Israel Aerospace Industries Ltd.

2016 Sustainability Report

WHEN RESULTS MATTER

2016 in a nutshell

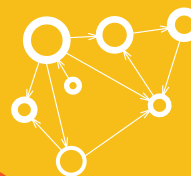**3.6** billion$ in Sales

61% of procurement is local

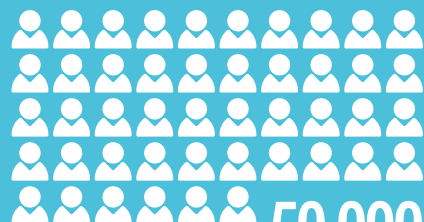**1st** in local patent registration

Backlog of orders at **9** of billion$

Largest
high-tech company in Israel

15,359 employees

Sustaining over **50,000** households nationwide

18,237 volunteering hours

9th ranking in the "best place to work" list

54% hazardous waste recycled or reused

58% non-hazardous waste recycled or reused

435 GWh Saved since 2007

Message from our Board of Directors

On September 2017 I took over as Chairman of the Board of Directors of IAI. It is an honor and a challenge to assume responsibility for leading IAI into the future together with our passionate employees, valued customers and respected partners.

IAI's board of directors governs the long term company's sustainability plans and implementation based on the solid understanding that sustainability is not an add-on but a foundation that affects everything we do, make business sense and builds resilience and continuity throughout our operations.

IAI has a long-standing record of state-of-the-art technologies and services, aimed at providing our customers with innovative solutions in multiple areas – from aerospace to land, in cyber and at sea. We relentlessly grow our global reach and expand to new and exciting markets.

In today's global business climate, IAI faces many risks and global changes. IAI works to adjust its operations and activities in order to cope with these new challenges and remain a leader in the aerospace and defense industry through continued technological excellence, creativity and growth combined with hard work, integrity and commitment.

As one of the few companies in Israel with immense impact on the lives and security of Israeli citizens, we acknowledge that our success is made possible only by the dedication of our people, partners and surrounding communities. We will continue to build on this foundation by focusing on central goals and processes: create constructive discourse and collaborations with all of our stakeholders, make IAI a diverse and inclusive workplace as a priority, invest in more sustainable and cost-effective energy solutions, continue to reduce current costs, raise the bar in our safety and occupational health programs and demand stronger social and environmental responsibility from our suppliers.

Let this report be an open invitation for any feedback, questions or new ideas to be presented, I hope you will find our journey an inspiration.

Harel Locker
Chairman of IAI's Board of Directors

A message from our President and CEO

I am privileged to present to you the second report on IAI's sustainable development. This report is a record of significant strides made during 2016, but is also looking ahead at what we wanted to achieve in 2017 and beyond. We regard this non-financial reporting as a critical managerial process, which guides our performance and keeps us on track to full sustainability in anything we do.

During 2016 we have solidified our sustainability vision with the introduction of an updated sustainability policy, included in this report. The new policy reflects the material aspects identified as significant for IAI and its stakeholders.

Since its inception in the 1950's, IAI never ceased to grow and expand, becoming a pivotal player in Israel's economy and defense. Concurrently, IAI never lost sight of aspects of ethical business conduct, regulatory compliance, social equality, diversified hiring, and advancement of technological education. Just as important, IAI holds its commitment to reduce its ecological footprint through energy savings and improved waste management.

Accordingly, we continue to seize opportunities for creating progressive manufacturing processes and innovative products, as demonstrated by our national leadership in patent application and registration and by the establishment of the Israeli Cyber Consortium.

As a company ranked in the top third of the Aerospace and Defense industries in the world, we follow a long-sighted business model, in which we seek to predict the needs and requirements of the next generations – our future employees and customers. Surely, they will expect us to embrace a vantage point of sustainability for them to prosper. In the meantime, our commitment to our current customers, suppliers and employees remains unwavering.

Although the economic situation means tougher choices at times, it also challenges us to make the right products, solutions and offerings.

IAI is one of Israel's largest exporters, providing direct and indirect income to tens of thousands of families. Our performance and progress are attributed to the tireless efforts of our employees. Over the past year we employed innovative approaches to investing in our people, such as the launch of LEADAIR, our training program for future leaders, and PE'IMA, an academic program for our technicians and practical engineers, to name a few.

Over the past year IAI's management and its employees' organization signed a new collective agreement that constitutes a central component of the company's growth plan. The agreement builds on the mutual commitment of our employees and managers to work together to ensure IAI's resilient future.

As we look into the future, we are determined to embrace a practical and doable approach to the triple-bottom line of sustainability. We drafted a plan around five major sustainability goals presented in this report. This plan will form the basis for a long-term roadmap that will be introduced later on.

We seek to add value wherever we operate, and we will continue to reach out to communities and to our stakeholders in general, who offer us new ways to think and contribute.

Joseph Weiss
President and Chief Executive Officer

Independent Limited Assurance Report

We were engaged by the management of Israel Aerospace Industries Ltd. (further referred to as IAI) to provide limited assurance on the specified parts as mentioned in the table below (further referred to as "Specified parts"), marked within the report, regarding the information presented on IAI 2016 Sustainability Report for the year ended 31 December 2016 (further referred to as "The Report").

IAI's Management is responsible for:

>> The preparation and presentation of the report in accordance with the Sustainability Reporting Guidelines (G4) of the Global Reporting Initiative (GRI) as described in page 102 of the report, and the information and assertions contained within it;

>> Determining IAI's objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues for reporting;

>> Establishing and maintaining appropriate performance management and internal control systems from which the information is derived, to be free from omissions and material misstatements whether due to fraud or error.

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

In a limited assurance engagement the evidence gathering procedures are more limited than for a reasonable assurance engagement and therefore significantly less assurance is obtained than in a reasonable assurance engagement. The procedures selected depend on the practitioner's judgement. This includes the assessment of the risks of material misstatements of the sustainability information in the Sustainability Report with regard to the GRI-Criteria. Within the scope of our work, we performed amongst others the following procedures:

>> Examination of the specified parts in the report, for the purpose of performing a limited assurance, based on public information sources.

>> Inquiries of relevant staff to gain an understanding of IAI processes for determining the material issues for IAI key stakeholder groups.

>> Interviews with relevant staff at corporate and business unit level responsible for providing the information in the Report.

>> Interviews with relevant staff at group level and selected business unit level concerning corporate responsibility strategy and policies for specified parts, and the implementation of these across the business.

>> Review of a selection of the supporting documentation

>> Review of a sample of the underlying processes and controls that support the information in the Report.

>> Where relevant, conducting interviews regarding the calculation, aggregation and methods used to collect and report the specified parts in the report.

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

Conclusion

Based on the limited assurance procedures performed and the evidence we have obtained, described in this report, nothing has come to our attention to indicate that the specified parts as mentioned in the table below, in IAI's 2016 Corporate Responsibility Report are not presented, in all material respects, in accordance with the GRI-G4 and IAI's reporting criteria.

Our limited assurance report is made solely to IAI in accordance with the terms of our engagement. Our work has been undertaken so that we might state to IAI those specified parts we have been engaged to state in this limited assurance report and for no other purpose or in any other context. We do not accept or assume responsibility to anyone other than IAI for our work, for this limited assurance report, or for the conclusions we have reached.

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BDO Consulting Group

Certified Public Accountants
Tel Aviv, Israel
November 14th, 2017

[1] Material issues assurance included relevant steps performed by the company in its materiality assessment, as described in the report, only.
[2] Data regarding the percentage of direct employment of professional contractors employees was not covered by the assurance.
[3] Data regarding contractors' accidents was not covered by the assurance.

Company Profile
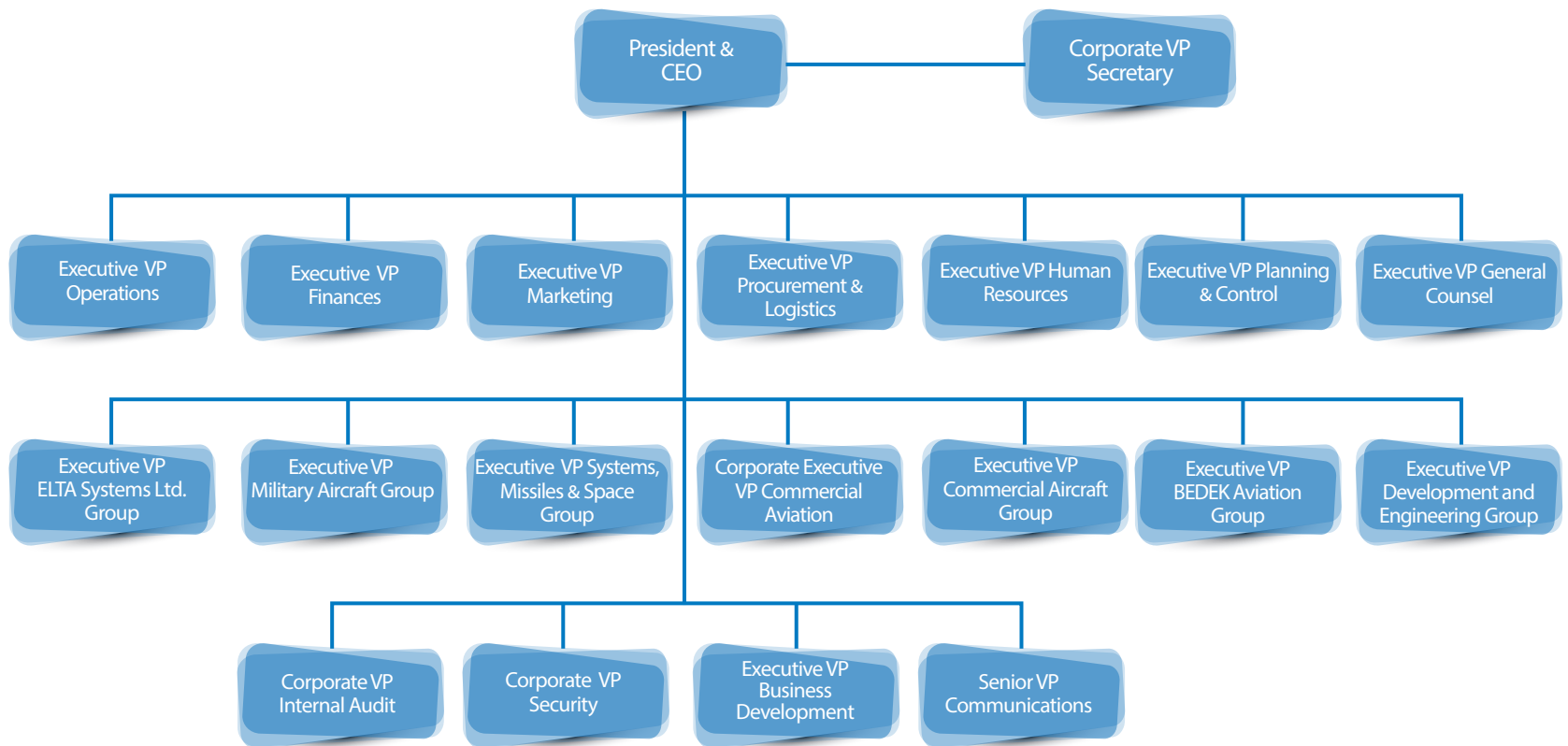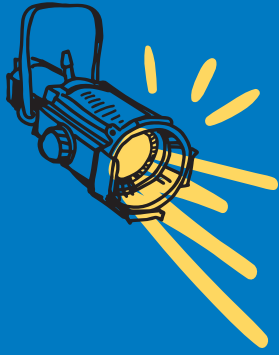
Israel Aerospace Industries Ltd. (IAI) is a world leader in the delivery of state-of-the-art sea, air, space and cyber technologies and systems for defense, commercial and homeland security applications. Drawing on over 60 years of experience developing and supplying innovative solutions for customers 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 Business Development
Senior VP Communications

IAI Spotlight

Shimon Peres

On September 28, 2016, Israel parted with Shimon Peres, one of its most distinguished leaders and the state's 9th president.

Peres, who was among the founders of IAI, dedicated his life to building and fortifying Israel's future, with particular attention to its continuous security challenges:

"The goal has always been very clear: use any way possible to allow the small state of Israel gain defense capabilities and aerial deterrence power by adopting the most advanced methods available."

Peres accompanied IAI throughout all his years in public service, starting with its inauguration in 1953, and took an active part in key milestones that established the IAI as a pioneering technology company. Among those milestones were the development and manufacturing of the jet trainer and attack aircraft FOUGA MAGISTER in Israel, the establishment of the KFIR aircraft manufacturing line, the founding of TAMAM and MALAM divisions, the development of the SHAVIT space launcher and much more.

Peres continually referred to IAI as a zionist technological success story:

"The success story that is IAI and its evolution is Israel's success story. Where our Sons and daughters chose, from the country's founding moments, to prefer the human treasure over the earth's, and realized that the human power carries the capabilities and resources to develop innovative technologies ex-nihilo, and turn the impossible to possible, thus conquering new peaks."

His spirit and life achievements will forever remain a part of IAI's legacy.

