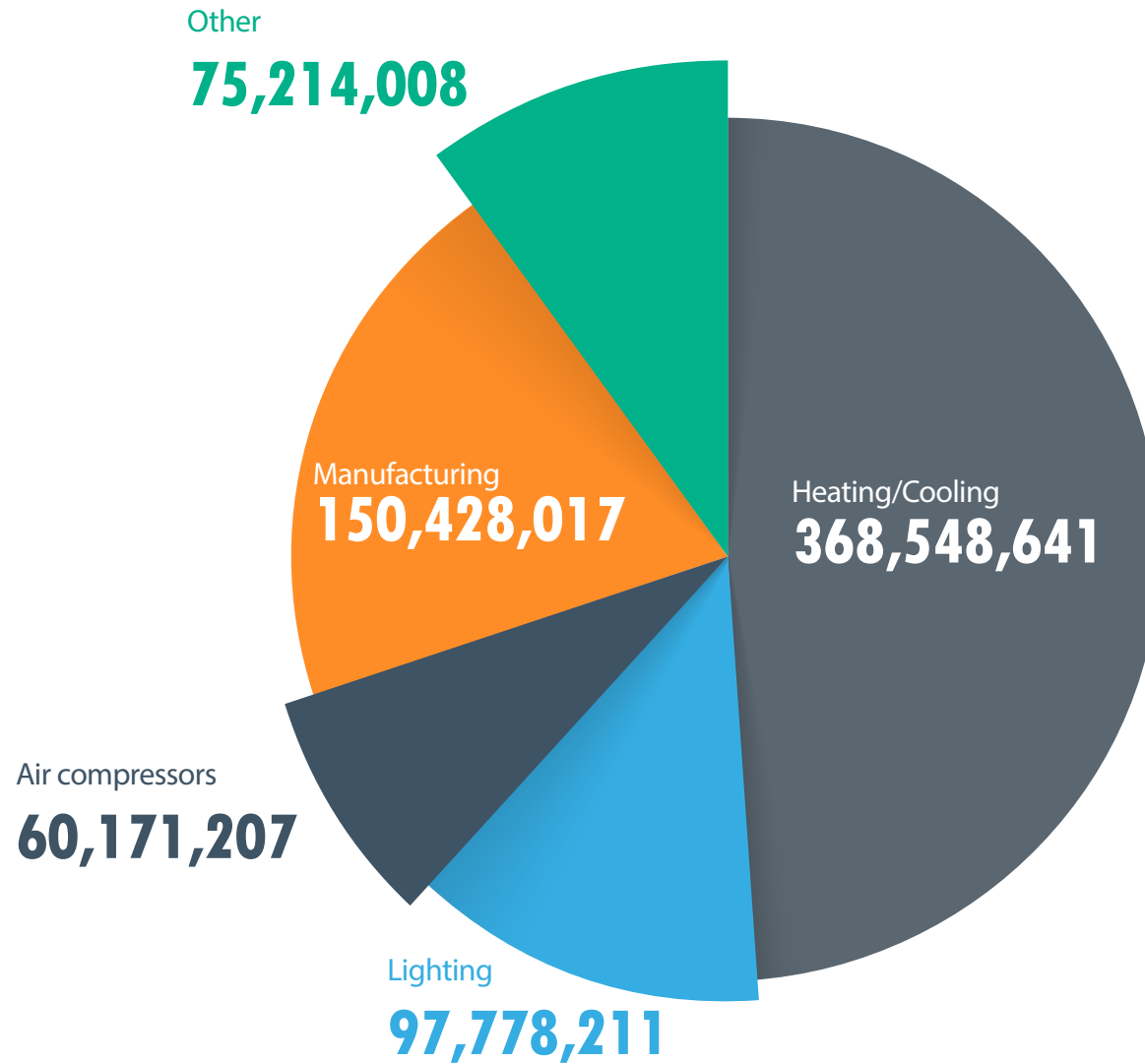
Electricity Consumption* in MJ

* Source used for data unit conversions: The 2006 Guide of the Intergovernmental Panel on Climate Change (IPCC).

Energy

G4-EN3

Fuel Consumption in Industrial Uses

Total fuels consumed in 2015 for industrial uses were 72,751,935 MJ. No renewable energy sources were utilized by IAI during 2015.

