



**Israel Aerospace Industries Ltd.**

.....  
2018 Sustainability Report



# Our sustainability

"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."

An excerpt from IAI's sustainability policy

<b>Strategy.....</b>	<b>8</b>
<b>Integrity and ethics ....</b>	<b>24</b>
<b>Value creation .....</b>	<b>34</b>
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<b>Employees and community .....</b>	<b>54</b>
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Link to full policy

<https://www.iai.co.il/about/sustainability>





# From the Chairman of the board

102-14

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We are honored to be a cornerstone in Israel's defense and economy for nearly seven decades, as well as a groundbreaking technological company, serving numerous international markets with remarkable solutions in the air, sea, land, space, and cyber.

In 2018 we set out on an exciting new chapter in our company's evolution, developing a new organizational structure, business strategy, and values, which will enable us to focus on the delivery of outstanding solutions that our customers can trust, while driving profitable growth and technological innovation, all the while keeping our commitment to integrity and sustainability. To this end, parts of our strategic 2019-2023 sustainability commitments are shared here, and will serve as a basis for performance evaluation by IAI's senior management and board of directors.

One of our five newly developed company values is corporate responsibility, chosen specifically to demonstrate our dedication to balancing our economic growth and operational excellence with the advancement of a safe, inclusive and nurturing work environment, the transparent and ethical engagement with our stakeholders in all our business aspects, as well as promoting cleaner manufacturing lines, and a more sustainable supply chain.

Last year, we expanded our reporting scope beyond GRI to include CDP, as we recognized the rising impact of climate change in the context of our business. In 2018 we chose to take another step, and align our business with six of the seventeen UN Sustainable Development Goals (SDGs). Those goals are: Quality education (4), Gender equality (5), Decent work and

economic growth (8), Industry, innovation and infrastructure (9), Responsible consumption and production (12) and Climate action (13).

This is the fourth consecutive year of our sustainability reporting, and as we strive to expand the scope of our shared information and allow our stakeholders a broader view of our efforts, we keep including new additional data with every publication as it becomes measurable and ready for assurance. Aside from the aforementioned UN SDGs and our 2023 sustainability strategy, we now also share:

- Business travel component of our corporate value chain (scope 3) greenhouse gas emissions
- Number of reported cases to IAI's ethics hotline
- Diversity data regarding our Orthodox Jewish employees

We are proud of the progress documented in this report, and grateful for the significant contributions of our employees and partners in the value chain, who make it all possible. We are confident and ready to write a new chapter in our company's history, for the benefit of all our stakeholders.

A stylized, handwritten signature in black ink, appearing to read 'Harel Locker'.

Harel Locker  
Chairman of IAI's Board of Directors



# From the CEO

102-14 | 102-15

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I am pleased to present IAI's fourth sustainability report, detailing our progress and commitment to upping our sustainability and social responsibility performance, while ensuring constant growth, improving our profitability and competitiveness, and delivering best-in-class products, technological solutions and services as a leading Aerospace and Defense Company.

Since taking over as Chief executive in September 2018, the company has gone through some significant strategic changes, designed to keep us efficient, innovative, and well-focused on the true value we create for all our stakeholders – customers, employees, the Israeli government, partners, suppliers, the environment, and the communities we live and operate in. These changes include a revision of our core vision and values, the initiation of internal reorganization processes and formation of our new aviation group, as well as the development of a new long-term business strategy. Throughout this report, you will find highlighted elements of our 2023 sustainability goals, commitments and working plans, which are an integral part of this new strategy.

2018 had been a fascinating year, when we aimed for the moon with Beresheet, our moon lander co-developed with Spacell, which successfully sustained space conditions, achieved the longest traveling route between the earth and the moon, and accomplished lunar capture. This fantastic journey represents the creative spirit of IAI's employees and partners, and our finest technological capabilities, proving that impossible dreams can indeed be attained.

We also made strong headway in our sustainability performance during this year, validating our accountability and commitment. for example:

- Our Nominal local procurement grew 41% from 2016
- Significant decrease was noted in the number of safety incidents and absence days
- Nearly 30% more hours were recorded in volunteering and community engagement
- 60% of our board of directors was women, and additional increases were noted in our hiring of employees with disabilities and employees over 45 years old.
- We reduced our direct greenhouse gas emissions (scope 1) by 6% and doubled the number of hybrid vehicles in our car fleet.

I view being socially and environmentally responsible as a building block in our company's culture, and I have no doubt that combining our technology, expertise, resources and resolve will lead us to successfully meet the challenges of our time, offering terrific opportunities for shared value with IAI's stakeholders.

Nimrod Sheffer  
President and Chief Executive Officer

# Independent limited assurance report

102-56

Independent Limited assurance Report to the users/ readers of Israel Aerospace Industries Ltd. (IAI) 2018 Sustainability Report.

We were engaged by the management of Israel Aerospace Industries Ltd. to provide limited assurance on the specified parts as mentioned in the table below (further referred to as "Specified parts"), regarding the information presented on IAI 2018 Sustainability Report for the year ended 31 December 2018 (further referred to as "The Report").