May his memory be a blessing.
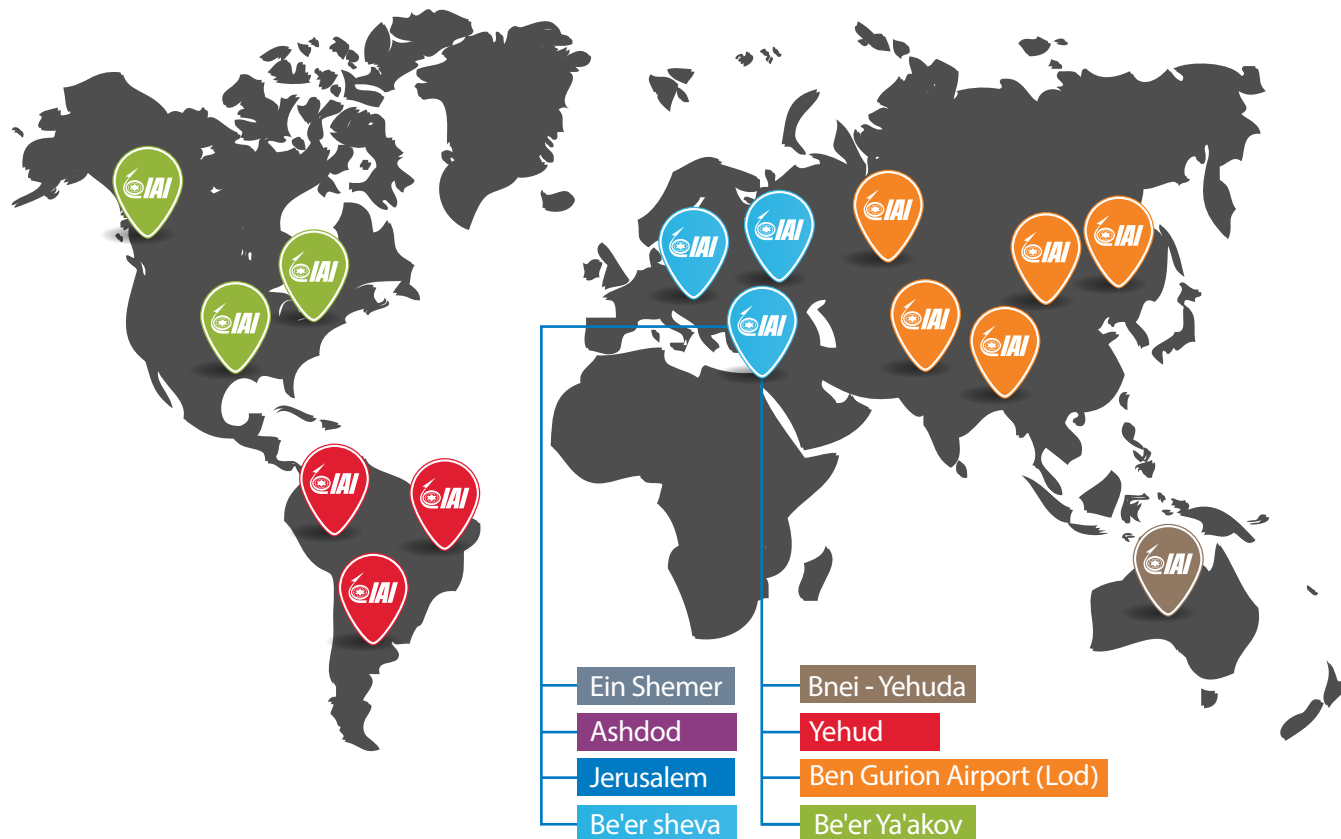
Making results matter - locally and globally

G4-5 | G4-6 | G4-7 | G4-9 | G4-17 |

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's headquarters is situated at Ben-Gurion Airport, Lod. IAI has eight operational sites in Israel, employing 15,359 workers. We sustain over 50,000 households nationwide, taking into consideration all circles of employment.

IAI is a "wholly owned Governmental Company", as defined in the Israeli Governmental Companies Law - 1975. The Company's debuntures were issued and listed for trade on the Tel-Aviv Stock Exchange effective May 2007 whereas the Company's shares are not listed for trade. The company's Board of Directors oversees its policy execution by the Senior Management - IAI President and Chief Executive Officer and 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.

The majority of the company sales is in the military and defense markets, representng 73% during 2016. Most of the company's products sales are exported, about 77% in 2016.

Ein Shemer	Bnei - Yehuda
Ashdod	Yehud
Jerusalem	Ben Gurion Airport (Lod)
Be'er sheva	Be'er Ya'akov

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.

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.

Products and Services

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 sustainability program

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, inter alia, for the approval of IAI's periodic sustainability reports. Through these authorities, we form manageable, measurable, and consistent work plans, strategically directing the company's progress in sustainability matters.

Our sustainability management is directly derived from our sustainability policy (see page 21), which dictates both the focus of the Senior Management Sustainability Steering Committee and the strategic work of the Sustainability and Environment Organization, as well as the targets and objectives assigned to the functional units (i.e. The divisions, HR, P&L, Finance etc.) around sustainability issues.

IAI's Sustainability Policy *

Senior Management Sustainability Steering Committee

Sustainability and Environment Organization

Setting strategy and defining tartgets and objectives

Performance versus plans

Divisions and Functional units
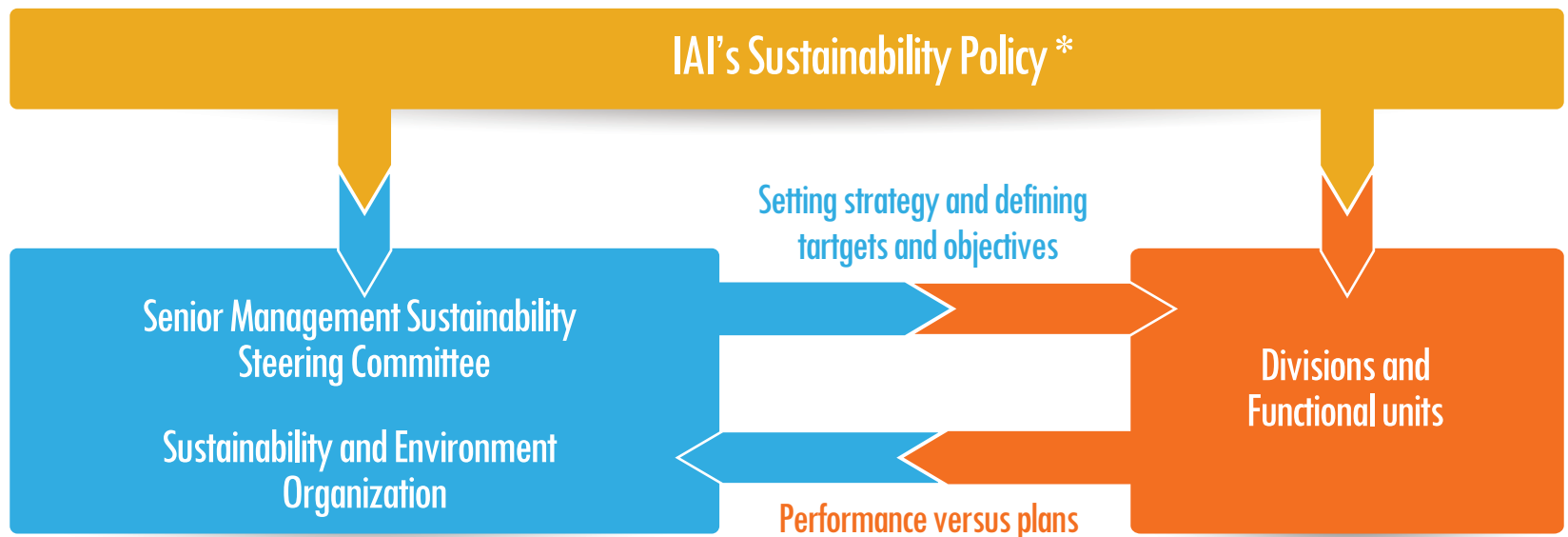
>> Creating cross company sustainability infrastructures and management tools, Implementation strategies and a central sustainability knowledge base

>> Publishing IAI's sustainability reports

>> Developing sustainability data systems

>> Leveraging sustainability excellence opportunities

>> Managing sustainability risks

>> Allocating an annual budget

>> Creating annual work plans for sustainability issues

>> Routine report-out to the sustainability and Environment Organization

* Based on the company's 21 material issues as identified in an in-depth management process

IAI Spotlight

Sustainability web-based training

As part of our ongoing sustainability training program, a web-based training (WBT) program was developed in 2016 by the sustainability and environmental organization and the MHT division in charge of training and learning resource development, allowing all IAI's employees to:

>> Acquire basic concepts and terms relating to corporate sustainability, and
>> Understand their personal impact on sustainability issues

The WBT was launched at the end of 2016 as a mandatory session on our INTRANET web-based training system. It covers the following topics:

>> General definitions and concepts, materiality, stakeholder engagement.

>> Examples of material issues in IAI, such as environmental management, technological innovation and our flagship social program of technological education.

>> The company's sustainability expectations in its day-to-day proceedings.

Our Stakeholders

We firmly believe that our business cannot operate and grow effectively without strong and nurturing ties to all those holding 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 requirements, 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.

G4-24 | Limited Assurance

In 2016-2017, we began laying the foundation for the creation of short- and long-term stakeholders' dialogues. IAI will engage in the dialogues according to common international standards, and will follow a defined timeline for this process.

G4-25 | G4-26

05 Materiality process with stakeholders dialogue

04 Engaging stakeholders

03 Setting stakeholders dialogue plans and timelines

02 Establishment of stakeholders dialogue strategy and methodology

01 IAI's stakeholders analysis (Major and Minor)
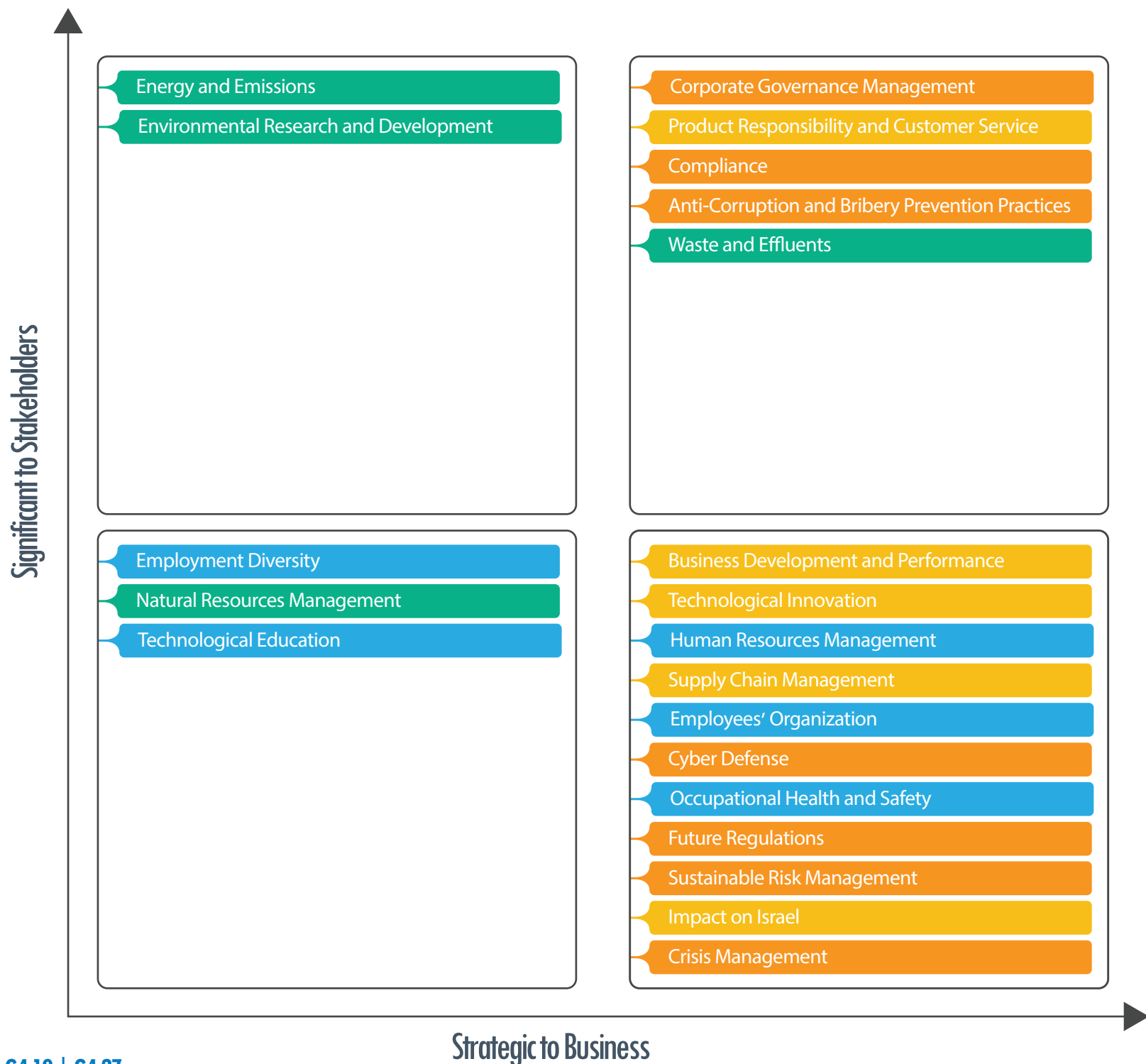
| 2016 | 2017 | 2018 | 2019 |

Materiality

During 2015-2016 IAI committed to a systematic assessmet of its material issues. Our aim was to identify the key corporate responsibility issues, which we as a business consider material to the environment, the society and to 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 with our stakeholders.

As we will further develop our stakeholder dialogue in the coming years, IAI will review and re-validate its material issues, to ensure we keep moving in the most relevant direction, aligning our business with feedback from stakeholders.

The materiality process was thoroughly described in our 2015 sustainability report, and therfore briefly presented here:

Process milestone

01 — **Defining materiality process: scope and goals**

02 — **Identifying potential material aspects**

03 — **Categorizing the material aspects**

04 — **Validating the material aspects**

05 — **Ranking the material aspects**

06 — **Management review**

07 — **Stakeholder feedback**

Milestone output

01
> Process goals
> Process roadmap
> list of contributing parties and resources
> Chosen validation methodology for results

02
> Creation of a comprehensive list of potential material aspects (Major and minor) based on multiple internal and external sources

03
> Clustered list of potential material aspects as a basis for the weighing process

04
> The material aspects categorization was validated by internal roundtable reviews

05
> Training of all ranking participants
> Ranked list of IAI's material aspects

06
> Final materiality matrix
> Statistical validation of the results

07
> In progress (see page 18)

Materiality matrix — Significant to Stakeholders (vertical axis) vs. Strategic to Business (horizontal axis)

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

G4-19 | G4-27

Legend: Environmental | Social | Corporate Governance | Economic

Our sustainability policy

IAI is a leader in the development, production and export of advanced commercial and military systems, in the air, at sea, on the ground, in space and cyber. As a large Israeli governmental company, IAI operates from a vision of growth and risk management, expressed by extensive investments, in order to ensure business strength alongside sustainable practice in environmental and social aspects, for the benefit of this generation and for the future ones.

The Principles of Sustainability

IAI operates and is governed by law, and maintains an array of company values for ethical, moral and transparent conduct. The expectation of responsible conduct is implemented at all levels - from the board of directors, through senior and junior management and all the way down to individual employees. IAI believes that it must act fairly and with integrity through its value chain, including competitors. IAI identifies activities and opportunities for undertaking action beyond compliance, which combine business benefits with a contribution to creating a better world such as the adoption of safety systems management standards, voluntary environment and social responsibility initiatives, as well as local and international treaties.

The broad scope of activities of IAI affects a variety of stakeholders in economic, social and environmental aspects - employees and retirees, customers, owners, suppliers, authorities and the communities in which it operates. IAI works in cooperation with its stakeholders, and invests considerable resources in the implementation of internal and external mechanisms to both identify and respond to their needs and expectations, as well as to grant accessibility to information regarding its activities and operations, within the limits of security requirements.

Economic aspects

As partner in facing the State of Israel national challenges, IAI attaches great importance to future-forward investment in research and development, in implementing advanced infrastructure at its plants and in encouraging innovation and creativity among its employees and partners, while retaining the organizational knowledge and experience accumulated over the years.

The company systematically implements risk management processes that incorporate aspects of sustainability, in order to respond efficiently and effectively to the changing demands of the markets, and to allow a strong and continuous steadfastness in times of potential crisis.