Liquefied petroleum gas **35,672,000**

Industrial Diesel Fuel **37,079,935**
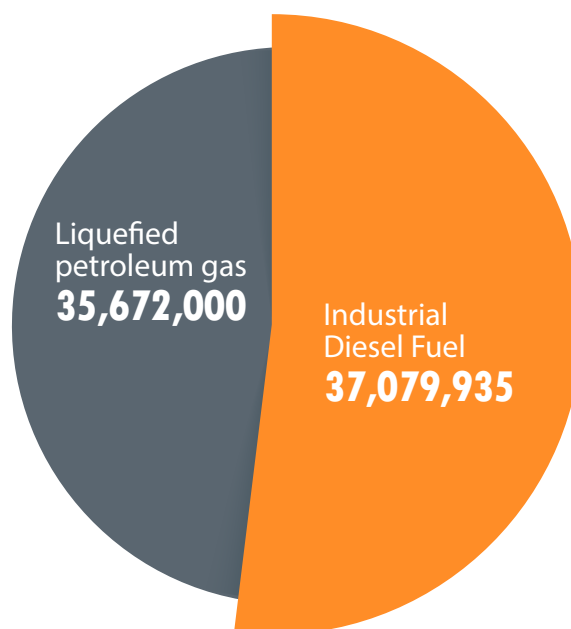
Industrial Fuel Consumption* in MJ

Fuel Consumption in Transportation

IAI operates a leased car fleet for its employees, as well as a fleet for short travel between its sites.

	Fuel Type	Y2015 Consumption (Liters)
Automotive	Diesel Fuel (50)	183,772
	Gasoline (95)	9,557,590
Aviation	Jet Fuel	3,417,000

Jet gasoline for aviation is divided into a minor consumption by the Business Jets division, under Commercial Aircrafts Group, and the main consumption of the BEDEK Aviation Group, for the purpose of returning their MRO aircrafts to customers overseas.

* Source used for data unit conversions: The 2006 Guide of the Intergovernmental Panel on Climate Change (IPCC).

Green House Gases (GHGs) and Climate Change
G4-EN15 | G4-EN16 | G4-EN18

Material Aspect

The year 2015 marked an important milestone in human impact on climate change, as the United Nations Framework Convention on Climate Change (UNFCCC) COP 21 summit convened in Paris, France. The commitment, signed by 196 state representatives, opened new horizons in the global front of climate change through issuing specific targets for Green House Gases (GHG) use minimization.

IAI's GHG inventory is complex, including all our operational sites and subsidiaries in Israel:

Source	2015 CO_2 equivalent emissions	% of total emissions
Scope 1: Direct emissions		
Stationary fuel sources (Industrial fuels)	4812	13
Mobile fuel sources (transportation fuels)	33,600	87
Total scope 1	38,412	100
Scope 2: Indirect emissions		
Electricity consumption	80,449	
Total scope 2	80,449	100

The sources included in the calculations were fuels for industrial consumption and transportation and our electricity consumption, based on 100% natural gas use by the electricity supplier. We anticipate that with the initiation of our new energy data center, the levels of data aggregation can be expanded and further used in future reduction efforts.

IAI is currently developing a cross-organizational program for carbon control, where a systematic full reporting on all our activities can be disclosed and opportunities for GHG minimization can be seized.

GHG Intensity

Our GHG intensity is calculated **per the total built area**, 823,755 square meters in 2015.
For scope 1, our GHG intensity is **0.047**
For scope 2, our GHG intensity is **0.097**

Waste Management

G4-EN23 | G4-EN25

Waste management is becoming extremely crucial in Israel today. With a growing population and consumption rates versus decreasing landfill areas available, efforts to control waste generation and encourage higher waste reuse rates, recycling and recovery via Waste-to-Energy are encouraged. Business wise, waste minimization in manufacturing also makes economic sense, and IAI is looking for innovative ways and partnerships to enhance raw material utilization in its operations.

Hazardous Waste

In 2015, a total of 2,308 metric tons of hazardous waste were evacuated from IAI's sites, and all waste designated for reuse or recycling was treated based on the waste contractor alternatives. All exported hazardous waste was designated for Waste-to-Energy via a hazardous waste exporter, who is compliant and permitted by the Israeli Ministry of environmental protection.