IAI's management is responsible for A. the preparation and the presentation of the report in accordance with the Sustainability Reporting Standards (SRS): Core option, of the Global Reporting Initiative (GRI) as described in pages 83-94 of the Report, and the information and assertions contained within it B. for determining IAI's Objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues for reporting C. for establishing and maintaining appropriate performance management and internal control systems from which the information is derived, to be free from omissions and material misstatements whether due to fraud or error.

Our responsibility is to provide a limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. 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.

A limited assurance engagement, regarding data and information in the specified parts on the sustainability report, consists of making interviews and inquiries, primarily of persons responsible for the preparation of information presented in the report, and applying analytical and other evidence gathering procedures, as

appropriate.

These procedures included:

Examination of the specified parts in the report, for the purpose of performing a limited assurance, based on public information sources, knowledge of IAI business and other comparative information of similar organizations.

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

Inquiries of management to gain an understanding regarding the specified parts.

Interviews with senior management and 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.

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

Visits to the IAI's sites on the basis of a risk analysis including the consideration of both quantitative and qualitative criteria regarding the specified parts.

Visits and communication with the company sites located in Israel and the Company headquarters on the basis of a risk analysis including the consideration of both quantitative and qualitative criteria regarding the specified parts.

Comparing the information regarding the specified parts presented in the Report to corresponding information in the relevant underlying sources to determine whether all the relevant information contained in such underlying sources has been included in the report. Where relevant, conducting interviews regarding the calculation, aggregation and methods used to collect and report the specified parts in the report.

Reading the information presented in the Report to determine whether it is in line with our overall knowledge of, and experience with, the corporate responsibility performance of IAI group.

Limited assurance is less than absolute assurance and reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the evidence-gathering procedures performed in response to the assessed risks, which vary in nature from and are substantially less in scope than for a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement.

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

Subject	Pages
IAI's 2018 materiality process	14-15
IAI's stakeholders	16-18
IAI's 2019-2023 sustainability goals	20-21
IAI's corporate governance	26-31
IAI's ethics	32-33
IAI's financial performance	40
IAI's local procurement	43
IAI's employees' diversity <sup>1</sup>	58-59
IAI's employees' training and development	56-57, 60-61
IAI's occupational health and safety <sup>2</sup>	64-66
IAI's energy	74-78
IAI's water consumption and efficiency	79

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 2018 Sustainability Report are not presented, in all material respects, in accordance with the GRI (SRS) 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.

Subject	Pages
IAI's built area	80
IAI's GHGs emissions and climate change	80-81
IAI's Waste and effluents	82-83



Ziv Haft  
Certified Public Accountants  
TelAviv, Israel  
November 3<sup>rd</sup>, 2019

<sup>1</sup> Data regarding the percentage of direct employment of professional contractors' employees was not covered by the assurance.  
<sup>2</sup> Data regarding contractors' accidents was not covered by the assurance.







# STRATEGY



# Our vision

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**IAI spearheads global technology to ensure the future of its employees, partners and the State of Israel. IAI takes the defense, aviation and space industries beyond the boundaries of imagination with extraordinary human capital, advanced technologies and global business strength.**

# Our values

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## **Human excellence**

IAI's professionals are creative, innovative and the best in what they do. They are our key asset. Integrity, reliability and personal responsibility are their guiding principles.

## **Business excellence**

As a leading international player, we passionately promote our position as a growing, profitable global company that is leader in its field. Placing the customer at the center, we partner with our customers to design and develop systems and solutions and provide the services they need.

## **Technological excellence**

As one of the largest and most innovative defense, aviation and space companies, we continue to design and develop breakthrough solutions that are in the vanguard of technology.

## **Israel's defense**

We uncompromisingly maintain our heritage of technological excellence and innovation for the security of the State of Israel. IAI is a key partner in safeguarding the freedom and security of Israel's citizens, and contributes to the growth of the country's economy.

## **Responsibility**

We are committed to our employees, partners and the community at large, and adhere to the highest standards of social and corporate responsibility, including diversity, sustainability and protection of the environment.

# Our business

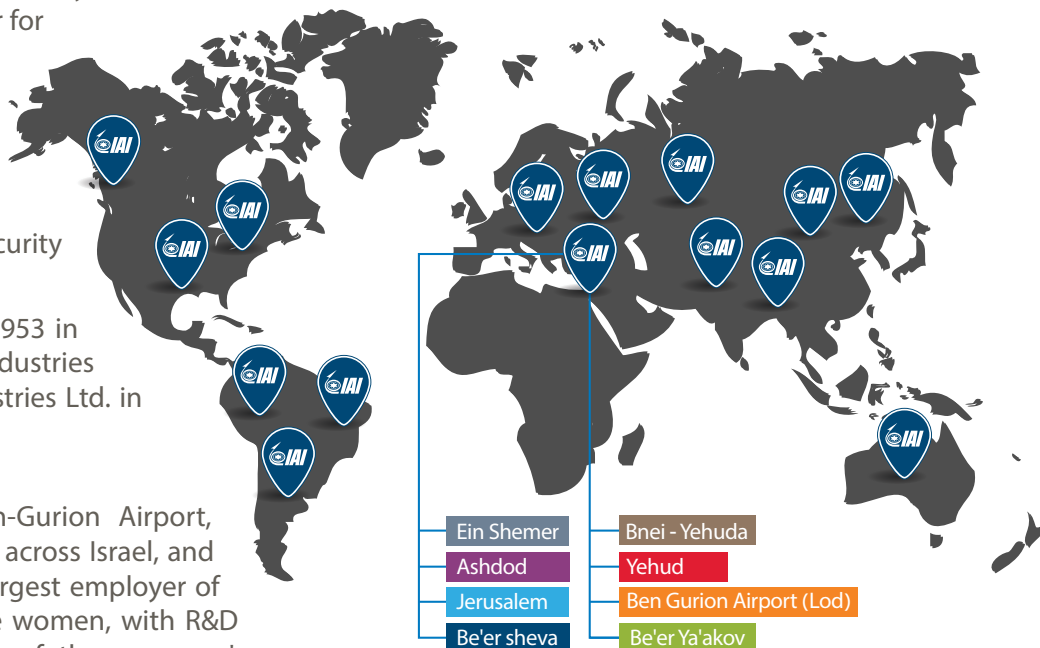
102-1 | 102-3 | 102-4 | 102-5 | 102-6 | 102-7 | 102-45