Environmental aspects

IAI has identified the following activities as having a significant environmental impact:
A. Research, Development and new technologies;
B. Production and operation processes and infrastructure;
C. Supply chain and reciprocal procurements.
While continually striving for environmental protection, IAI manages the following environmental aspects, both in routine and in emergency:
Resources: energy, land, water and raw materials, both hazardous and non-hazardous; Emissions: air, wastewater and hazardous and non-hazardous waste; Factors affecting climate change: mitigation and adaptation processes.
For this purpose IAI maintains an internal system of environmental experts, responsible for running environmental management systems that include, inter alia, procedures, training, infrastructure and treatment solutions and monitoring and reporting systems. In addition, IAI is leading initiatives to expand its positive environmental footprint, such as developing green alternatives to products, partnership in environmentally-friendly aviation projects and integrating a life-cycle management approach, as well as internal initiatives that demonstrate environmental excellence.
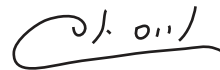
Our sustainability policy

Social aspects

IAI employs thousands of workers in a variety of jobs and directly and indirectly affects tens of thousands of households in Israel. IAI insists on meeting human rights and individual freedom of association of its employees while creating a healthy, safe and empowering work environment. IAI emphasizes the expansion and diversification of employment, home-work life balance and investment in development and training of employees, which help professional advancement and routing of creativity, skills and entrepreneurship of its employees towards a culture of excellence and significant contribution. IAI expects its employees to assume personal and moral responsibility on issues of ethics, bribery prevention and anti-corruption, safety, health and quality, and provides them with tools for informed conduct on these issues.

IAI, which owns several sites throughout the country, creates diverse opportunities for its employees for social contribution according to the community needs and interests, and encourages taking an active part and becoming involved in the community – from promotion of educational initiatives in the field of technology to activities with special needs populations, and local purchasing.

Management Commitment

IAI expects its managers to be a role model in environmental and social responsibility, with a commitment to business excellence, to include these considerations in decision making and allocate resources for sustainable action in their operations. IAI provides tools for its managers to manage economic, environmental and social risks and opportunities arising from their business units processes.

IAI's board of directors and senior management will review the company's sustainability policy periodically, to ensure its validity and dissemination, integration and continual update of its stakeholders, including within its subsidiaries.

Joseph Weiss
President and Chief Executive Officer

IAI's 2017 Sustainability Goals

Limited Assurance

Five strategic objectives were defined for 2017 based on our 2015-2016 sustainability performance, in order to support continual progress in our overall company's sustainability efforts.

These objectives are to be followed by the Sustainability Board committee and the Senior Management Steering Committee for sustainability, as the company's relevant functions engage in work plans toward their acheivment.

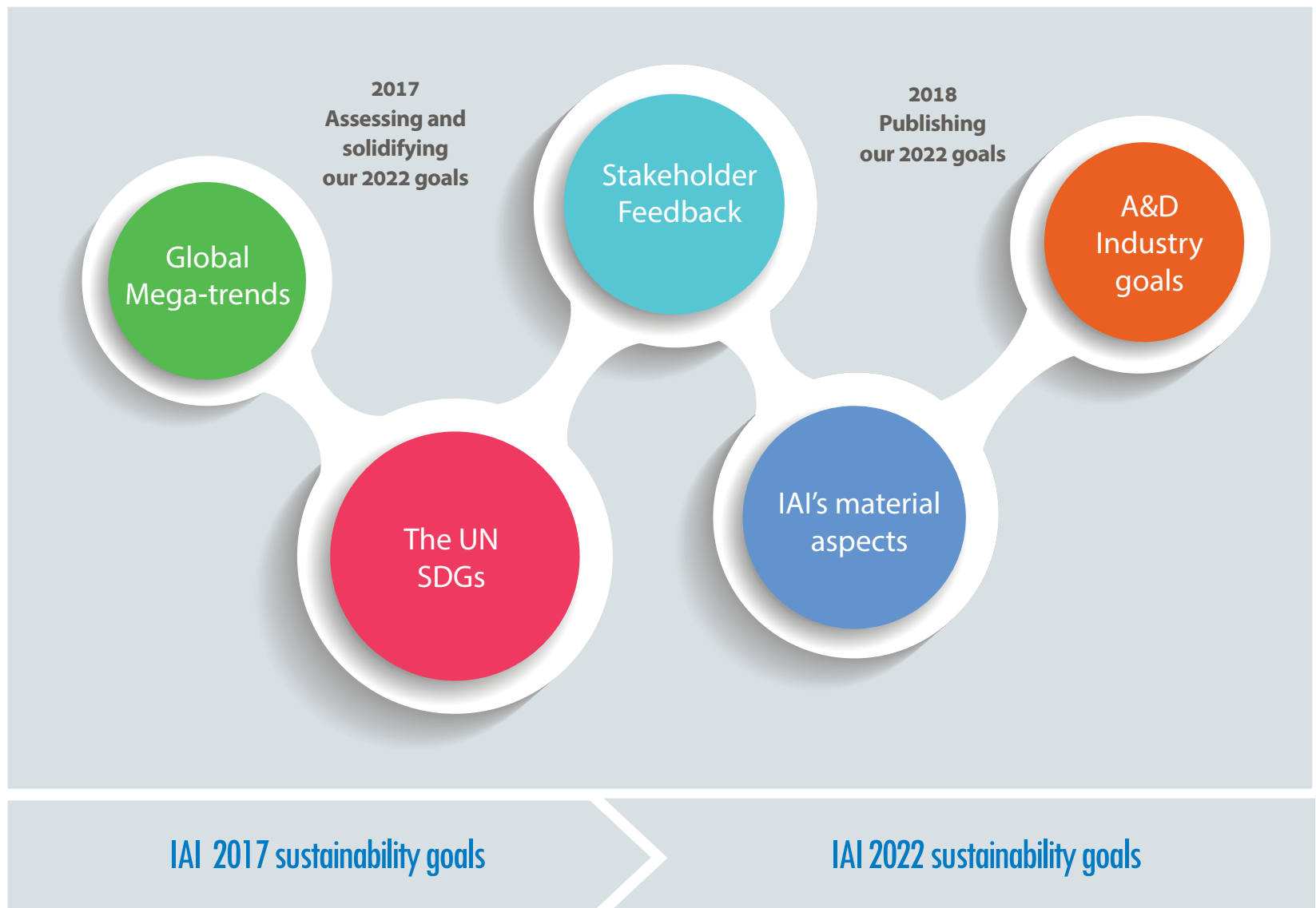| Goal | Achieve a 2% cross-organizational electricity savings |
Goal	Initiate gradual implementation of IAEG's harmonized supplier questionnaire (Module 1)
Goal	Achieve a 35% overall women intake from IAI's total new employees hiring
Goal	Increase percentages of diverse and underemployed populations, based on specific intake goals
Goal	Improving safety and health performance, including that of contractors, in our operation sites

Setting IAI's long term sustainability goals

Looking ahead, IAI is aiming to expand its sustainability goals in the long run, as well as aligning with important national and international sustainable development roadmaps and initiatives.
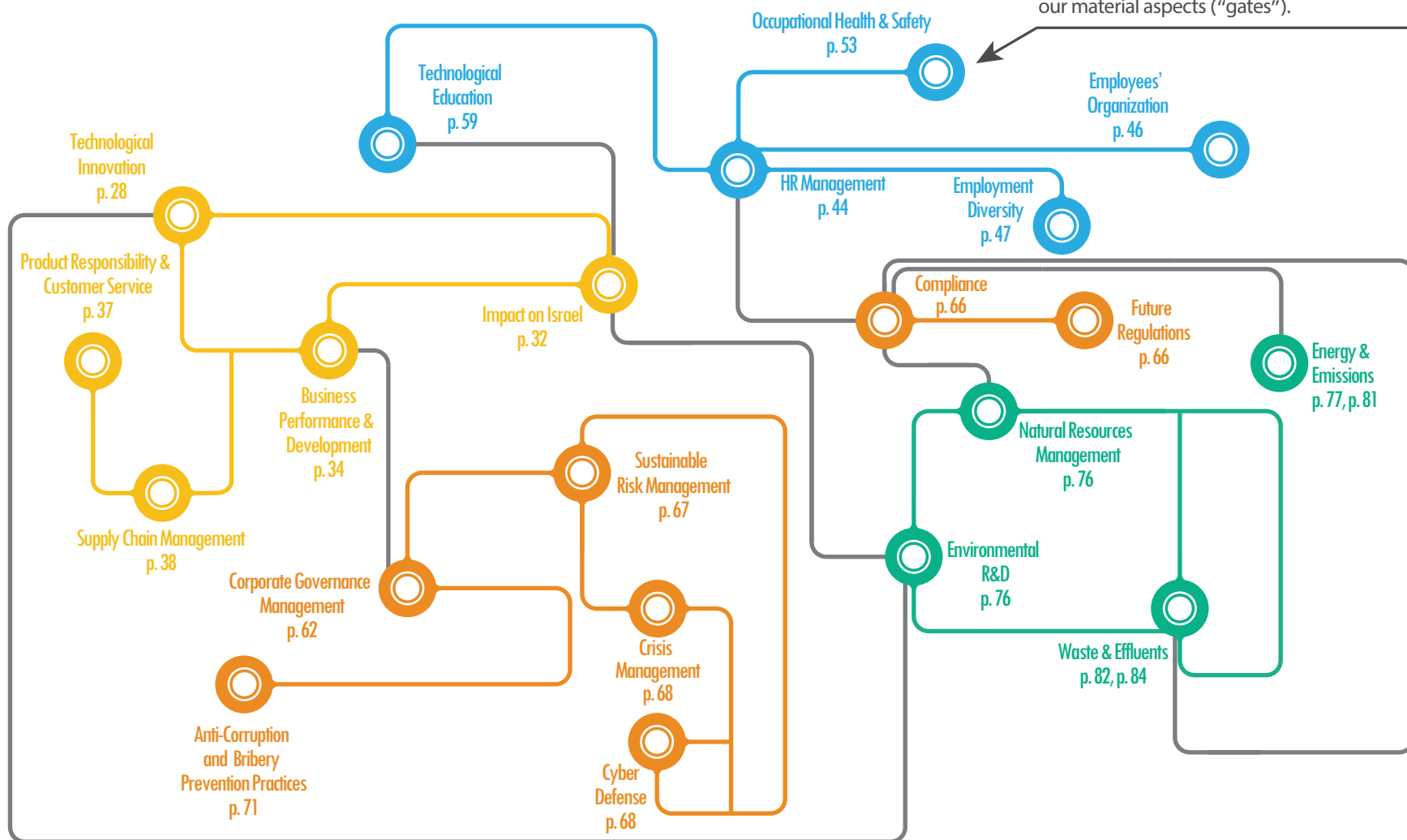
During 2017-2018 we will formulate our 2022 sustainability goals and the clear and detailed roadmap that will lead us to achieving them.

2017
Assessing and solidifying our 2022 goals

2018
Publishing our 2022 goals

Global Mega-trends

Stakeholder Feedback

A&D Industry goals

The UN SDGs

IAI's material aspects

IAI 2017 sustainability goals

IAI 2022 sustainability goals

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Option A: "Complete Boarding"

Read the full report chapter-by-chapter.

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PART 1

Innovation and Economic Performance

Unique innovations that became operational in 2016

Material Aspect

Collision warning system (CWS)

Increasing congestion in civil air space poses a growing challenge to flight safety in general and, specifically for military operations in near proximity to, or within civilian airspace.

MALAM division, a part of the Systems, Missiles and Space Group, is pioneering military flight safety with its Collision Warning System (CWS), an innovative, lifesaving solution designed to warn combat pilots in situations when potential collision with commercial and civilian aircraft is imminent.

The system builds the air situational picture based on the reception and interrogation of EHUD, IFF and ADS-B signals. By plotting existing and projected flight paths of all aircraft flying in the area, the system identifies potential collisions and warns the pilot in advance of such events. Among the data processed are the flight characteristics and maneuverability of each fighter jet, which are profoundly different from those of civilian aircraft. Warnings are therefore generated only when a clear and imminent danger exists.

The system is designed for 4th and 5th generation fighter jets, training aircraft, military helicopters and remotely piloted aircraft (RPA).

The system is available both as an external pod, embedded in existing or new EHUD/RAIDS/FRP systems with only minimal integration into the aircraft or as an internal box version offering an integrated solution to the aircraft.

Unique innovations that became operational in 2016

RES-Q-CELL

Disasters such as fires, terror attacks, earthquakes, floods and avalanches occur daily around the globe. As search and rescue teams rush to the scene, one of the first and biggest challenges is understanding whether people are trapped, and their exact location.

IAI's ELTA systems Ltd. group developed the RES-Q-CELL, a cellular Geo-Location system for search and rescue. The system utilizes the cellular phones carried by the injured and missing, detecting, identifying and pinpointing their exact location at the scene, even if the networks collapsed. This is made possible by receiving a simultaneous support of all service providers and differentiating between trapped and untrapped people. The search team carries independent cellular networks at the site.

The RES-Q-CELL covers large disaster areas and provides information in multiple formats – text, maps, imagery, sound, and video. It is highly mobile and set for instant operation.

In September 2016, following a massive collapse of a multi-story parking lot construction site in Israel, the RES-Q-CELL was used to support the local search teams and one of the missing persons was tracked solely by the system.

Unique innovations that became operational in 2016

Material Aspect

737-700BDSF passenger-to-freighter Conversion

The BEDEK Aviation Group initiated the first ever prototype cargo conversion (from passenger to full-freighter) for the 737-700BDSF aircraft (new generation). Even though BEDEK aviation had converted 737 classic aircraft, this aircraft is more technologically complex, equipped with advanced engines and systems, and built for longer flying range and to landing from different airports altitudes, therefore requiring substantial design and development work, as well as ground and flight tests.

The conversion includes a tailored design of the main wide cargo door, actuated by hydraulic power, on the left side, and additional modifications of the main deck. During the conversion, the passenger aircraft's interior is completely dismantled; the fuselage is fortified to allow greater weight to be carried; and new systems are installed for cargo loading, smoke detection and ESC. The converted aircraft is provided with a total useful volume of 3673 ft^2, enabling the carriage of cargo payload up to 45,000 lbs. All design and adjustments were licensed.

With over 250 passenger-to-freighter conversions of various aerial platforms over the years, BEDEK is proud to add the successful 737-700BDSF conversion to its portfolio, and looking to implement the process on the 737-800BDSF within the next year.

Unique innovations that became operational in 2016

Material Aspect

The Israeli Cyber Companies Consortium

IAI's Cyber Division in ELTA systems group is operating several cyber innovation centers –in Israel, in Singapore, in Switzerland, in Hungary and in the Netherlands. In early 2016, IAI's ELTA Systems group established the Israeli Cyber Companies Consortium as part of a governmental competitive bid issued by the Israeli Ministry of Economics. It began as an idea during talks between Israel and Japan concerning cyber security needs around the planned TOKYO OLYMPIC GAMES in 2020. The consortium, comprised of ten leading Israeli cyber companies, demonstrates combined and innovative end-to-end solutions in the cyber world, allowing each member to bring its expertise into play, presenting a powerful entity competing with international cyber giants.