Exported for
Energy Production
111

Recycling/Reuse
764

Treatment and/or landfill
1,433
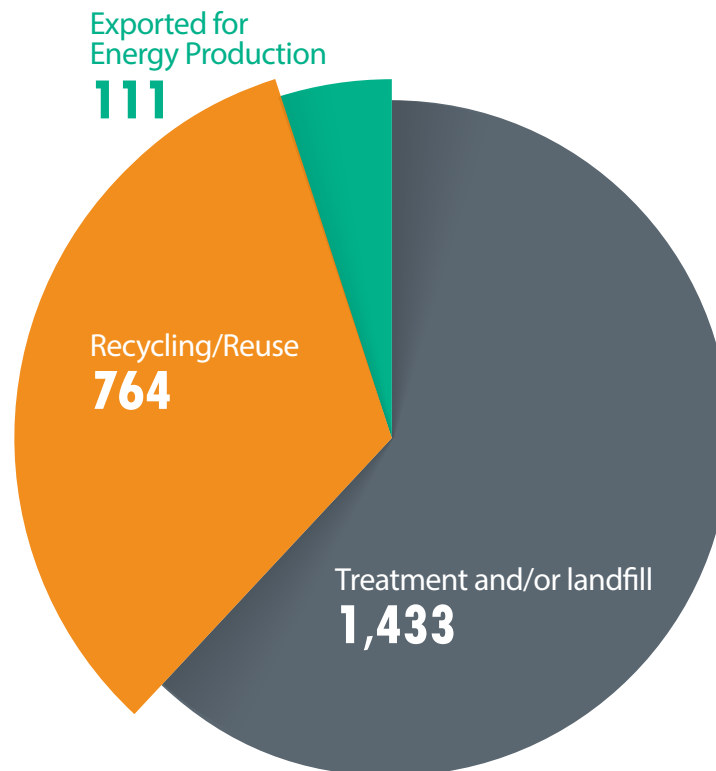
Hazardous Waste, in metric tons

Waste Management

Non-hazardous Waste

In 2015, a total of 8,351 metric tons of Non-hazardous waste was evacuated from IAI's sites, out of which 51% were sent for recycling and the rest for landfill. All waste recycling was done based on the waste contractor alternatives.

Paper and Cardboards **286**

Plastic **255**

Electronic Waste **113**

Metals **1,370**

General waste **4,071**

Wood and Yard Trimming **2,185**

Used Cooking Oil **71**
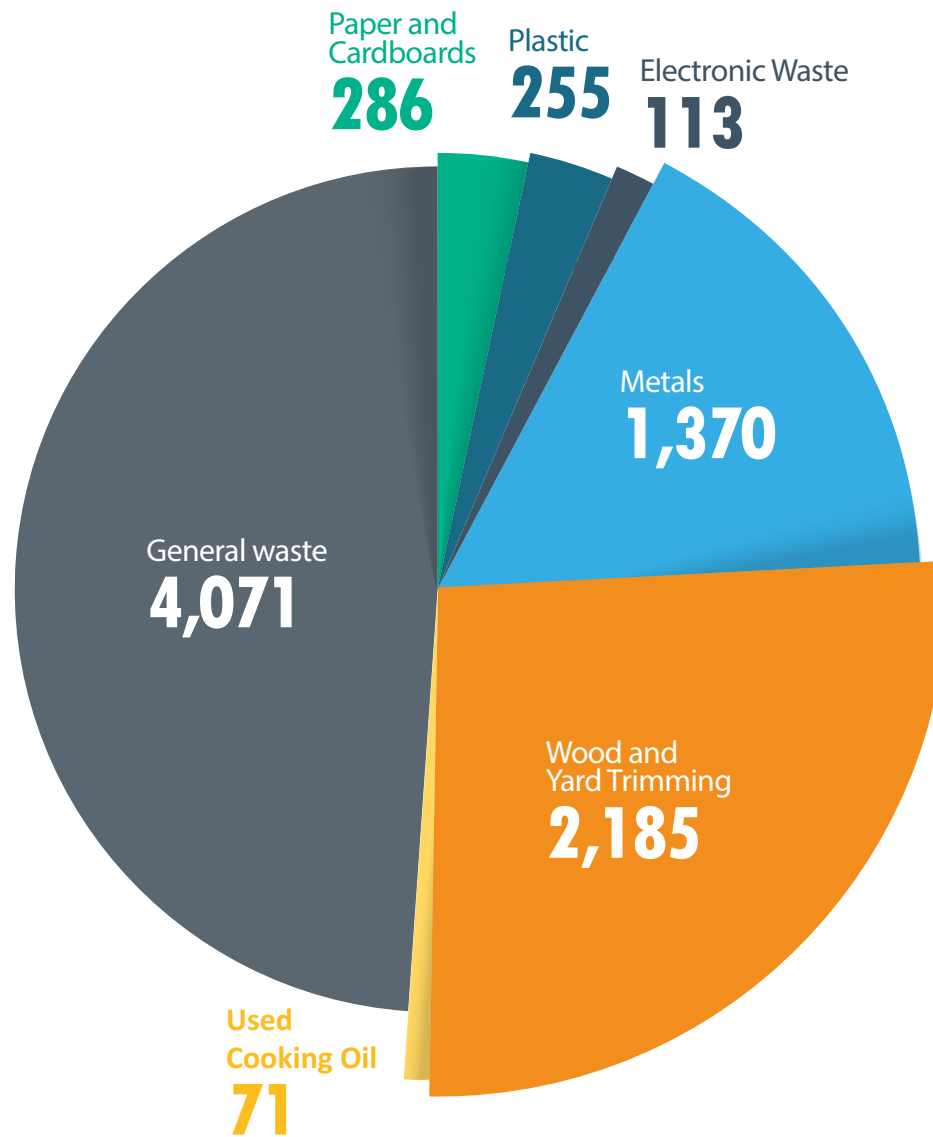
Non-hazardous Waste, in metric tons
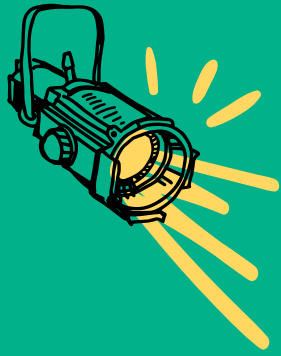
Switching from Conventional Chemical Processing of sheet metal