Israel Aerospace Industries (IAI) is a global Aerospace and Defense company, and the largest A&D company in Israel, delivering state-of-the-art technologies and systems in all domains: sea, air, land, space, and cyber for defense and commercial markets.

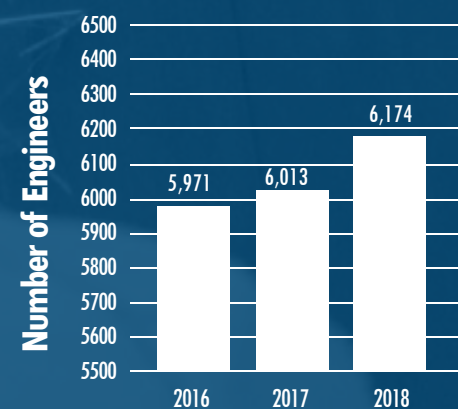
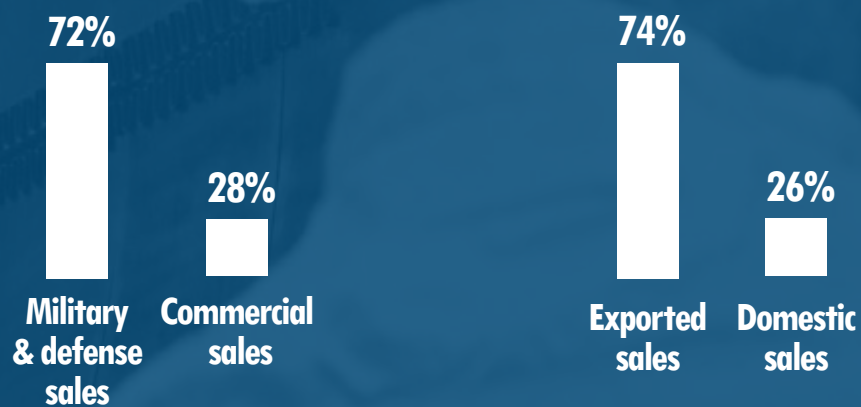
We have been developing and supplying comprehensive solutions and services for customers around the world for nearly seven decades, allowing them to meet their unique security and commercial objectives.

Established as BEDEK Aviation Ltd in 1953 in Lod, Israel, 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, overseeing eight operational sites across Israel, and employing 14,917 workers. IAI is the largest employer of engineers in Israel, 19.8% of which are women, with R&D representing approximately a quarter of the company's annual budget. IAI sustains over 50,000 households nationwide, across all circles of employment.