In addition, the Cyber Division developed cutting-edge technological innovations in the cyber arena, focusing on unique approaches in intelligence, defense, monitoring, identification, and mitigation. Among these was an integrated Cyber Intelligence solution supporting the security organization during the RIO 2016 OLYMPICS. This technology allowed the event organizers and the law enforcement and intelligence agencies to detect and mitigate potential cyber-attacks and riots.

Israeli Cyber Companies Consortium

Patents

Patents are considered an important asset and an indicator of innovation. A company's Research and Development process is highly expensive and risky, thus requiring a realization of the full economic value of the inventions. One way to achieve this is by patent registration, as defined by the patent laws in Israel and worldwide.

By defending our ideas, we are:
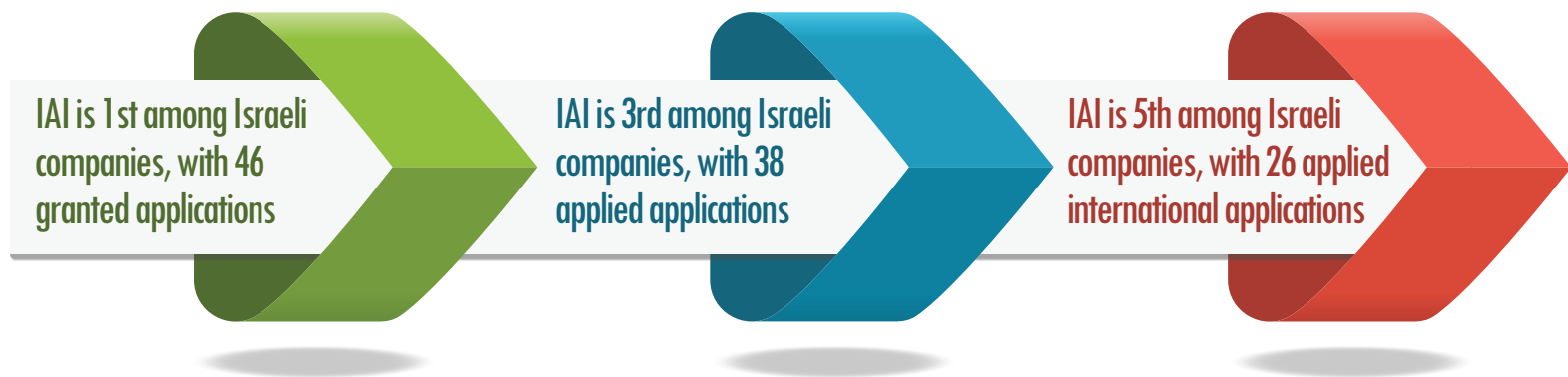
>> Encouraging further innovations and creative paths to take form.
>> Supporting the continual advancement and expansion of our knowledge base and intellectual property.
>> Ensuring freedom of action in dealing with technologies developed by our company.
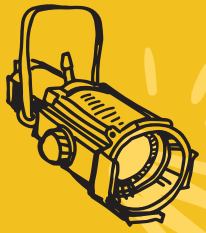
The management process

IAI is conducting a strategic process of application and registry of patents, both locally and globally. As we continually strive to position our company as a leader in technological achievements, the process of managing an idea from its initiation to full registry and commercialization requires careful support and resource investment. A cross-organizational company procedure is dictating the steps for executing an effective invention and patent application, including the appointment of management personnel to accompany the employee/team during the idea's development, as well as a rewards system based on successful inventions that were accepted for patent registry.

2016 performance*

Patents were registered in a variety of expertise fields, both commercial and military: Aerodynamics, Electronics, Mechanics, Communications, Materials, Systems and more.

IAI is 1st among Israeli companies, with 46 granted applications

IAI is 3rd among Israeli companies, with 38 applied applications

IAI is 5th among Israeli companies, with 26 applied international applications

 * From the Israeli Patents Authority annual report.

IAI Spotlight

The Aircraft Advanced Design and Development Directorate in the Development and Engineering Group held a special Take-off event with a twist: the annual event was conducted in cooperation with the ORT schools network, combining the methodological ideation process with a community involvement initiative.

Dozens of high school students aged 16-17 were invited to participate, representing 13 schools from all over the country. IAI hosted the event that took place for 13 consecutive hours, concluding with highly innovative solutions to 6 challenges.

The challenges were selected from a variety of topics sent to the directing team prior to the event. During the event, an interdisciplinary team was ready to answer any question the students had that required specific know-how – from multiple engineering disciplines, MRO specialists and aviation testing, through safety experts and health professionals from IAI's clinic, to car fleet managers and airport policemen.

Aside from looking into the technological feasibility of the suggested concepts, the students were also encouraged to assess the economic aspects of taking their design from paper to business.

Financial Performance

Material Aspect

IAI is a global Aerospace and Defense company, the largest A&D Company in Israel, and ranked in the top third of the 100 companies in the international A&D sector 2016 index, published by Defense News.

The Israeli Government holds 100% of IAI's shares.

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	2016 (Million US $)	2015 (Million US $)
Net Sales	3,577	3,708
Tax Income	28	-
Total economic value produced (income):	3,605	3,708
Operating costs (including salaries and benefits)	3,682	3,661
Finance Expenses	41	24
Tax Expenses	-	13
Dividends	0	9
Total economic value distributed:	3,723	3,707
Total economic value gained*	-118	1
Net income**	-110	9
Governmental support: R&D grant by the Chief Scientist in the Ministry of Economy	9	14

* Calculated as the total value produced minus the total value distributed.

** Including the growth agreement, signed on August 2016 (see page 46).
On 31st December 2016, IAI held a backlog amounting to 9.014 billion US $ that equals to 2.5 years of activity.

Financial Performance

Total company's equity stands at 904 million US $ and total company debt stands at 3,755 million US$.

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

Military Electronics
25%
1,006M$

Commercial Aircrafts
506M$
13%

Military Aircrafts
20%
786M$

2016
Revenues by
operating
segments

Aircrafts Maintenance
530M$
13%

Other
175M$
4%

Systems, Missiles and Space
25%
1,010M$
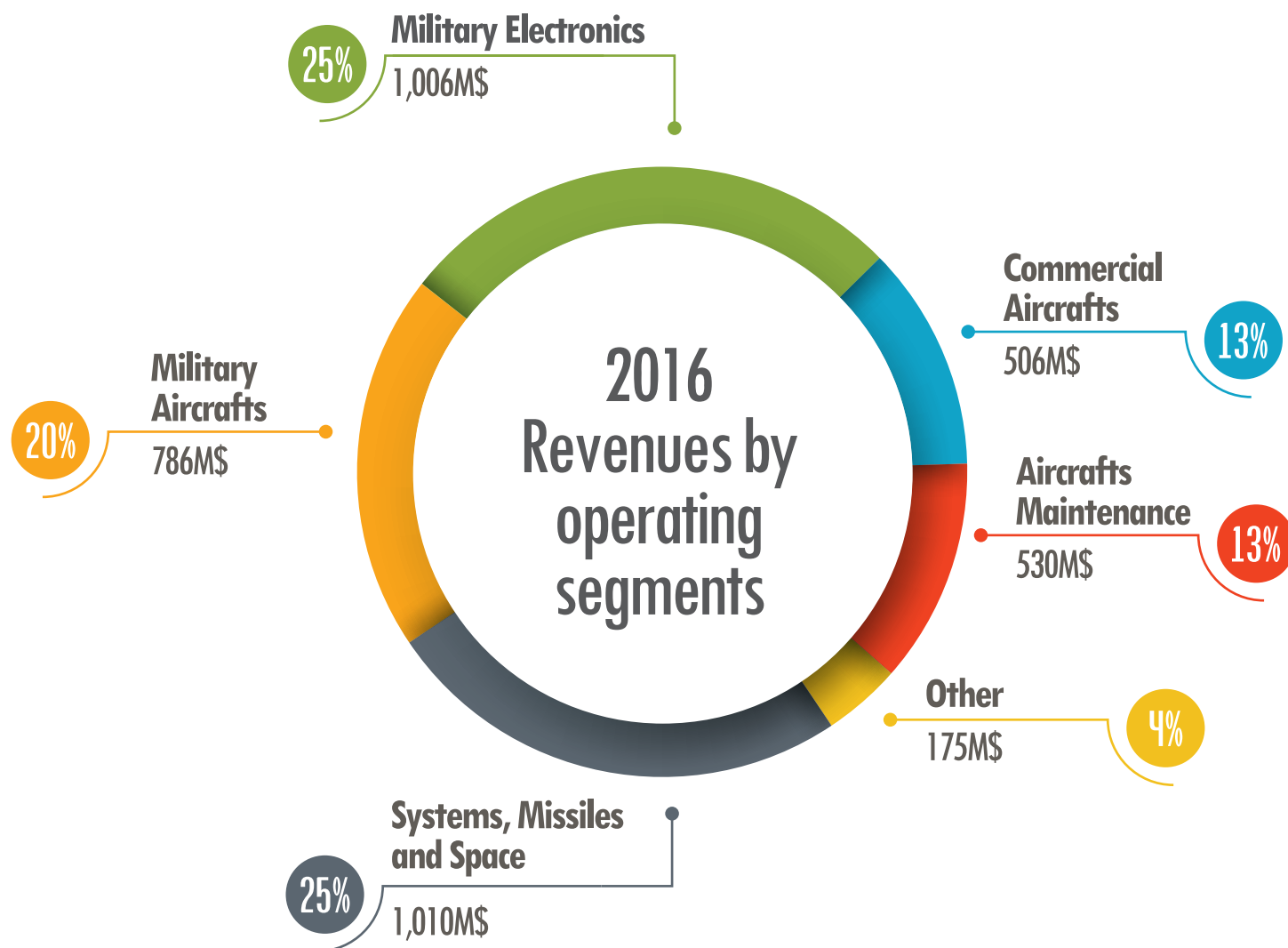
Business Development

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 Responsibility and Customer Service

Material Aspect

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.

ELTA Division awarded for Service Excellence

ELTA Systems Ltd., an IAI division, has performed major changes in the concept of customer support in recent years. These change encompasses management values, quality and quantity of support in the areas of product quality and reliability, monitoring and control, improvement of customer satisfaction and expanding new business. In conjunction with these efforts, ELTA has developed applications for controland monitoring, laid out policies and working guidelines and defined a service commitment that have in turn been adopted by Corporate IAI. the main outcomes were:

>> Greater customer confidence in ELTA's products quality and reliability
>> Reduction of turn-around time through the utilization of the new monitoring and control applications
>> Formal recognition in extended service contracts
>> Improvement in measured customer satisfaction
>> Formal recognition of the customer support organization

In 2016, ELTA won 1st place for SERVICE EXCELLENCE in the "SERVICE AS A STRATEGIC PARTNER" category, awarded by the Israel management center, which evaluates companies customer service as a business/strategic role and its impact on business results.

IAI's Supply Chain

Material Aspect

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

IAI'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.

IAI's Supply Chain

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

G4-EC8 | G4-EC9 | Limited Assurance

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 2016, we have spent 61% of our total annual procurement buying from Israeli suppliers, 9% increase compared with 2015.

52% ▸ 61%

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.

PART 2

Social Responsibility

IAI's Social Responsibility

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.

2016 has been an instrumental year for IAI, in terms of our social responsibility. During this year we parted with 730 employees as part of the growth agreement signed in August. The process was a challenging step in our journey, one which also served as an opportunity for us to practice deep caring in the face of hardships. The HR organization, alongside the Senior Management and the Employees' Organization have worked relentlessly to create a smooth retirement process for the departing employees, with an array of supporting tools and consultations. Our employees continue to be the heart and soul of our business, and this is more notable when such cross roads appear.

2016 was also a year full of initiations of new focus areas, all designed to take IAI to the next level of organizational development, and solidifying the HR Organization's primary mission as a supporting organization **connected to people, and tuned to business to enhance performance.** From a pilot project in applying HR best practices in the Commercial Aviation group, through launching the LeadAir program; from future management training, through the design of a new orientation process for new employees, to a strategic plan for cross-organizational women's advancement and employees diversity.

We continue to provide extensive training and personal development programs, scholarships, position transfers, innovation hubs and general wellbeing activities, and retirement through tailored processes designed to accompany the employee during outplacement or pension. In 2016, IAI ranked 9th among the "best places to work" in Israel's 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 keep our long term commitment to a great work environment; from in-house service facilities such as large catering halls, banking, employee transportation, workout 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 also 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 in IAI's work environment.

We remain firm in our belief that community outreach is invaluable for our business, demonstrated by a 45% increase in total volunteering hours compared with 2015. Our resolve to support Israeli society, both through our products and our people, is indeed the source of our true value.

IAI's Social Responsibility

G4-DMA

Directorates leaders forum	LeadAir Program 1st cycle	Middle management empowerment	HR Best practices pilot
Managing future personnel composition as company risk	New orientation process for new employees	Infrastructure implementation for conserving retirees knowledge	Developing work economy (salaries and benefits)
Growth 2016 agreement support	Consolidated HR unit for the Commercial Aviation Group	Meeting the 75%:25% goal in community involvement	Strategic program for women advancement
	Validation of IAI's organizational needs	Developing an effective organizational discourse	

Components* of our social responsibility program

* Further details of these components are presented throughout this chapter.

IAI Spotlight

2016 Growth agreement

In August 2016 a new collective agreement was signed by IAI's management and the employees' organization.

As IAI faced increased market competition and dramatic changes, mainly in its civilian activities, a comprehensive process was initiated to ensure improved efficiency and competitiveness, thus accelerating growth and profitability. The agreement was carefully planned with the mutual understanding that IAI's employees are the heart and the main asset of the company.

The agreement covers several major issues, leading to extensive reductions in IAI's expenses in the coming years:

>> Termination of employment of 730 permanent employees by way of early retirement, and an additional group of non-permanent employees. This is not including additional employees expected to take early retirement in the coming years.

>> An overall reduction in the costs of labor of all IAI managers and employees.

>> Postponement of the implementation of a public sector salary agreement by 3 years.

>> Organizational and structural streamlining process will be implemented, including consolidation of redundancies, reduction of overhead expenses.

>> Increased investment in R&D and marketing, for the promotion of innovation and acceleration of technological breakthroughs.

The agreement was authorized by the Israeli Ministry of Finance, as resolutions were reached regarding disputes on alleged wage irregularities.

As part of the termination of employment process, an extensive program was designed by IAI's HR organization, offering an inclusive support to all the employees parting with the company. This program included, inter alia:

>> A 4-days conference covering all aspects and impacts of early retirement: personal, familial, economic, terms and conditions, legal rights etc.