Initiative Spotlight

During 2015, IAI Production Technologies division in the Commercial Aircraft Group had invested in a groundbreaking technology for the machining of fuselage panels. The conventional chemical-based Aluminum processing was replaced by a new clean and lean mechanical alternative. The system is designed for cutting, shaping, milling, and peripheral milling with high accuracy, based on continuous ultrasound control, while residual chips can be transferred for reuse by recycling companies.

This initiative was meant to reduce the weight of the processed part by reducing its thickness in selective areas, a factor considered crucial in the final assembled aircraft. As a result, more energy is saved and enhanced overall performance is gained. In addition, dramatic reduction of cycle time and labor costs is acheived, as well as significant environmental improvements through air emissions elimination, waste minimization and hazardous materials use reduction.
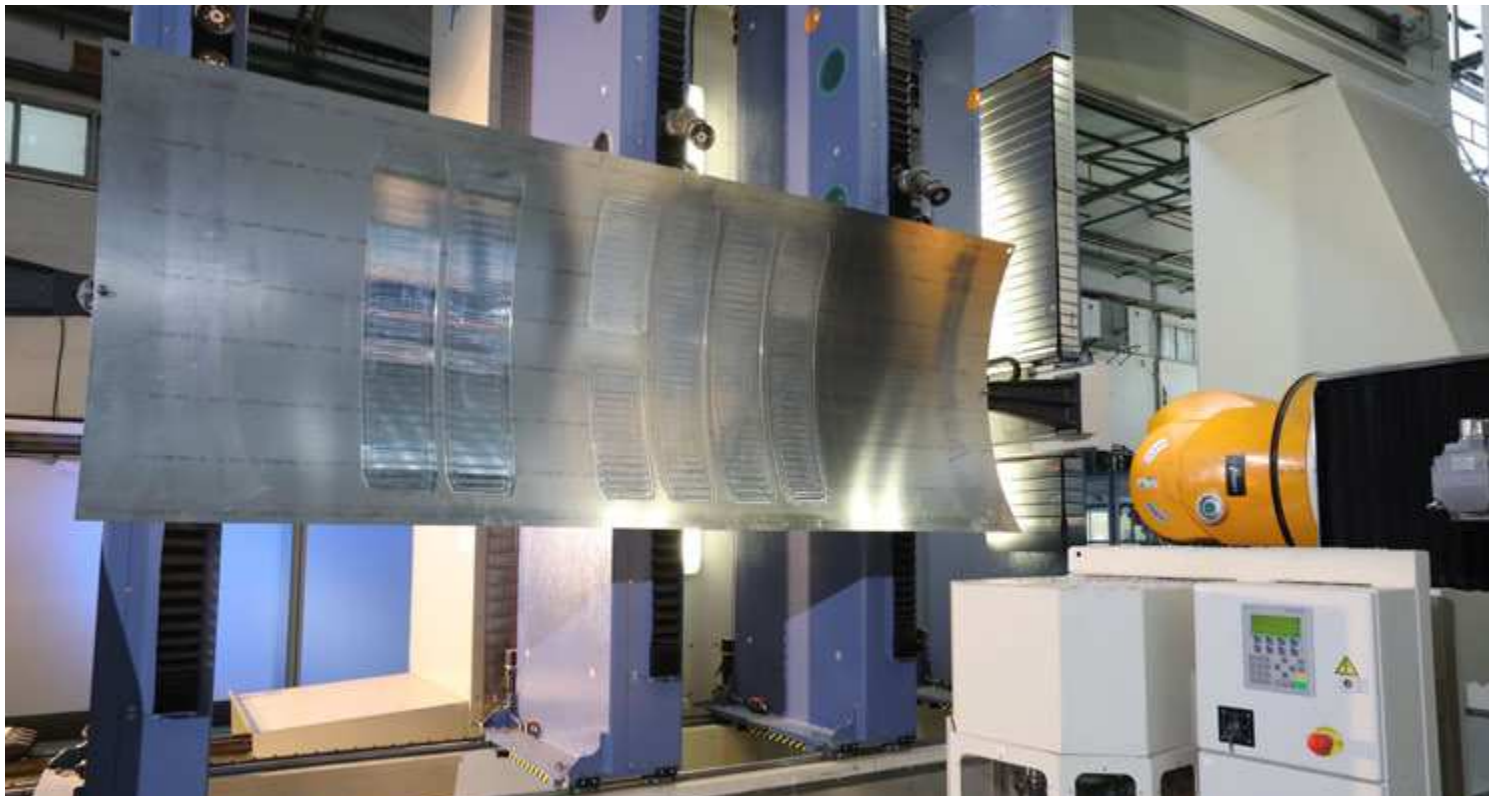
Water and Effluents