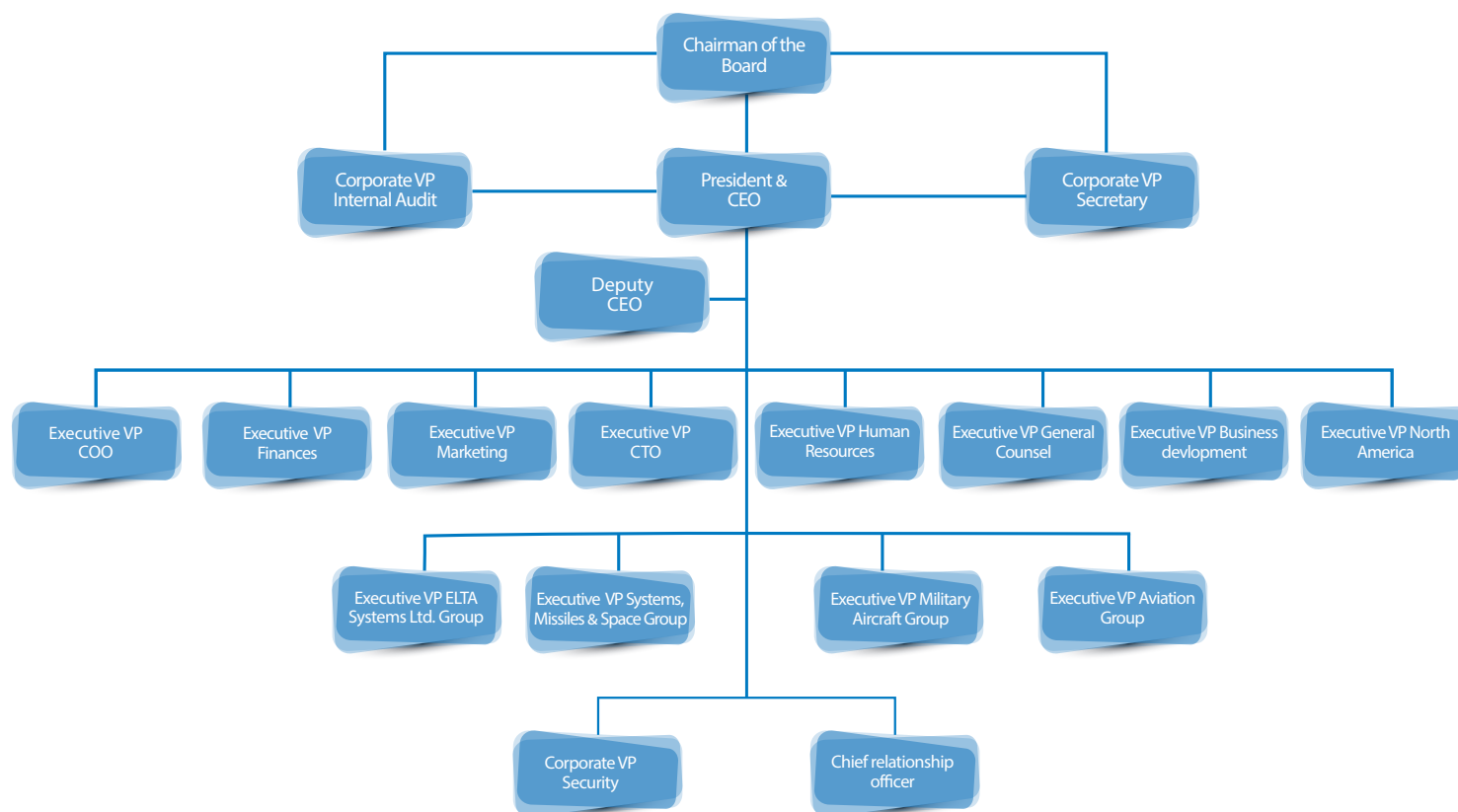






102-6 | 102-10

On January 1st, 2019, IAI began operations under a new organizational structure. The organizational restructuring united the Commercial Aircraft Group, Bedek Aviation Group, Engineering Group and several other activities under a single Aviation Group. Additional changes occurred at the managerial level, including the merging of the operations and the procurement and logistics into a single organizational unit. The following organizational structure corresponds to the publication date of this report. Former organizational structure on relevant to December 31st 2018) can be found in our 2017 sustainability report.



# Managing sustainability

102-11 | 102-26 | 102-29 | 102-32 | 102-33 | 102-34 | 102-44 | 102-46 | 102-47 | Limited assurance

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IAI sustainability management is cross organizational and includes all groups, divisions, operations, R&D 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, supervising, in turn, IAI's Sustainability and Environment Organization. The Board Committee is responsible, among other things, for the approval of IAI's periodic sustainability reports. Through these authorities, we form manageable, measurable, and consistent working plans, strategically directing the company's progress in sustainability matters. Our sustainability management is directly derived from our sustainability policy, 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 & objectives assigned to the functional units (i.e. The divisions, HR, P&L, Finance etc.).

## 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 seeks

to leverage environmental, social, and economic opportunities. Major sustainability risks are included in the company's top risks (see page 30) and regularly tracked and reported to the Senior Management Sustainability Steering Committee, and in relevant cases, to the Board of Directors Sustainability Committee, to ensure an appropriate and timely response.

## Materiality

In 2015-2016 IAI committed to a systematic assessment of its material topics (see link below for more information). The outcome enabled us to define the report contents in alignment with the GRI-SRS reporting principles of completeness, our approach to sustainability and our stakeholders. As noted in our stakeholders' engagement section (see page 16), in order to ensure that we keep moving in the most relevant direction and aligning our business with feedback from stakeholders, we are progressing on re-validating our material topics in 2019. The updated material topics list is planned to be shared in our next report.



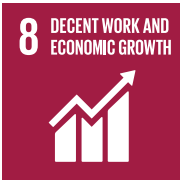





Link to sustainability webpage

<https://www.iai.co.il/about/sustainability>



102-47

Category	Material topics	Alignment with the UN SDGs 2030 (see pages 22-23)	More information (page)
Integrity and ethics	<ul style="list-style-type: none"> <li>• Compliance</li> <li>• Future regulations</li> <li>• Corporate governance management</li> <li>• Anti-corruption and bribery prevention practices</li> <li>• Sustainable risk management</li> <li>• Cyber defense</li> <li>• Crisis management</li> </ul>	 	72 72 26 32-33 30, 73 31 31
Value Creation and Innovation	<ul style="list-style-type: none"> <li>• Business development and performance</li> <li>• Technological innovation</li> <li>• Product responsibility and customer service</li> <li>• Supply chain management</li> <li>• Impact on Israel</li> </ul>	 	36, 40 48 44 41-42 43
Employees and communities	<ul style="list-style-type: none"> <li>• Human resources management</li> <li>• Employment diversity</li> <li>• Technological education</li> <li>• Occupational health and safety</li> <li>• Employees' organization</li> </ul>	 	56 29, 58-59 68 64-65 61
Environment	<ul style="list-style-type: none"> <li>• Energy and emissions</li> <li>• Environmental R&amp;D</li> <li>• Natural resources management</li> <li>• Waste and effluents</li> </ul>		74-78, 80-81, 84 52-53 79 82-83

# Our stakeholders

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We acknowledge that effective and strong relationships with our internal and external stakeholders informs our business and serve as an opportunity to learn, share, and improve wherever applicable and feasible. We recognize that specific engagement approaches need to be developed and tailored for each of our stakeholders, taking into account the nature of our interactions, the particular material topics at the center of discussions, and the effectiveness of various tools and methodologies available for communication.