>> Employment consultation service and links to local services.

>> Continuation of salary payment until retirement age, calculated as a percentage of the last salary.

Empowering our Employees

Material Aspect

IAI remained the largest employer among the governmental companies in Israel in 2016, with a total of 15,359 employees, permanent and temporary, as well as contracted employees, students and apprentices. All of our permanent employees (62.2%) are covered by collective agreements.

	Total		Women		Men	
	2016	2015	**2016**	2015	**2016**	2015
Number of employees	**15,359**	15,734	**3,199**	3,235	**12,160**	12,499

Employees' Diversity

Material Aspect

IAI continues to actively diversify its workplace and promote equal opportunities in employment. We look to further expand our program for intake of Israelis of Ethiopian origins, as well as members of the Druze community and of the Orthodox Jews community. In addition, IAI is setting no limits regarding hiring age, and regularly welcomes employees over 45, such as IDF retirees.

The proportion of women as a percentage of our total workforce remains unchanged at 20% in 2016. In addition, an increase was acheived in employees with special needs in the company. The Sustainability Board committee and the Senior Management Steering Committee for sustainability declared IAI's women's advancement program and expanding diversity as one of the company's major focus areas for 2017 (see page 23).

	% Total	
	2016	**2015**
Employees of Ethiopian origins	**1.49**	Not reported
Employees < 30 years	**10.7**	8.5
Employees between 31-50 years	**45.2**	43.8
Employees over > 51 years	**44.1**	47.7
Employees with special needs	**3.3**	3

Objectives and targets were set with specific cross-organizational referents from the company's HR organization, to support and actively promote the intake process of each group.

Empowering our Employees

Management Diversity

Material Aspect

IAI is striving to change the traditional management composition, typifying defense and technology companies worldwide, by gradually expanding the number of women in its Senior Management echelons. This requires a long-term investment in training and promoting skilled women from within the junior management echelons. Currently, 7.3% of the company's top 10% earners are women.

100% of senior management were recruited from the local community.

	Total		Women		Men	
	2016	2015	**2016**	2015	**2016**	2015
Number of Managers*	**59**	68	**8**	6	**51**	62

* Including vice presidents and managers directly reporting to the CEO.

The Total number of our company's managers decreased during 2016 as part of reorganization process.

Age Group	% Total	
	2016	**2015**
Managers < 30	**0**	0
Managers between 31-50	**20.3**	16.1
Managers > 51	**79.7**	83.9

Empowering our Employees

Employees Training and Development

IAI invests extensively in training its employees and establishing a long-term development plan for their continual individual evolution within the organization. As noted earlier (see page 15), IAI had launched the sustainability web-based learning at the end of 2016.

	2016	2015
Total number of training hours*	495,562	431,902
Average number of training hours per employee**	33	27

* Represents frontal training only, excludes additional training completed via web.
** Normalized per total number of IAI's employees (see page 47).

In 2016, a cross-organizational project was conducted, aiming to examine and improve the effectiveness of the company's training system. The project was led by the MHT Division, which, among other responsibilities, is our powerhouse for training both in-house and external trainees in numerous general and expert-specific courses. The evaluation of training effectiveness is supported by the certifications the IAI holds, including: ISO 9001:2015, AS9100, and CMMI.

A system which serves as an aid to managerial decisions was developed by MHT and MMN, IAI's IT and computing systems division, with the following capabilities:

>> An interface with IAI's training database
>> Formulation and dissemination of surveys in an efficient fashion
>> A User-friendly interface
>> Automatic management of potential survey respondents, including a reminder system
>> Statistical processing of the survey results, including graphic display and trending.

LeadAIR

On April 2016, IAI launched its first cycle of training as part of the future management pool development program, LeadAir. The training represents the initial milestone in the company's long-term management development strategy, which was developed in 2015 with academic support. The first population to be trained is managers en route to becoming Division managers.

25 managers, representing all IAI's divisions, were carefully selected as the future leading generation, to operate in the rapidly-changing and highly complex and dynamic business world of the coming years. LeadAir was developed as a single cross-company strategy to ensure strong prospects of role candidacy from within the company. The training covers a variety of capability development, allowing managers to become business-technology leaders, including:

>> Acquiring progressive managerial knowledge through workshops and group meetings
>> Practicing managerial tasks
>> Experiencing real-world situations and challenges

Empowering our Employees

The practical engineers and technician knowledge upgrade program (PE'IMA)

In 2016, 45 technicians and practical engineers completed the first cycle of a unique training program – the practical engineers and technicians knowledge upgrade program, or PE'IMA in Hebrew.

Following the employees' organization analysis of existing development and training tools available to the technicians and practical engineers sector at the IAI, a need for a new focus was identified. The training program aimed to instruct that employee population with adjusted knowledge and supportive means to match the changing markets and technologies, while promoting their personal growth in the company. MHT division, responsible for academic training development for IAI employees, formed a partnership with the BEN GURION UNIVERSITY OF THE NEGEV. Following an extensive survey throughout the company, a tailor-made program was developed, supervised by a joint steering committee of HR, operations and the employees' organization, as well as the technicians and practical engineers sector representatives, the MHT division and referents from all IAI's divisions.

Four learning majors were established:

>> Quality processes

>> Aero-mechanical systems

>> Electric and electronic systems

>> System integration

The first major chosen for implementation was the "quality processes", as the management indicated requirements for performance improvement in this area. The training included lectures by academics and professional experts from within IAI, emphasizing applicable tools for daily practice by the students, as well as practical training.

The graduates were awarded diplomas from the UNIVERSITY and IAI, opening new opportunities for promotions and role development.

Empowering our Employees
G4-EC3

Employees Benefit Plans

IAI's employee benefit plans and pensions are reported in the 2016 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

Human Resources (HR) excellence awards

Two IAI HR teams were cited for excellence in a national competition organized by The Israeli Association for HR Management Research and Development. The HR team of the BEDEK Aviation group won first place in demonstrating HR professionalism through the development of future generation managers, and IAI's team of knowledge preservation and dissemination won 3rd place.

Organizational Transitions

New Employees

In 2016, IAI welcomed a total of 932 employees. In addition, 21% of our employees were promoted within the organization during that year.

	Total		Women%		Men%	
	2016	2015	**2016**	2015	**2016**	2015
Number of new employees	**932***	864	**31.9**	33.9	**68.1**	66.1

* Out of which 411 are students.

Age Group	% Total
Employees < 30	**580**
Employees between 31-50	**283**
Employees > 51	**69**

Based on good performance reviews, approximately 98% of all professional contractors employed for 9 months during 2016 became direct IAI employees.

Retiring from IAI

1,343 employees have retired from IAI during 2016. 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:

>> A 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 specifically reserved for IAI retirees and ways to maintain contact with the company, volunteering opportunities, 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. In 2016, this program was attended by 99% of our retiring employees.

>> A retiree club, open to all retiring employees, where they can access specific guidance, as well as continue enjoying activities such as touring, 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.
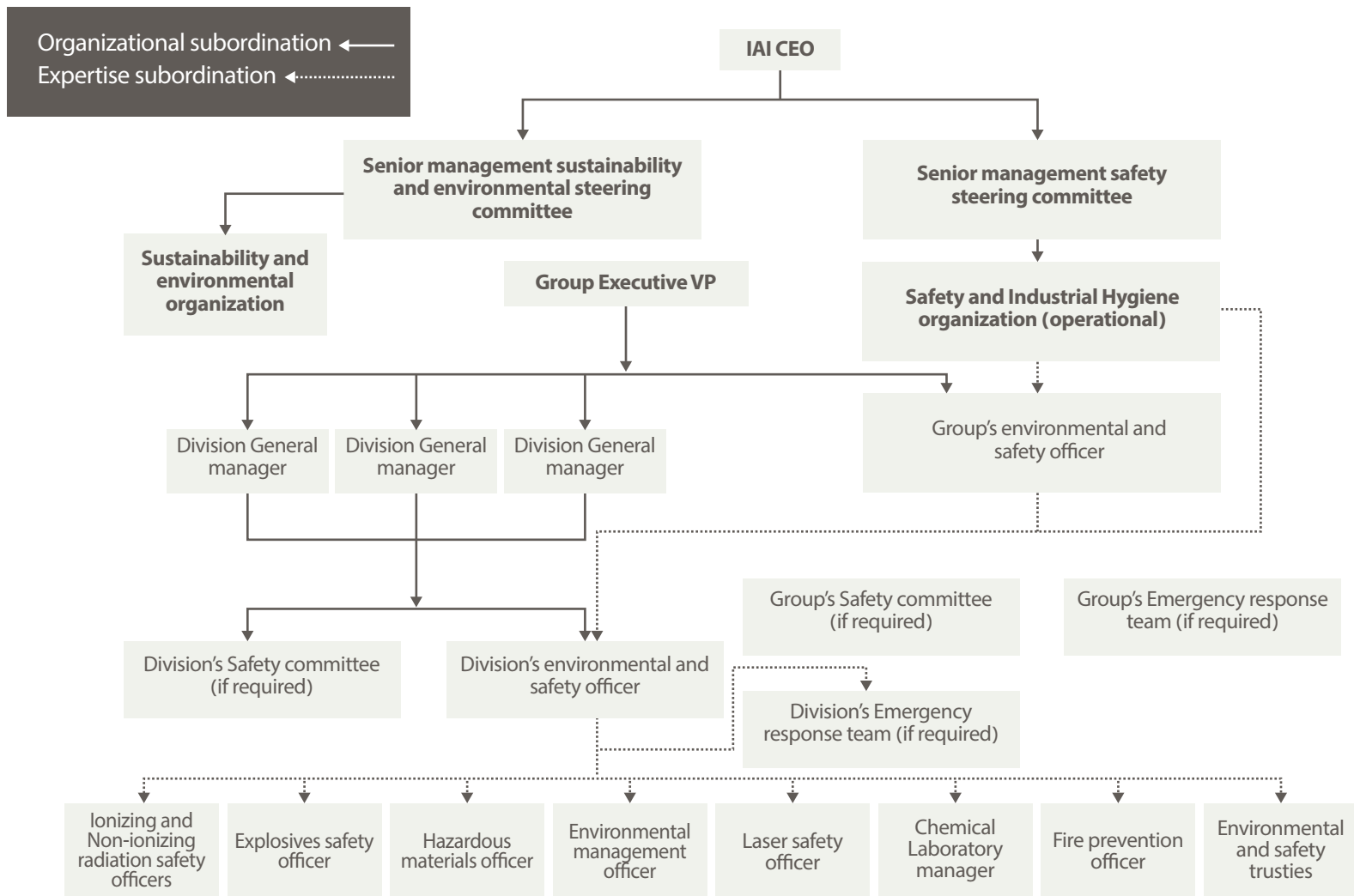
Occupational Health and Safety

G4-LA8

Material Aspect

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.

Organizational subordination ◄———
Expertise subordination ◄·············

IAI CEO

Senior management sustainability and environmental steering committee

Senior management safety steering committee

Sustainability and environmental organization

Group Executive VP

Safety and Industrial Hygiene organization (operational)

Division General manager

Division General manager

Division General manager

Group's environmental and safety officer

Division's Safety committee (if required)

Division's environmental and safety officer

Group's Safety committee (if required)

Group's Emergency response team (if required)

Division's Emergency response team (if required)

Ionizing and Non-ionizing radiation safety officers

Explosives safety officer

Hazardous materials officer

Environmental management officer

Laser safety officer

Chemical Laboratory manager

Fire prevention officer

Environmental and safety trusties

Occupational Health and Safety

G4-LA5 | Limited Assurance

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.

Occupational Health and Safety

G4-LA6 | Limited Assurance

Table: Number of accidents and employees' absence days due to either injury or sickness*

Group	No. Accidents		No. Absence days	
	2016	2015	**2016**	2015
BEDEK aviation	**38**	38	**1,207**	944
ELTA systems Ltd.	**16**	14	**485**	476
Engineering and Development	**2**	7	**71**	98
Systems, Missiles and Space	**14**	18	**413**	557
Commercial Aircraft	**17**	21	**611**	906
Military Aircraft	**1**	10	**50**	388
Supporting units**	**5**	6	**75**	48
Board of Directors/Management	**3**	4	**186**	112
Total	**96**	118	**3,098**	3,529
Total per 1000 Employees	**6.25**	7.68	**202**	230

* The data represented in this table is based on cut-off analysis from February 2017. Some of the data that appeared on 2015 report may be restated due to the safety system updates with late-reporting of events, as the Israeli law allows for 5-year interval for accidents reporting.

** Industrial Services, MMN (IT services) and MHT

The Sustainability Board committee and the Senior Management Steering Committee for sustainability designated IAI's Safety and Health program as one of the company's major focus areas for 2017 .

Contractors and Suppliers Health and Safety

IAI includes Occupational Health and Safety practices clauses in all contracts.

Table: Number of contractors accidents*

No. Accidents	
2016	2015
21	24

* Data is based on insurance claims only.
Further information regarding these aspects of the supply chain will be presented in future reports.

Occupational Health and Safety
G4-LA6

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 leased car fleet for employees. A designated Traffic Safety Organization manages all transportation requirements, ensuring obedience to traffic laws and regulations, investigating and following up traffic accidents and speeding incidents, and continually improve our transportation systems.

The major improvements in 2016 included:

>> A new web-based training program was disseminated to all IAI employees, in order to increase awareness as well as give practical tools for drivers on traffic safety.

>> A new INTRANET website was launched with regular updates and publications on safe driving and parking.

>> Three new courses were developed with MHT division, responsible for training and learning development resources. Thecourses support professional drivers to gain in-depth knowledge.

>> Over 130 parking spaces were established and properly marked.

>> Renovation of an internal driving tunnel, connecting two sides of IAI's main campus, to allow safer passage of pedestrians.

>> Renovation and modifications of the IAI's main campus entries.

>> Establishment of an internal traffic safety enforcement unit, with over 350 parking tickets submitted, and some reaching a hearing committee due to their risky driving behavior.

>> 65% fewer violations were recorded in TRAFFILOG, an INTRANET-based system, documenting and recording events of speed limit exceedance, in comparison with 2015 performance.

>> 8% fewer reports were submitted through "NOHAL 6," a system documenting violations reported anonymously, of IAI's vehicles traveling outside our campuses.

	2016	2015
Number of Traffic accidents (insurance activated)	27	30
Number of Traffic accidents (internally investigated without insurance activated)	32	Not recorded
Number of pedestrian injured	6	1

IAI Spotlight

Traffic Safety Month

November 2016 was designated as the month of traffic safety awareness by IAI's Traffic Safety Organization. During that month, a host of activities was conducted, aiming to increase exposure and awareness of the employees to driving risks and traffic regulations. The initiative was organized with MHT Division, in charge of IAI's training development, and the Employees' Organization.

Among the events were:

>> Some 40 lectures were delivered to over 6,000 employees by volunteers of OR YAROK, a non-profit organization promoting traffic safety in Israel.