G4-EN8 | G4-EN22

Material Aspect

Israel is situated in a geographical area that suffers from water shortage, sparking a remarkable creativity, and leading to a globally-acknowledged leadership in water technologies. Currently, desalination combined with over 75% effluent recovery for agriculture and greater efficiency in water supply systems allows a more stable and reliable water economy in the region. Nevertheless, IAI is still regarding water consumption as an important factor to be considered throughout its operations, by taking active steps to make it more efficient and promoting desalination technologies.

Water Consumption and Efficiency

Total fresh water consumed in 2015 was 321,475 cubic meters, including all water sources in use. All water consumption data is based on direct internal and external consumption monitoring and billing information.

Effluents Treatment

Effluents are being discharged by a variety of IAI's manufacturing, cleaning and maintenance operations. All sources of discharge are closely monitored, and based on their content, diverted to designated in-house treatment facilities. Post-treatment Effluents are also monitored at the end of the pipeline, prior to their entry to municipal Effluent treatment facilities, to ensure their quality.

Total Effluents discharged in 2015 was 230,473 cubic meters.

All Effluents consumption data is based on internal and external monitoring and billing information.

Soil Surveys

Based on the requirement of the Government Unit for Licensing Security Enterprises, in 2011, IAI conducted historic surveys, collecting relevant information regarding potential soil pollution in the company's real estate properties in all its sites from historical use. As of this report release date, a detailed multi-year plan for additional surveys was delivered and authorized by the relevant authorities for additional soil gases and soil surveys, which is prioritized based on the extent of operations in each site. Groundwater drillings and soil gases survey in Production Technologies Division, from the Commercial Aircraft Group, were performed and additional surveys are to follow during 2016-2017.

Air Quality

G4-EN21

Air quality is directly linked to the population's health, having a measurable impact on the economy and the environment. The major contributors having a direct influence on air quality are the transportation, industry, and agriculture sectors. IAI is constantly searching for new ways to reduce hazardous materials in its manufacturing lines, as well as implementing systems to reduce emissions from its operations and transportation sources.

The Israeli Clean Air Law - 2008

The Israeli Clean Air Law, which came into effect January 2011, was designed to dramatically impact all sources affecting air quality in Israel through regulatory mechanisms. Following an extensive evaluation process done in all our facilities, two of our facilities were found to fall under the Israeli Clean Air Law – 2008 regulations criteria. Those facilities underwent a series of processes to meet all legal requirements, and their 2015 performance is according to stack monitoring and calculation methodologies defined in the Israeli Pollutant Release and Transfer Register - 2012. Persistent organic pollutants (POP) are not present in IAI's operations.