Stakeholders	Internal/ External	Proposed material topics for engagement	Engagement approach (existing and under development)
Israel's government (owners)	External	Corporate governance management; Business development and performance; Sustainable risk management; Cyber defense	Annual reports; Meetings
Regulatory authorities (including environmental and social compliance)	External	Compliance; Future regulations; Sustainable risk management; Crisis management; Energy and emissions; Natural resources management; Waste and effluents; Employment diversity; Human resources management; Occupational health and safety	Annual reports; Meetings; Joint seminars, conferences and seminars; Site visits and audits; Professional forums
Employees, employees' families, our retirees	Internal	Employees' organization; Employment diversity; Human resources management; Occupational health and safety; Anti-corruption and bribery prevention practices; Technological innovation; Business development and performance; Energy and emissions; Waste and effluents	Intranet; Internet; Mobile app #weareIAI; Newsletters and emails; Social media posts; Forums and gatherings; Company events; Surveys; Round tables



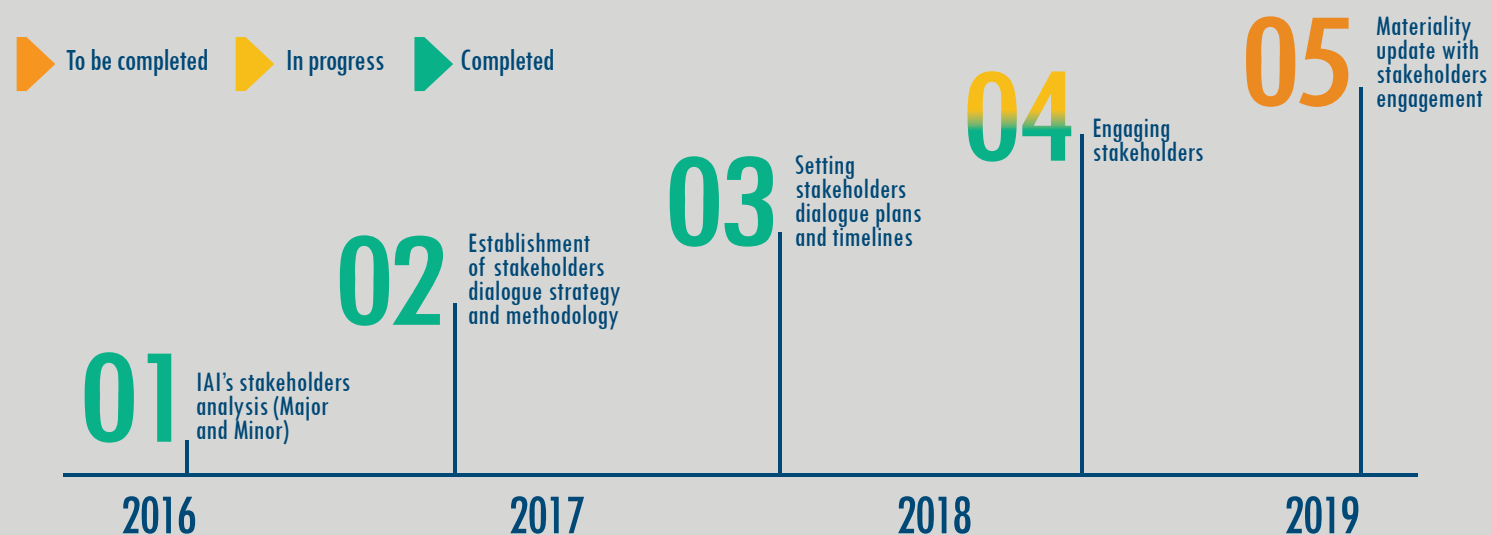
Stakeholders	Internal/ External	Proposed material topics for engagement	Engagement approach (existing and under development)
Board of directors and senior management	Internal	All material topics (see page 15)	Management reviews; Professional training; Steering committees; Surveys; Round tables
Customers	External	Product responsibility and customer service; Technological innovation; Compliance; Business development and performance; Environmental R&D; Natural resources management; Energy and emissions; Supply chain management	Annual reports; Trade shows and technical conventions; Audits and site visits; Surveys; Meetings; Joint seminars, conferences and seminars; Social media posts; Internet
Suppliers and contractors	External	Supply chain management; Anti-corruption and bribery prevention practices; Sustainable risk management;	Internet; Meetings; Joint seminars and conferences; Audits; Supplier training; Surveys
Communities	External	Impact on Israel; Technological education; Energy and emissions; Waste and effluents	Internet; Partnerships; Volunteering and local initiative; Meetings; Round tables; Surveys; Social media posts
Local and International partnerships and Industry associations	External	Technological innovation; Environmental R&D; Technological education; Future regulations; Cyber defense	Partnerships; Professional committees and forums; Joint seminars and conferences; Internet
Academy	External	Technological innovation; Impact on Israel	Partnerships; Technical conferences; Internships and higher education training; Joint R&D projects
Civil organizations	External	Sustainable risk management; Impact on Israel; Technological education; Supply chain management; Anti-corruption and bribery prevention practices; Natural resources management; Energy and emissions; Waste and effluents	Surveys; Meetings; Joint seminars, conferences and seminars; Social media posts; Internet; Surveys; Round tables
Future generations	Internal/ External	Impact on Israel	National-level Long-term outlook forums; Future women engineers of tomorrow project
Media	External	All material topics (see page 15)	Press releases; Annual reports; Internet; Social media posts; Site visits