>> Unique Gazebo stations were placed next to the dining halls, functioning as "self-service" information libraries, where employees could find in-depth materials in a multitude of road safety issues.

>> Operational electric vehicles turned into temporary displays, inviting drivers to prepare their cars for winter driving.

>> Signs and posters were distributed throughout central locations in IAI's campuses.

Internal communications

In 2016, IAI had transformed its internal communications activities through several milestones. This was done to improve current links between business activities and their communications throughout the company, to strengthen the interfaces with all IAI's division referents, and to create a single language-single visibility for internal communications function.

Internal communications are considered one of the strongest platforms for our employees' knowledge sharing, considered one of the company's major stakeholders.

Some of 2016 initiatives included:

>> Four communication workshops to points of contact (POCs) in the IAI's divisions.

>> Producing four cross-organizational magazines, reviewing the company's new products, strategic units, social initiatives etc.

>> Conducting five roundtables with the participation of IAI's Vice President for HR.

>> Planning the new internal communications webpage in IAI'S INTRANET, toward its launch in 2017.

Community Involvement and Volunteering
G4-SO1

Our commitment to communities located in the vicinity of our operations, as well as to the Israeli society as a whole, remains solid. The invaluable sense of giving and positively touching the lives of those who look for a change in their life circumstances is motivating many of our employees to continually reach out. 5.2% of the company employees are long-term volunteers, averaging 23 hours per each volunteer per year. In addition, about 4,000 food packages were donated to families in need during Jewish holidays (Rosh Hashana and Passover).

In 2016, a total of 18,237 volunteer hours were recorded, a 45% increase from our 2015 performance.

At the end of 2015, the goal set for our community involvement and volunteering was 75%: 25% division of activities* between volunteering in technological education and supporting weakened communities in need, respectively.

In 2016, we have managed to significantly increase the number of volunteering activities focusing on technological education, but we are yet to meet our goal, to be carried over into 2017.

Volunteering focus	% of activities, 2016	Annual goal for % of activities
Technological education	65.3	75
Weakened communities in need	34.7	25

* Note that a change was made from the 2015 Sustainability report which relates to volunteering hours instead of a number of community activities.

PART 3

Corporate Governance
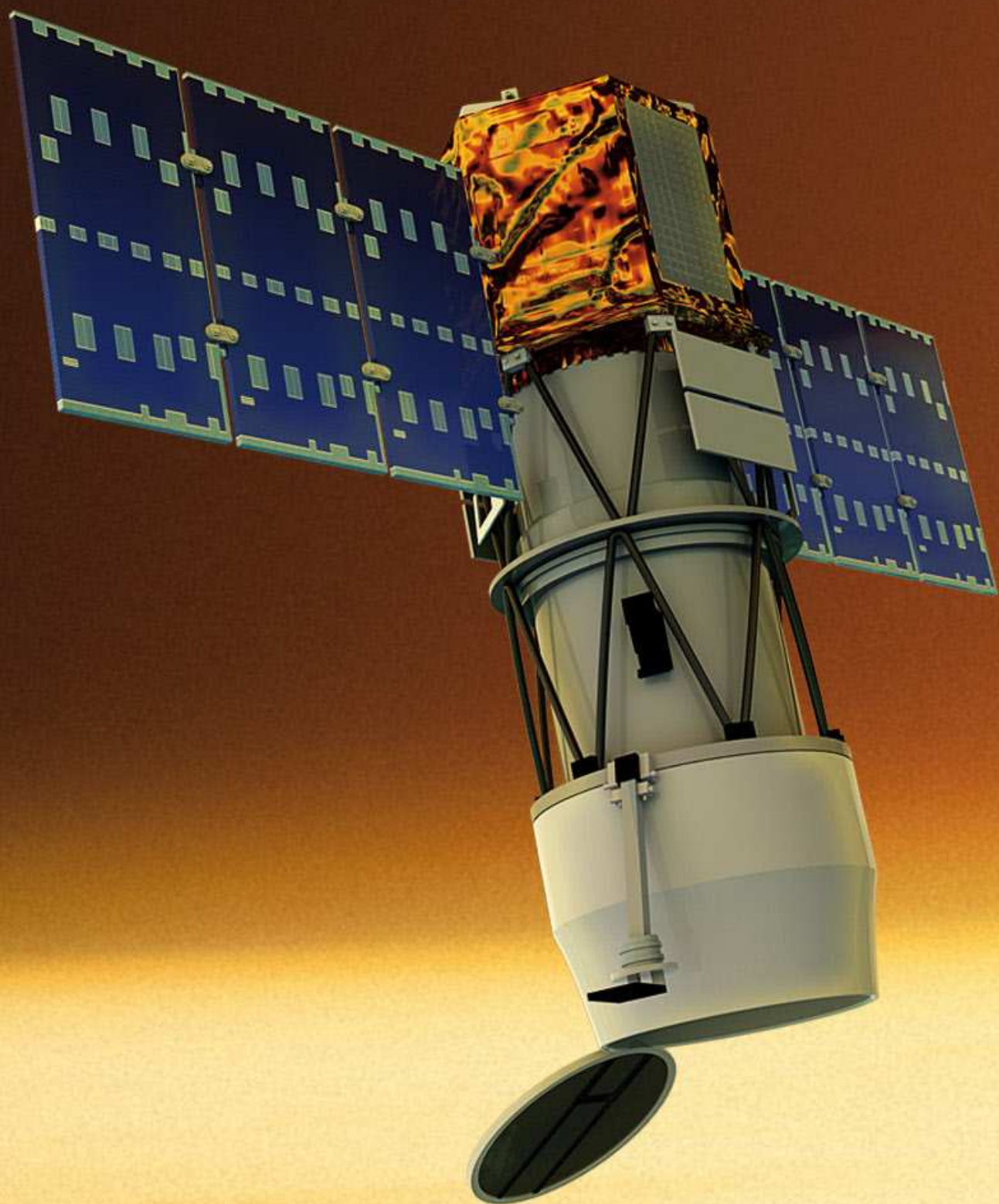
Material Aspect

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 accordance 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. From September 2016 to the end of the reporting year, IAI did not have a chairman of the board of directors. A new chairman was appointed during the time frame between the end of the reporting year and the publication date of this report.

In 2016 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). The committee's responsibilities regarding sustainability and corporate governance are – corporate responsibility; corporate governance; sustainable development; an internal enforcement of the securities laws.

Corporate Governance at IAI

G4-38 | Limited Assurance

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.

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."

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

In 2016, the number of women and independent directors increased, as the total number of board members grew from 8 to 10. Board members' diversity is achieved in coordination with the regulatory functions.

	2016	2015
No. Women members of the board	5	2
No. Men members of the board	5	6
No. Independent directors	6	5
No. members representing a minority *	1	1
No. members in the sustainability committee	2	2

* From the Druze 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 2016, IAI's Board of Directors held a total of 55 meetings.

	2016	2015
No. of general assembly board meetings	**16**	14
No. of board committee meetings	**39**	57
No. of board sustainability committee meetings*	**3**	3

* Out of the total number of board committee meetings

Senior management reward policy

IAI operates by a set policy for Senior Management rewarding, based on:

>> Long-term company growth policy

>> Benefits based on the company's risk management policy

>> The company's size and nature

>> Components relating to the specific function and his/her contribution to meeting the company's long-term goals.

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 2016.

Corporate Governance at IAI

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 2016 (page 112, 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-EN29

Compliance

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 2016 environmental performance.

Sustainable Risk 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 the entire project milestones, and recorded in an online tool available in the company's INTRANET.

In continuation to the corporate risk management process, IAI has developed an innovative Corporate KRI (Key Risk Indicators) Management system. The system harnesses BI (Business Intelligence) Data Fusion capabilities and calculates and displays all IAI's KRIs into a single Dashboard. The system delivers an innovative user experience that enables IAI's management to view updated Risk Gauges (based on the actual data in the operational IT systems). The users can easily perform an in-depth review from each KRI, looking into the Risk factors, trends over time and relevant Corporate KPIs (Key Performance Indicator) affected in the KPIs system.
The KRIs Management system enables filtering the different groups and divisions, and also serves as a key management tool for the business organizations within IAI.

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.

MMN Division adopts Cyber standard ISO 27032

As cyber defense becomes a regulatory requirement, facing the growing threats worldwide, an international standard was developed to cover all potential issues – information security, confidentiality of operational and business elements, data accessibility and wholeness.

The international standard ISO/IEC 27032 is intended to emphasize the role of different securities in the Cyberspace, regarding information security, network and internet security, and critical information infrastructure protection (CIIP). ISO/IEC 27032 as an international standard provides a policy framework to address the establishment of trustworthiness, collaboration, exchange of information, and technical guidance for system integration between stakeholders in the cyberspace.

ISO/IEC 27032: 2012 provides guidance for improving the state of Cybersecurity, drawing out the unique aspects of that activity and its dependencies on other security domains, in particular:

>> information security

>> network security

>> internet security

>> critical information infrastructure protection (CIIP)

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

MMN's cyber activities provide end-to-end information and cyber security coverage to IAI's computing & network infrastructure. The cyber activities include advanced cyber security operation center which monitor & react to cyber threats and investigate complicated cyber threats. MMN is standing in the front-line with the most advanced international standards regarding Cyber Incident Response (IR) plans, Cyber Security Operational procedure & Cyber Forensics capabilities.

Ethics

IAI's Code of Conduct

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, 91% of our employees have completed the web-based Code of Ethics training. 2017 will begin a new cycle of refreshers.

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

Our code of conduct is available here:
http://www.iai.co.il/Sip_Storage//FILES/4/42304.pdf

2017 non-ethical claims case

In the first quarter of 2017, at the instruction of the CEO and the Board of Directors, IAI initiated an investigation into suspicious activities, primarily related to certain Israeli suppliers. Substantial resources continue to be invested, both internally and externally, to address any improper practices and behaviors in accordance with the "ZERO TOLERANCE" policy.

IAI shared its findings with the relevant authorities and will continue to do so.

It is important to note that **IAI is not under an investigation or any other restrictions**. IAI's dedicated and professional employees will continue to strive for full compliance with the appropriate laws and ethical standards.

Internal compliance and anti-corruption

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.

Training for intenal compliance, anti-corruption and bribery prevention was performed according to IAI's annual protocol, however specific data on number of trainees was not collected during 2016. The training covers all employees with specific relationship with foreign costumers and officials, including marketing, finances, contracts etc.

In a 2015 report on DEFENCE COMPANIES ANTI-CORRUPTION INDEX, published by Transparency International UK every three years, 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

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 company 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 these two international associations that assist organizational compliance officers in maintaining and upping the company's performance on these critical issues.

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# 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.
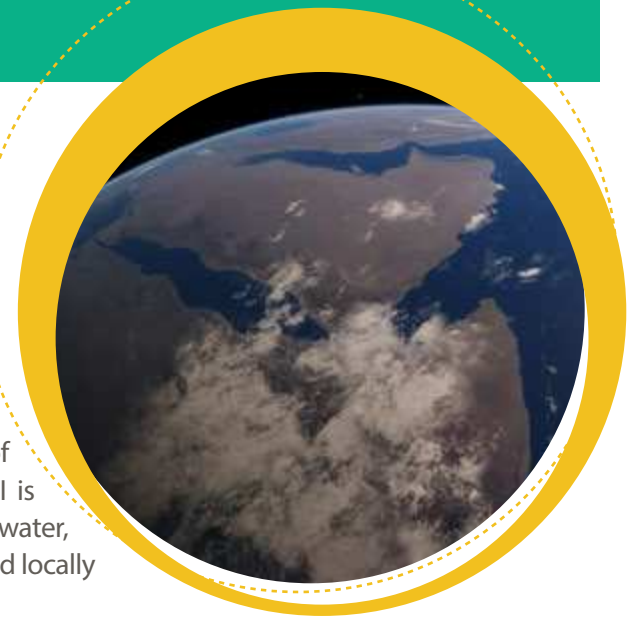
Environmental Challenges in Aerospace and Defense Industry

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 continues to join forces with industry colleagues in improving the overall A&D sector sustainability performance. From developing new solutions for aircrafts as part of the European Union Horizon 2020 program, to participating in setting the industry guidelines and solutions developed by IAEG (see page 73).

Energy

G4-EN3 | G4-EN6 | Limited Assurance

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, and we strive to get all our infrastructures (electricity, fuels, and natural gas) to operate in optimal conditions, maximum economic efficiency, and eco-friendliness.

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.

We continue with ISO 50001 Certifications for energy management in our facilities, with two more operational units joining in 2016: IAI's Systems, Missiles and Space Group and the Unmanned Aerial Vehicles (MLT) Division from the Military Aircraft Group. Additional Divisions are in the pipeline for certification in the coming years.

Electricity consumption

On May 2014, IAI transferred all its electricity consumption to a private supplier, 100% based on Natural gas.

As of 2007, IAI established a continuous working plan to implement cross-organizational efficiency and saving measures. Since 2007, 24% savings were achievedinh relation to the business as usual scenario, equaling to a total of 435 GWh (1,566,000,000 MJ).