NOx
12.9

SOx
0.74

VOC
35.6

PM
2.2
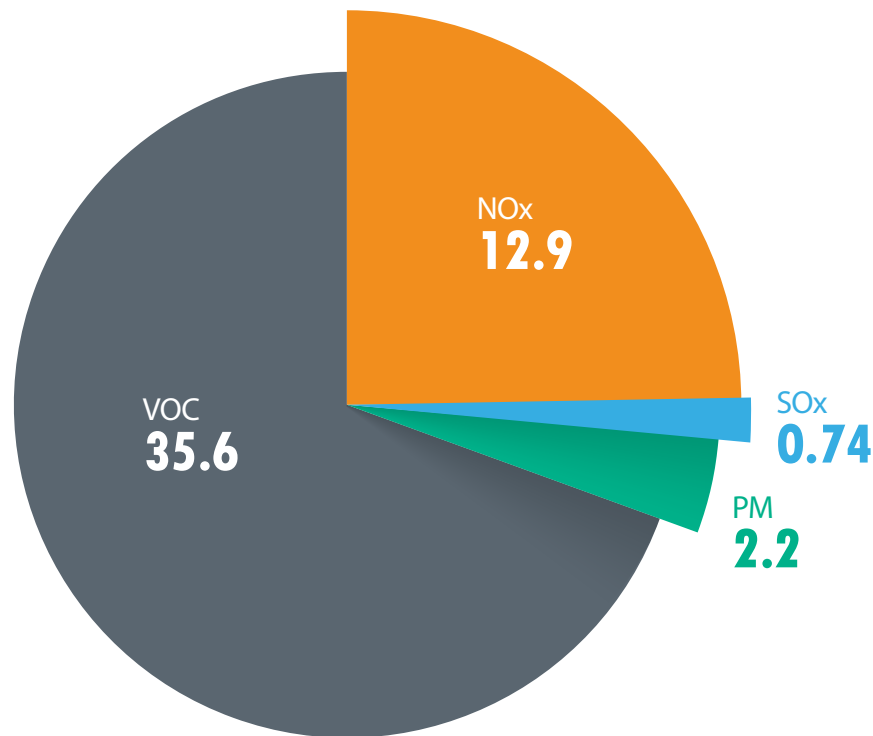
Air Emissions, in metric tons
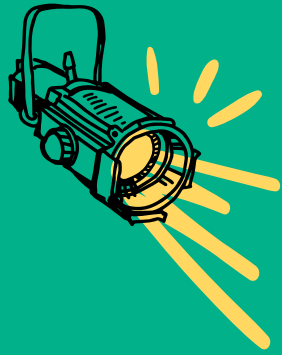
Transitioning to Liquefied Petroleum Gas (LPG) for Operations

Initiative Spotlight

IAI has an extensive layout of operational needs – both manufacturing and ongoing heating and cooling processes. The old systems in place since its early days, relied on Diesel fuel and heavy fuel oil (MAZUT), and presented constant maintenance issues, such as burner blockings and piping corrosion.

In 2013, IAI's Industrial Services Organization initiated a site-wide project to replace all of the old systems with an advanced, cost-saving Liquefied Petroleum Gas (LPG) alternative. The process included:

>> A Full assessment of all energy consumption in all IAI's sites in Israel. Sites already partly using Liquefied Petroleum Gas were identified for upgrade. With 275,000 liters of Diesel fuel and 560,000 liters of heavy fuel oil a year, five potential campuses were designated to join the transition. One of IAI's groups, ELTA systems Ltd., was eventually omitted due to their transfer to superfluous steam for heating instead.

>> A Tender was requested to choose a Gas Company for the contract, with a total project cost of 566,000 US$.

>> At the beginning of 2014, all sites moved to full operation with Liquefied Petroleum Gas. The new systems are designed with advanced reliability and safety measures, and are much easier to maintain and repair. Due to meticulous planning, normal operations were not disturbed during the project timeline.

In 2015, total consumption of Liquefied Petroleum Gas for IAI was 730 metric tons, with over 167,000 US$ saved. Additional benefits are reduction in air emissions and maintenance requirements.

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Israel Aerospace Industries Ltd.