# Stakeholders engagement process

102-42 | 102-43 | Limited assurance

102-40 | 102-42 | 102-43 | 102-44

In 2018, we laid the foundation for our 5-year roadmap for stakeholders' engagement as part of our overall strategic sustainability plan (see pages 20-21). Due to the organizational changes (see page 13), we have postponed some of the activities planned for 2018 to 2019. We keep on track with the following timeline.



# Strategic alliances and memberships

102-12 | 102-13

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IAI is active in various associations, forums and alliances, both local and international, which focus on advancing collaborative efforts and knowledge-sharing around its 21 material topics.

## In Israel

As the largest governmental employer in Israel, we take part, and in some cases, lead important efforts to advance both expert-environmental and social-based initiatives and projects. Among our partners are: **The Manufacturers Association of Israel** (professional and environmental groups); **the Standards institute of Israel**; The green directive group at **the Israeli users' association of advanced technologies in High-tech integrated systems (ILTAM)**; **the Israeli Institute of Energy and Environment**; The environmental and sustainability engineering society within the **Association of Engineers, Architects and Graduates in Technological Sciences in Israel (AEAI)**; The forum for corporate responsibility of **the Government Companies Authority**; The forum for corporate responsibility of the **Israel-America Chamber of Commerce**; **MA'ALA association** for corporate social responsibility and more.

## International Aerospace Environmental Group (IAEG)

IAEG is a Trade association formed by major international aerospace and defense companies, focusing on compliance with future laws and regulations regarding health and the environment. The association is advancing mutual efforts to aid the A&D value chain to become more sustainable, to reduce potential risks and driving continual improvements to help companies in making their products more environmentally-friendly. As sole Israeli participants in this association, IAI is involved in various working groups, such as Chemicals disclosure, Environmental qualifications of suppliers, ISO 14001 and EMS implementation and Green House Gases (GHG) sector-specific guidelines.

## CDP: Climate change

CDP is an independent not-for-profit organization, gathering information on climate change, water and forests from companies, investors, cities and countries, through a global disclosure system. IAI is reporting its Green House Gases (GHG) emissions inventory to CDP climate since 2017.

# 2023: Our sustainability roadmap

In 2018, the company had set its 2019-2023 sustainability roadmap based on an extensive number of resources and following a methodological process, to ensure our focus coordinates with important national and international sustainable development roadmaps and initiatives. The 2023 goals highlights are shared next to each of the material topics detailed in this report.

01

## Resources collection and analysis

Creating a comprehensive list of resources: IAI's material topics, A&D sector benchmark, Global mega-trends, UN SDGs, Stakeholder feedback, Sustainability reporting schemes and standards (GRI, CDP, Ma'ala etc.), Organizational readiness assessments

02

## Identification and categorization of potential key performance indicators

Clustering potential KPIs, objectives, targets and action plans for each material topic

03

## Development of a strategic 2023 roadmap for each material topic

Honing in on specific KPIs, objectives and targets for each of IAI's material topics, and developing alternative action plans for their successful attainment

04

## Management review and kick off

Validating the strategic roadmap by internal reviews process, and finalizing the complete strategic 2023 roadmap by the senior management steering committee for sustainability



## Limited assurance

Based on our performance and internal assessments, five strategic objectives were set for 2017-2018, directly tracked by the Sustainability Board committee and the Senior Management Steering Committee for sustainability. These goals are now a part of the larger set of sustainability goals formulated in order to support continual progress in our overall company sustainability:




Category	2018 Key performance indicator	Progress status	More information (pages)	2023 vision (KPIs and sample actions)
Environment	2% cross-organizational electricity savings	Met and expanded into a 2023 KPI	74-76	<ul style="list-style-type: none"> <li>10% cross-organizational electricity savings</li> <li>Diversify our electricity consumption to include renewable energy sources</li> </ul>
	Initiate gradual implementation of IAEG's harmonized supplier questionnaire	Evolved into a 2023 KPI	41-42	<ul style="list-style-type: none"> <li>100% of new strategically-managed suppliers or vendors are evaluated for sustainability performance</li> </ul>
Employees and communities	35% women intake of all new employees hiring	Evolved into a 2023 KPI	58-59	<ul style="list-style-type: none"> <li>35% women intake of all new employees hiring (core technological professions)</li> <li>35% women intake of all employees hiring (all professions)</li> </ul>
	Increase employment diversity rates (Orthodox Jewish, Druze, Ethiopian-origin and employees with disabilities)	Met and expanded into a 2023 KPI	58-59	<ul style="list-style-type: none"> <li>5% annual increase in hiring of diverse work populations</li> </ul>
	Improving health and safety performance, including contractors working at our operational sites	Met and expanded into a 2023 KPI	64-65	<ul style="list-style-type: none"> <li>Transitioning from OSHAS 18001 to ISO 45001:2018</li> <li>5% annual decrease in safety accidents rate</li> </ul>