Overall Electricity Consumption and Savings 2002-2016, in GWh
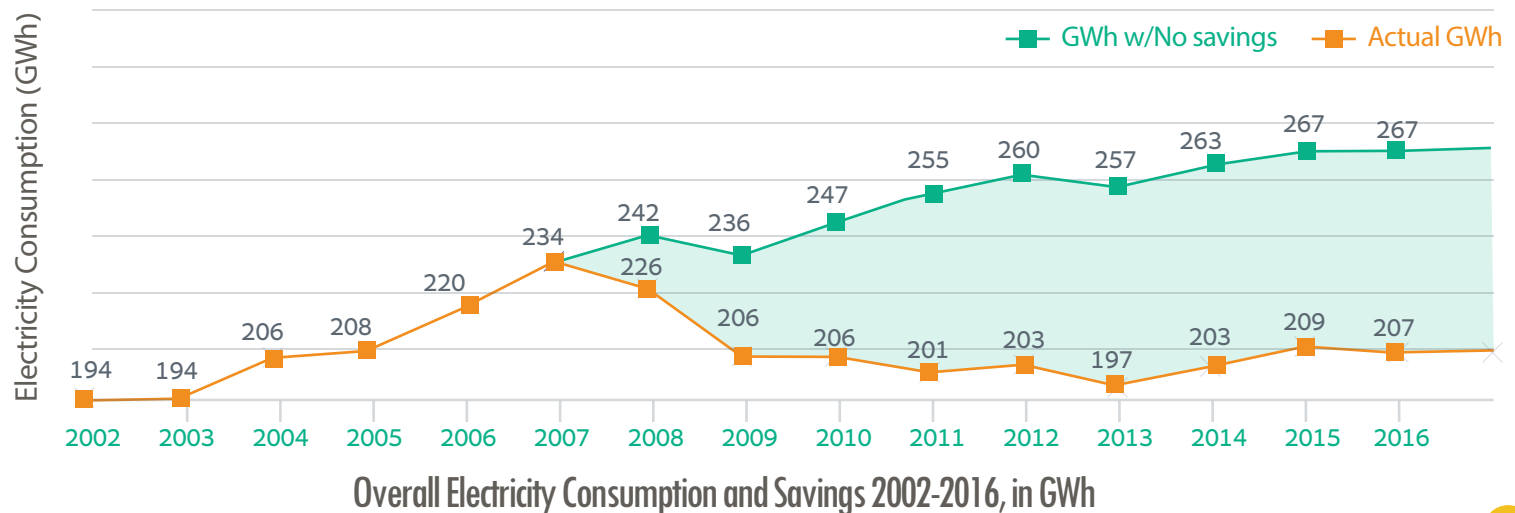
Energy

The total electricity consumed in 2016 was 745,904,988 MJ.
IAI did not sell any energy (electricity, cooling/heating or steam) during this year.
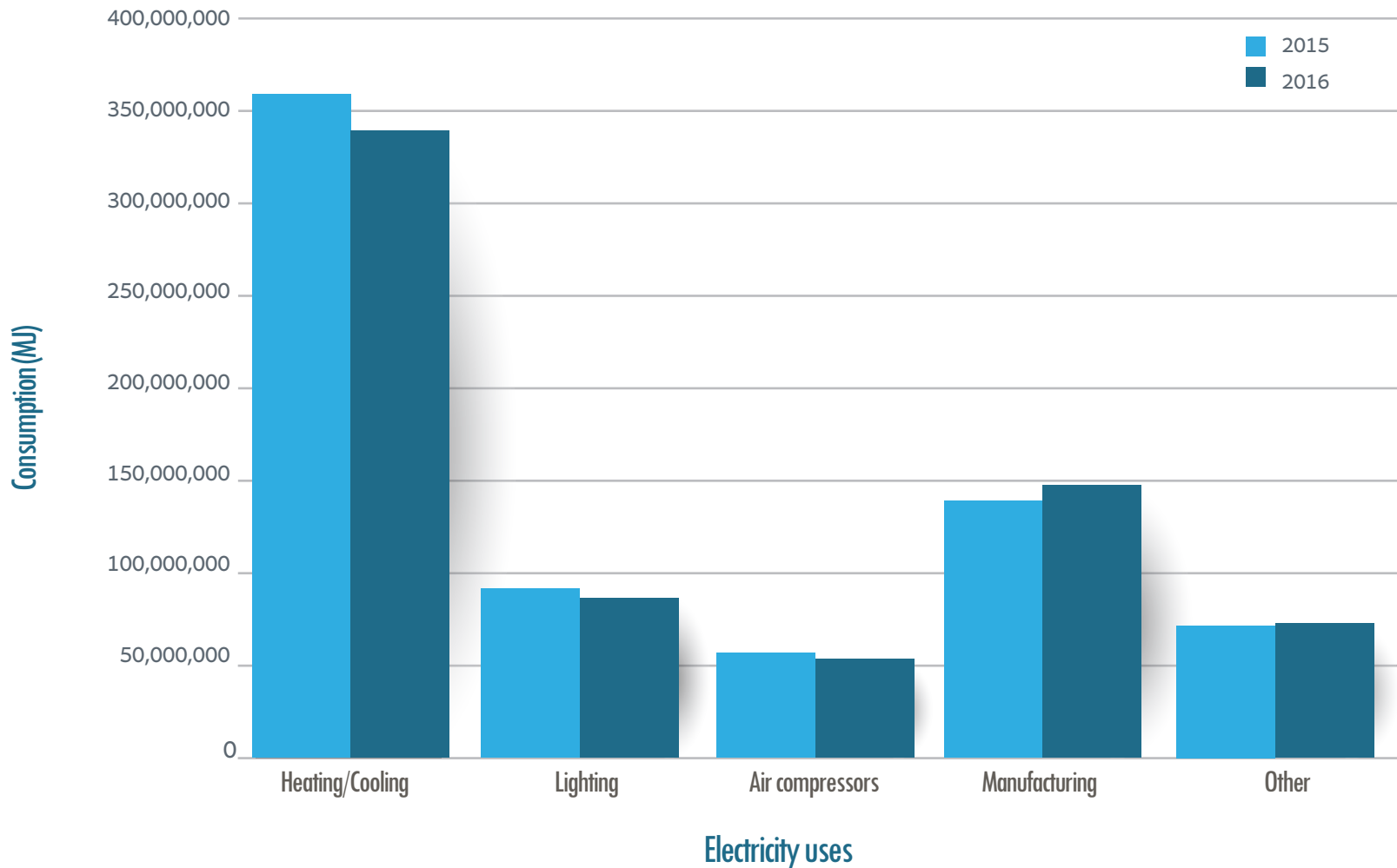
Electricity Consumption 2016 vs. 2015* in MJ

* Source used for data unit conversions: The 2006 Guide of the Intergovernmental Panel on Climate Change (IPCC). Data for 2015 was calculated based on common engineering factors available here: http://w.astro.berkeley.edu/~wright/fuel_energy.html

Energy

During 2016, over 500 hours of training on energy supply and consumption were delivered to key employees, including division general managers, energy officers, and energy trustees. These training sessions complete the overall training initiated in 2015, focusing on idividuals who missed training, as well as new employees of energy management. Each division manager was given a concise kit of operational guidelines on energy consumption, allowing them to address all levels in their respective units, and create annual work plans.

Fuel Consumption in Industrial Uses

Total fuels consumed in 2016 for industrial uses were 96,544,639 MJ. The increase of Diesel fuel compared to 2015 was due to higher operation rates. No renewable energy sources were utilized by IAI during 2016.

Industrial Fuel Consumption 2016 vs. 2015* in MJ

* Source used for data unit conversions: The 2006 Guide of the Intergovernmental Panel on Climate Change (IPCC). Data for 2015 was calculated based on common engineering factors available here: http://w.astro.berkeley.edu/~wright/fuel_energy.html
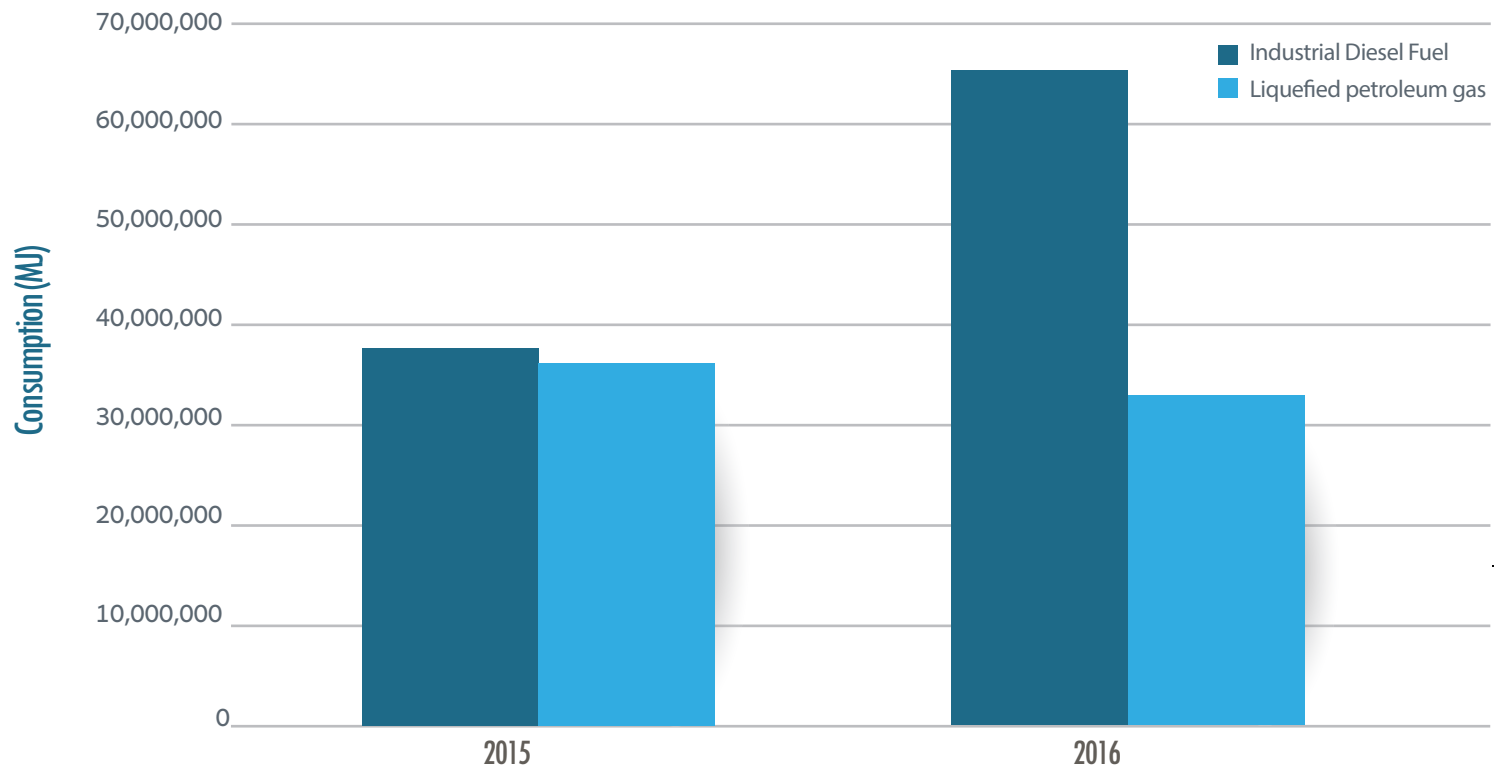
Energy

Fuel Consumption in Transportation

IAI operates a leased car fleet for its employees, as well as a fleet for short travels between its sites. Total travel in 2016 was 107,617,416 kilometers; a decrease of 8% compared to 2015.

The increase in Diesel fuel in 2016 compared with 2015 was due to transfer of some employees to diesel-based vehicles.

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

Fuel Type		Y2016 Consumption (Liters)	Y2015 Consumption (Liters)
Automotive	Diesel Fuel (50)	559,984	183,772
	Gasoline (95)	8,408,135	9,557,590
Aviation	Jet Fuel	3,485,079	3,417,000

Green House Gases (GHGs) and Climate Change

G4-EN15 | G4-EN16 | G4-EN18 | Limited Assurance

Material Aspect

According to NASA (National Aeronautics and Space Administration), the year 2016 continued to set new high records of global temperature. As part of facing this global challenge, IAI initiated a cross-organizational program for carbon control, to be further expanded and reported on in coming years. Our main efforts focus on effective energy utilization, while exploring potential solutions in renewable energy.

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

Source	2016 CO_2 metric ton equivalent emissions	2015 CO_2 metric ton equivalent emissions	Trends in emissions between 2015-2016
Scope 1: Direct emissions			
Stationary fuel sources (Industrial fuels)*	**7,375**	4,812	⬆
Mobile fuel sources (transportation fuels)	**32,166**	33,600	⬇
Total scope 1	**39,541**	38,412	
Scope 2: Indirect emissions			
Electricity consumption	**88,265**	85,952	⬆
Total scope 2	**88,265**	85,952	
Total emissions (scopes 1 & 2)	**127,806**	124,364	

* As of 2016, the diesel fuel type used in Industrial operations (mainly generators) is automotive diesel type. Diesel fuel consumption was higher during 2016 due to operation rates increase.

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

GHG Intensity

Our GHG intensity is calculated **per total built area,** 866,712 square meters in 2016.

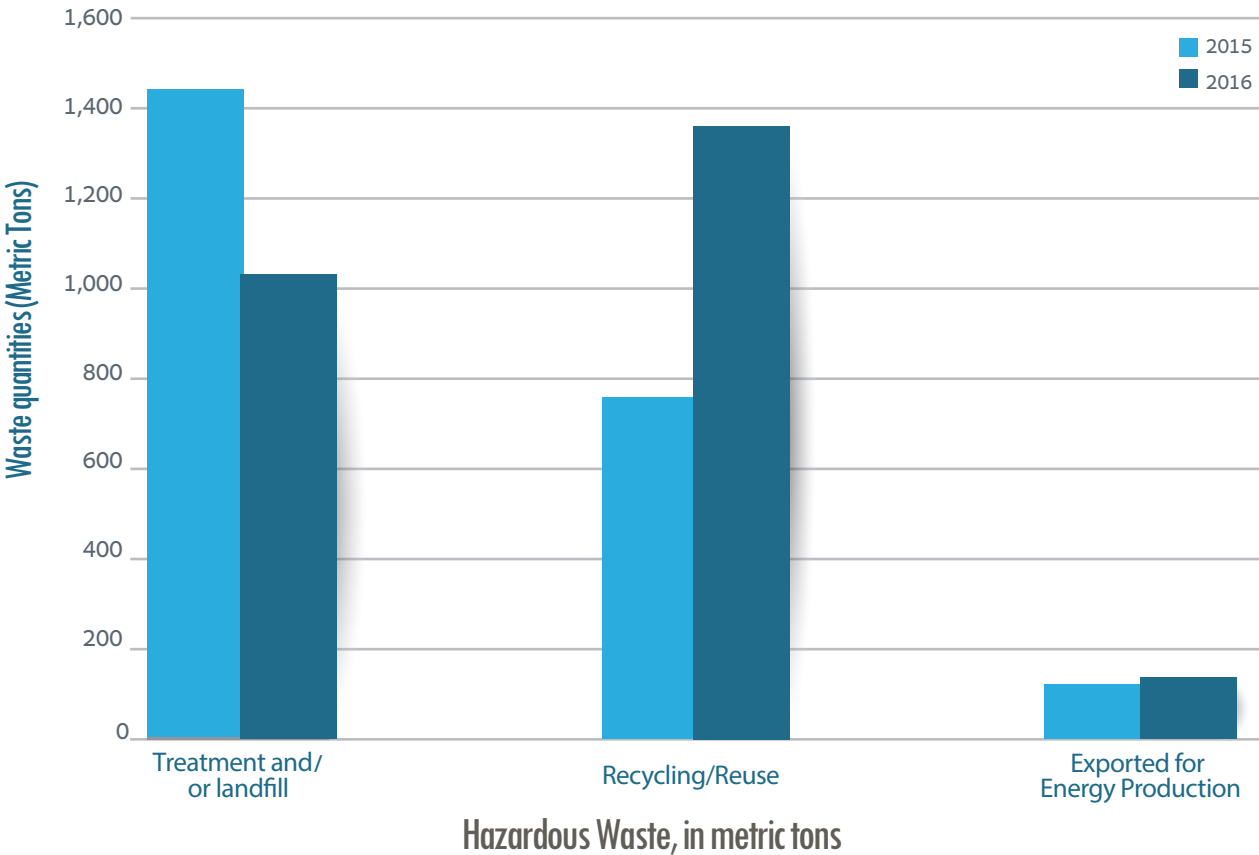| GHG intensity	2016	2015
Scope 1	**0.046**	0.047
Scope 2	**0.102**	0.105

Waste Management

G4-EN23 | G4-EN25

Material Aspect

Raw materials are being exhausted quickly on a global scale. This situation calls for better management of waste – both economically and environmentally – and employing systems that go beyond mere pollution prevention. IAI is focusing efforts to continually look for more recycling and reuse opportunities, while implementing a smarter raw material use.