GRI — Empowering Sustainable Decisions

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Category: Economic
Material Aspect: Market Persence

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	62-65 ,31		Management approach to economic practices and performance
G4-EC6	44		Proportion of senior management hired from the local community

Category: Economic
Material Aspect: Indirect Economic Impacts

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	62-65 ,31		Management approach to economic practices and performance
G4-EC8	37		Significant indirect economic impacts, including their extent

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Category: Economic
Material Aspect: Procurement Practices

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	62-65,31		Management approach to economic practices and performance
G4-EC9	37		Proportion of spending on local suppliers

Category: Environmental
Material Aspect: Energy

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	76		Management approach to environmental practices and performance
G4-EN3	78-80		Energy consumption within the organization
G4-EN6	78-79		Reduction of energy consumption

Category: Environmental
Material Aspect: Water

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	76		Management approach to environmental practices and performance
G4-EN8	86		Total water withdrawal by source

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Category: Environmental
Material Aspect: Emissions

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	76		Management approach to environmental practices and performance
G4-EN15	82		Direct greenhouse gas (GHG) emissions (Scope 1)
G4-EN16	82		Energy indirect greenhouse gas (GHG) emissions (Scope 2)
G4-EN18	82		Greenhouse gas (GHG) emissions intensity
G4-EN21	87		NOx, SOx, and other significant air emissions

Category: Environmental
Material Aspect: Effluents and Waste

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	76		Management approach to environmental practices and performance
G4-EN22	86		Total water discharge by quality and destination
G4-EN23	83-84		Total weight of waste by type and disposal method
G4-EN25	83-84		Weight of transported, imported, exported, or treated waste deemed hazardous

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Category: Environmental
Material Aspect: Compliance

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	76		Management approach to environmental practices and performance
G4-EN29	69		Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

Category: Social
Subcategory: Labor Practices and Decent Work
Material Aspect: Employment

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	42-43		Management approach to labor practices and decent work
G4-LA1	48		Employee turnover by age group, gender and region

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Category: Social
Subcategory: Labor Practices and Decent Work
Material Aspect: Occupational Health and Safety

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	42-43		Management approach to labor practices and decent work
G4-LA5	52		Percentage of total workforce represented in formal joint management–worker health and safety committees
G4-LA6	52	**Currently unavailable** – occupational health and safety indicators based on gender. The data will be collected during 2017-2018 and expected to be reported on our 2018 sustainability report. **Currently unavailable** – Supply chain occupational health and safety indicators. The data will be fully collected during 2017-2018 and expected to be reported on our 2018 sustainability report.	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender
G4-LA8	51		Health and safety topics covered in formal agreements with trade unions

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Category: Social
Subcategory: Labor Practices and Decent Work
Material Aspect: Training and Education

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	42-43		Management approach to labor practices and decent work
G4-LA9	45		Average hours of training per year per employee by gender, and by employee category
G4-LA10	45, 49-50		Programs for skills management and lifelong learning

Category: Social
Subcategory: Labor Practices and Decent Work
Material Aspect: Diversity and Equal Opportunity

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	42-43		Management approach to labor practices and decent work
G4-LA12	44	**Currently unavailable** – the composition of our governance bodies based on age and minority group membership. The data **will be fully collected during 2017-2018** and expected to be reported on our 2018 sustainability report.	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity

GRI-G4 Content Index

Category: Social
Sub-Category: Society
Material Aspect: Local Communities

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	42-43		Management approach to society and local communities
G4-SO1	54 ,58		Percentage of operations with implemented local community engagement, impact assessments, and development programs

Category: Social
Sub-Category: Society
Material Aspect: Anti-Corruption

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	42-43		Management approach to society and local communities
G4-SO4	69		Communication and training on anti- corruption policies and procedures

Material Aspects Boundaries Within and Outside the Organization

G4-20 | G4-21

Report focus area	Material Aspects Identified by IAI	Material/Relevant Aspects according to GRI-G4	Related RI-4 Indicators	Report Pages	Stakeholders	
					Internal	External
Corporate Governance	Corporate Governance Management	Governance Organizational Profile Ethics and Integrity Board composition Sustainability reporting	G4-6, G4-34, G4-56 G4-38, G4-48	8, 14, 62-63, 68	X	X
	Compliance	Environmental Compliance	G4-EN29	69	X	X
	Anti-Corruption and Bribery Prevention Practices	Anti- Corruption	G4-SO4	69	X	X
	Future Regulations	Environmental Compliance	G4-EN29	69	X	
	Sustainable Risk Management	Precautionary principle Commitments to External Initiatives	G4-14, G4-15, G4-16	65, 71	X	
	Crisis Management	None	None	65	X	
Economic	Business Development and Performance	Direct Economic Performance Organizational Profile	G4-9, G4-EC1, G4-EC4	7-8, 31	X	
	Technological Innovation	None	None	24-30	X	
	Supply Chain Management	Procurement Practices	G4-12	34-36	X	
	Cyber Defense	None	None	66	X	
	Impact on Israel	Indirect economic Impacts Procurement Practices	G4-EC8, G4-EC9	37	X	X