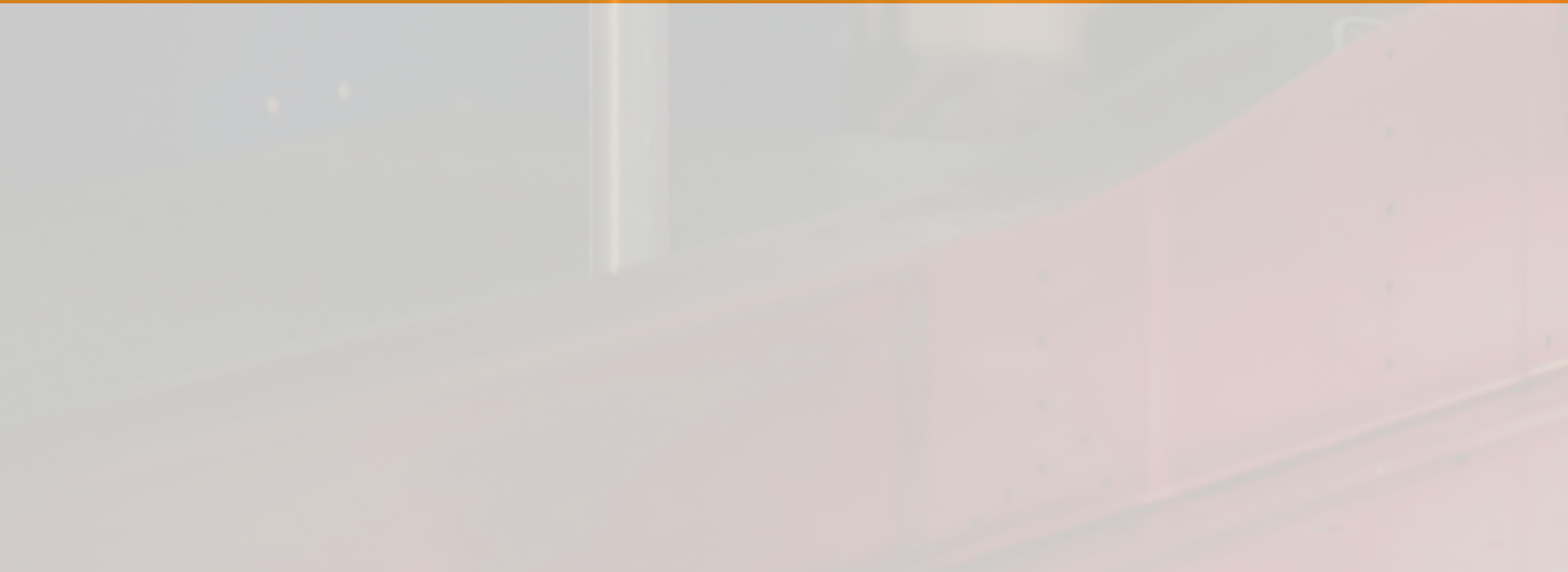
# Our alignment with the UN Sustainable Development Goals (SDGs) 2030



The icon for SDG 4, Quality Education, is a red square containing a white number "4" and the text "QUALITY EDUCATION" above a white icon of an open book and a pencil.	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	IAI established a vocational school in 1963, in order to realize an educational vision – allowing youth to receive a diploma and gain a profession. The school is part of the national ORT school chain, combining conventional studies with a weekly day of practical employment, with around 4,000 graduates to date. The schools training is based on three specializations: Aircraft Mechanics, Electrical and Electronic Systems and Unmanned Aircrafts. In addition, Our community engagement programs focus on technological education and making STEM learning exciting.	Read more on pages 68-69
The icon for SDG 5, Gender Equality, is a red square containing a white number "5" and the text "GENDER EQUALITY" above a white icon of a female symbol with an equals sign inside.	Achieve gender equality and empower all women and girls	IAI is actively promoting a diverse and inclusive workplace with equal opportunities in employment. Our women's advancement program is designed to increase the percentage of women in relations to total workforce, in total core professions around the company (technological expertise) and in total management roles. In addition, some of our community engagement programs, such as the "women engineers of tomorrow", focus on empowering girls to pursue STEM professions.	Read more on pages 58, 68-69
The icon for SDG 8, Decent Work and Economic Growth, is a red square containing a white number "8" and the text "DECENT WORK AND ECONOMIC GROWTH" above a white icon of a bar chart with an upward-pointing arrow.	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	IAI's employees are the heart of our business, who go above and beyond to create value through demonstrable innovative achievements and products. Being one of the largest employers in Israel, we strive to provide secure and long-term job opportunities, while ensuring safe, ethical and empowering working environment. We invest in our employees' professional development and foster diversity and inclusiveness with equal pay and remuneration for work of equal value.	Read more on pages 60-66

In 2015, the United Nations assembly has launched 17 Sustainable Development Goals (SDGs) with the aim of making sustainability a uniting global agenda for 2030. As a part of the process of formalizing our 2023 sustainability roadmap, a specific assessment was conducted on the relations between the UN SDGs and IAI's sustainability program. Six SDGs were identified as most relevant and material to our business. Our 2018 contribution to these SDGs as well as specific 2023 goals are highlighted throughout this report.