Compared with 2015, our recycling/reuse rate for hazardous waste expanded from 33% to 54%, and from 51% to 58% for non-hazardous waste.

Hazardous Waste

In 2016, a total of 2,517 metric tons of hazardous waste was 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 licensed by the Israeli Ministry of environmental protection.

Hazardous Waste, in metric tons

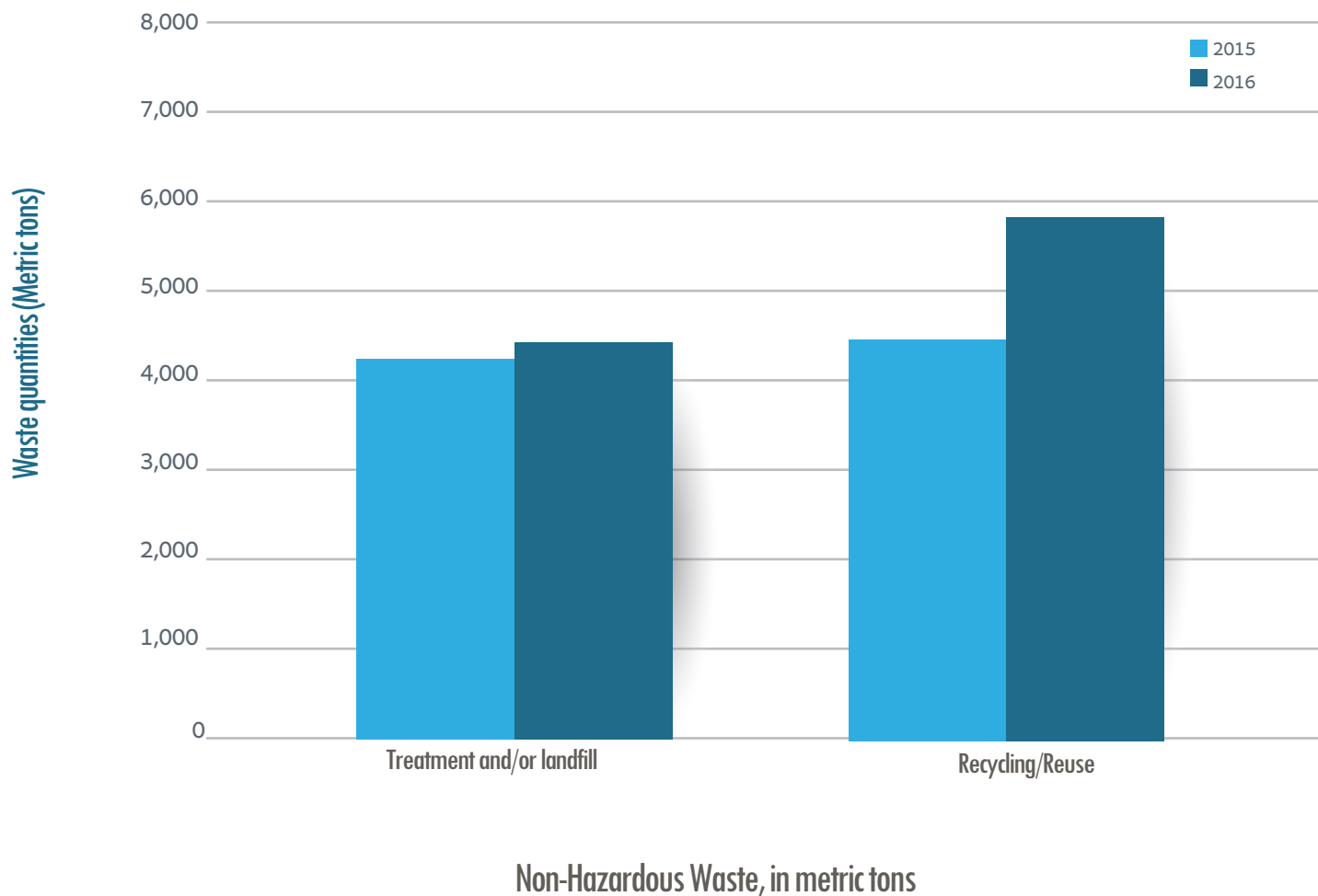# Waste Management

Non-hazardous Waste

In 2016, a total of 10,087 metric tons of Non-hazardous waste was evacuated from IAI's sites, out of which 58% were sent for recycling and the rest for landfill. All waste recycling was done based on the waste contractor alternatives.

Non-Hazardous Waste, in metric tons

Water and Effluents

G4-EN8 | G4-EN22 | Limited Assurance

Material Aspect

Israel is situated in a geographical area that suffers from water shortage, which lead to a globally-acknowledged leadership in water technologies. Although the water economy in the region continues to stabilize with large investments in national infrastructures and efficient water recovery of over 75% of effluent recovery for agriculture, IAI regards water consumption in its operations as a significant resource, and takes active steps to make it more efficient while continuing to promote desalination technology development.

Water Consumption and Efficiency

Total fresh water consumed by facilities at IAI's Ben Gurion Airport site during 2016 was 342,993 cubic meters. This is an increase of 6% from 2015 due to:

>> Old piping bursting and causing water losses. The Industrial Services Division, responsible for all IAI's infrastructures, is currently running a multiyear plan for piping replacements throughout the divisions to prevent future incidents.

>> Significant rise in the operational activities of the wind tunnels, where a new cooling tower was installed as part of the system's compression process.

>> Increase in water usage for in-house irrigation.

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

Effluents Treatment

All of IAI's effluents are managed based on their level and type of contaminates. In manufacturing process with high concentration of contaminates compared with regulatory levels, the effluents are diverted into specific in-house effluent pre-treatment facilities, prior to their final discharge from IAI. Total Effluents discharged by facilities at IAI's Ben Gurion Airport site during 2016 was 202,402 cubic meters. A decrease of 12% from 2015.

All Effluents consumption data are 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 were done during 2016 and planned for 2017.

Air Quality

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.

IAI's facilities compliance with the Israeli Clean Air Law - 2008

The Israeli Clean Air Law, which came into effect on 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. These facilities underwent a series of processes to meet all legal requirements, and their 2016 performance is according to stack monitoring, emissions factors and calculation methodologies defined in the Israeli Pollutant Release and Transfer Register - 2012. Note that Persistent Organic Pollutants (POP) are not present in IAI's operations.

12.9 NOx 15.1

0.74 SOx 22.5

2015

2016

2.2 PM 1.17

35.6 VOC 15.6
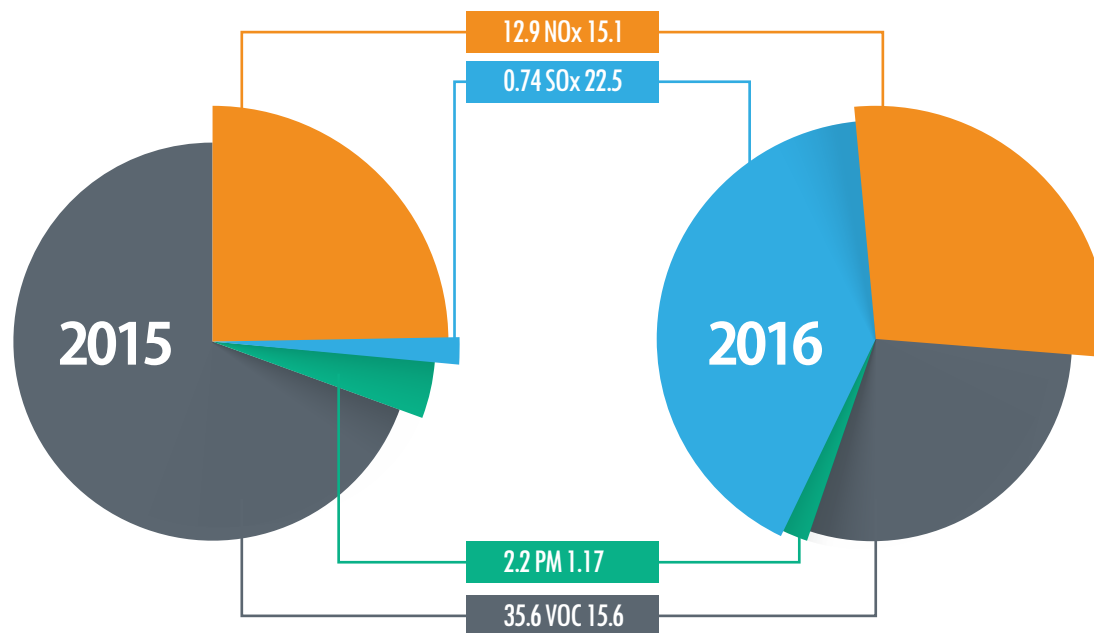
2015-2016 Air Emissions comparison, in metric tons

The major rise in 2016 SOx emissions is attributed to a significant workload undertaken by one of the facilities compared with past years.

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G4-2	5	Key impacts, risks and opportunities

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General Standard Disclosures	Page	Detailed Disclosure
G4-17	10	Organizational entities
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Category: Economic
Material Aspect: Economic Performance

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	34		Management approach to economic practices and performance
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G4-EC4	34		Financial assistance received from government

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Material Aspect: Market Persence

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	34		Management approach to economic practices and performance
G4-EC6	48		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	34		Management approach to economic practices and performance
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Category: Economic
Material Aspect: Procurement Practices

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	34		Management approach to economic practices and performance
G4-EC9	41		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
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G4-EN6	77		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	84		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	81		Direct greenhouse gas (GHG) emissions (Scope 1)
G4-EN16	81		Energy indirect greenhouse gas (GHG) emissions (Scope 2)
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G4-EN21	85		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	84		Total water discharge by quality and destination
G4-EN23	82-83		Total weight of waste by type and disposal method
G4-EN25	82-83		Weight of transported, imported, exported, or treated waste deemed hazardous

GRI-G4 Content Index

Category: Environmental
Material Aspect: Compliance

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	76		Management approach to environmental practices and performance
G4-EN29	66		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	44-45		Management approach to labor practices and decent work
G4-LA1	52		Employee turnover by age group, gender and region

GRI-G4 Content Index

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

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	44-45		Management approach to labor practices and decent work
G4-LA5	54		Percentage of total workforce represented in formal joint management–worker health and safety committees
G4-LA6	55-56	**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. **Partly unavailable -** occupational health and safety indicators for the supply chain. 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	53		Health and safety topics covered in formal agreements with trade unions

GRI-G4 Content Index

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

DMA and Indicators	Page	Omissions	Detailed Disclosure
G4-DMA	44-45		Management approach to labor practices and decent work
G4-LA9	49		Average hours of training per year per employee by gender, and by employee category
G4-LA10	52, 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	44-45		Management approach to labor practices and decent work
G4-LA12	47-48	**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	44-45		Management approach to society and local communities
G4-SO1	59		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	44-45		Management approach to society and local communities
G4-SO4	71		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	10,14,62-64, 70	X	X
	Compliance	Environmental Compliance	G4-EN29	66	X	X
	Anti-Corruption and Bribery Prevention Practices	Anti- Corruption	G4-SO4	71	X	X
	Future Regulations	Environmental Compliance	G4-EN29	66	X	
	Sustainable Risk Management Cyber defense and Crisis Management	Precautionary principle Commitments to External Initiatives	G4-14, G4-15, G4-16	67, 73	X	
		None	None	68	X	
Economic	Business Development and Performance	Direct Economic Performance Organizational Profile	G4-9, G4-EC1, G4-EC4	10, 34	X	
	Technological Innovation	None	None	28-32	X	
	Supply Chain Management	Procurement Practices	G4-12	38-40	X	
	Impact on Israel	Indirect economic Impacts Procurement Practices	G4-EC8, G4-EC9	32, 41	X	X
	Product Responsibility and Customer Service	None	None	37	X	X

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	Stakeholders External
Social/Societal	Employment Diversity	Diversity and Equal Opportunities	G4-LA12	47-48	X	
	Technological Education	Local Communities	G4-SO1	59	X	X
	HR Management	Employment Training and Education	G4-10, G4-11, G4-LA1, G4-LA9, G4-LA10, G4- LA12, G4-EC3, G4-EC6	47-52	X	
	Employees' Organization	Organizational Profile	G4-11	47	X	
	Health and Safety	Occupational Health and Safety	G4-LA5, G4-LA6, G4-LA8	53-56	X	
Environmental	Energy and Emissions	Energy Emissions	G4-EN3, G4- EN6, G4-EN15, G4-EN16, G4- EN18, G4-EN21	77-81, 85	X	X
	Environmental R&D	None	None	76		X
	Natural Resources Management	Water	G4-EN8	84	X	X
	Effluents and Waste	Effluents and Waste	G4-EN22, G4-EN23, G4-EN25	82-84	X	X

General Remarks and report changes
G4-13 | G4-22 | G4-23 | G4-28 | G4-29

2016 is IAI's second reporting year; our last reporting year was 2015. The following are changes noted from our 2015 report:

Following an update from the non-hazardous waste contractor, the new 2015 data was indicated.

Safety injuries and absence days were restated based on cut-off analysis done on February 2017. Changes may occur from earlier reports due to system updates with late-reporting of events, as the Israeli law allows to report an accident occuring 5 years back.

No significant changes in the company's operations, size or sites were noted in 2016.

Report profile
G4-28 | G4-30 | G4-32 | G4-33

This report presents the Israel Aerospace Industries Ltd. performance in corporate responsibility and ethics, as well as in social, economic, and environmental matters. Parts of the report contents were audited for limited assurance by BDO (see pages 6-7), and professional consultation on the report was provided by KPMG Somekh Chaikin.

Reporting Period

All information contained in this report is relevant as of December 31, 2016. In some cases, earlier years were considered for the sake of comparison, trend analysis, and future goal-setting. In other cases, reporting also relates to events occuring after the end of the reporting year and until this report publication date. When such cases appear in the report, this fact was noted adjacent to the data.

Reporting Cycle

This is IAI's second sustainability report. Our company shall continue to publish these reports on an annual basis and in accordance with the 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, as per the edition that was available for the Year 2016. This level of reporting is in line with the company's resources and requirements from its stakeholders. 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 pages 89-98.

Reporting Scope

IAI has a worldwide business and financial activity, with the majority of its managerial and manufacturing activities taking place in the territory of Israel. Relevant financial data specified in this report are in line with IAI's 2016 financial statement, concerning IAI's global activity.

Unless otherwise mentioned, all 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.

Report profile

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.

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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