Material Aspects Boundaries Within and Outside the Organization

G4-20 | G4-21 | G4-13 | G4-22 | G4-23 | G4-29

Report focus area	Material Aspects Identified by IAI	Material/Relevant Aspects according to GRI-G4	Related RI-4 Indicators	Report Pages	Stakeholders Internal	External
Social/Societal	Employment Diversity	Diversity and Equal Opportunities	G4-LA12	44	X	
	Technological Education	Local Communities	G4-SO1	54, 58	X	X
	Product Responsibility and Customer Service	None	None	38	X	X
	HR Management	Employment Training and Education	G4-10, G4-11, G4-LA1, G4-LA9, G4-LA10, G4- LA12, G4-EC3, G4-EC6	44-46, 48-50	X	
	Employees' Organization	Organizational Profile	G4-11	44	X	
	Health and Safety	Occupational Health and Safety	G4-LA5, G4-LA6, G4-LA8	51-52	X	
Environmental	Energy and Emissions	Energy Emissions	G4-EN3, G4- EN6, G4-EN15, G4-EN16, G4- EN18, G4-EN21	78-80, 82, 87	X	X
	Environmental R&D	None	None	28-30		X
	Natural Resources Management	Water	G4-EN8	86	X	X
	Effluents and Waste	Effluents and Waste	G4-EN22, G4-EN23, G4-EN25	83-84, 86	X	X

2015 is IAI's very first reporting year; therefore there are no significant changes from earlier reports. In addition, no significant changes in operations, size, or sites were noted during 2015.

Report profile
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This first report presents the Israel Aerospace Industries Ltd. performance on corporate responsibility and ethics, as well as on social, economic, and environmental matters.

Reporting Scope

All information contained in this report is relevant as of December 31, 2015. In some cases, earlier years were considered for the sake of comparison, trend analysis, and future goal-setting. When such cases appear in the report, this fact was noted adjacent to the data.

IAI has a worldwide business and financial activity, with the majority of its managerial and manufacturing activity taking place in the territory of Israel. Relevant financial data specified in this report is in line with IAI's 2015 financial statement and concerns IAI's global activity.

Unless otherwise mentioned, all the data (other than financial) included in this report applies to IAI's activities and operational sites in Israel alone. In some instances, relevant information was given for specific sites only, and this fact was noted in adjacency to the data.

Reporting Cycle

This is IAI's inaugural sustainability report. Our company shall continue to publish these reports on an annual basis and in accordance with the latest Global Reporting Initiative (GRI) guidelines, in order to keep our stakeholders updated on our performance.

Reporting 'in accordance' to the GRI-G4 guidelines: Core

This report was prepared using the GRI-G4 guidelines, in combination with material aspects identified by IAI and its stakeholders, and is 'in accordance' with the GRI-G4 guidelines - core option, in its latest edition available for the Year 2016. This level of reporting is in line with the company's resources, requirements from its stakeholders and the primacy of the process. These reporting guidelines can be found at the GRI website www.globalreporting.org. The report was submitted to the GRI Content Index Service, and GRI confirmed the accuracy of the GRI-G4 Content Index. The GRI-G4 Content Index is located at the end of this report, on page 92.

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Report External Assurance

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

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

This approach, along with recent and stable developments in non-financial reporting processes, will be demonstrated by our efforts to seek external assurance in our upcoming reports.

KPMG Somekh Chaikin assisted in IAI reporting process, including relevant risk management aspects, common practice etc., according to relevant methodologies and specific issue content experts.

Reporting Language

This report is fully written in English. A key highlights report is available in Hebrew at iai.co.il.

Legal Disclaimer

To the best of the company's knowledge, the information contained in this report is accurate as of the date hereof, and it accepts no liability for the accuracy or completeness thereof, nor for any reliance on the information or use made of the information, by any person, and the company is under no obligation or liability to update the information contained herein. In the event of any inconsistency between the information in this report and any information in the company's quarterly and annual financial reports, the latter shall override.

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

Please direct these to:

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WHEN RESULTS MATTER