	<p>Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation</p>	<p>IAI regularly maintains and upgrades its facilities and infrastructures, and ensure all our operational sites work in accordance with highest standards of quality (ISO 9001:2015, AS9100, and CMMI), environment (ISO 14001:2015), safety (OHSAS 18001 transitioning to ISO 45001:2018) and information security (ISO 27001, ISO/IEC 27032). IAI is dominant in patents applications and register, and offer innovative solutions in all arenas: space, air, sea, land and cyber.</p>	<p>Read more on pages 31, 37-39, 44-45, 49</p>
	<p>Ensure sustainable consumption and production patterns</p>	<p>IAI continually invest in minimizing the environmental footprint of its production lines, and in environmental R&amp;D (Clean Sky 2, water desalination etc.). We look to expand the implementation of "Design for sustainability" principles in our processes, and increase real-time accessibility to our sustainability performance data, for continual improvement of our operational decision-making.</p>	<p>Read more on pages 52-53</p>
	<p>Take urgent action to combat climate change and its impacts</p>	<p>IAI acknowledges the importance of action on climate change and its global effect. We manage a cross-organizational carbon control program, focusing on the reduction of CO2 and other air emissions, expanding our tracking and reporting capabilities (CDP climate, the voluntary GHG reporting scheme of the Israeli ministry of environmental protection) and actively participating in important sectorial collaborations (IAEG, Clean Sky2). IAI also contributes technologically through innovations like VENμS research nano-satellite project and TAXIBOT.</p>	<p>Read more on pages 19, 80-81</p>







# INTEGRITY AND ETHICS

# Corporate governance management

102-18 | 102-22 | 103-1 | 103-2 | 103-3 | Limited assurance

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## Material topic

### IAI's Corporate governance structure

Israel Aerospace Industries Ltd. ("IAI") is a private corporation wholly owned by the State of Israel, (i.e. A Government Company as defined in the Government Companies Law – 1975 (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 regulations which are applicable for the Company as a Government Company, including, inter alia, instructions regarding the composition of the Board of Directors and its work, the powers of the Board of Directors, qualifications of the Directors and the process of their appointment, Directors' compensation, and regulations ensuring the accuracy of the financial statements and the Director's Report. The regulations of the Companies Law -1999 (hereinafter – "the Companies Law") apply to the Company, subject to the regulations of the Government Companies Law. The Articles of Association of the Company are included in a prospectus published on December 29, 2011 (Document No. 2011-01-379344).

Being a "Reporting Corporation" the Company is also subject to the regulations of the Securities Law – 1968. IAI applies corporate governance principles in accord with its standing as a global company, active in the defense and international aviation sectors.

The regulatory entity to which IAI is subordinated is the Government Companies Authority (hereafter, the "Authority"). The Company maintains current communications with the Government Companies Authority, inter alia, through a representative of the Authority, present at meetings of the Company's Board of Directors.

### Company secretary

IAI's Company Secretary is responsible for the ongoing communication 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 in between new directors and the Company. The Company Secretary is also responsible for the communication between the Company and the Authority as well as for reporting to the Securities Authority.

### IAI's internal auditor

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

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

The Company maintains an internal enforcement plan with respect to the Securities Law, in order to respond to possible exposure cases relating to potential breaches of the Securities Laws that could arise in relation to 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 Company's board of directors and its committees**

The Company's Board of Directors is responsible for outlining the Company's policy and for supervising its management activities. The Company's management is in charge of implementing these policies in practice and for reporting to the Board of Directors.

In 2018, the following Board of Directors' committees were active: (I) Financial Statements Committee, (II) Audit Committee, (III) Remuneration Committee, (IV) Investments, and Business Development Committee, (V) Sustainability, Corporate Governance and Diversity Committee, (VI) Risk Management Committee and (VII) Commissions Committee.

The Company's Sustainability Committee was established in 2012 (currently the Sustainability, Corporate Governance, and Diversity Committee). The committee's responsibilities regarding sustainability and corporate governance are – corporate responsibility; corporate governance; sustainable development; an internal enforcement of the securities laws.

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 directorship 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 2017. The candidacy and qualification of the Directors are verified by the Committee for the Examination of Appointments as detailed in the Government Companies Law.

	2018	2017	2016
No. of general assembly board meetings	18	17	16
No. of board committee meetings	45	45	39
No. of board sustainability committee meetings*	4	4	3

\* Out of the total number of board committee meetings

## Board of directors activities

In 2018, IAI's Board of Directors held a total of 63 meetings.

## 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 alongside 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 whether 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 – see Section 23 of the Fourth Chapter of the Financial Statement of the Company (in Hebrew) for 2018, pages 115-120.

## IAI's subsidiaries

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

## Senior management reward policy

IAI has a clear policy in place for rewarding senior management, based on the following:

- 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.

# Board composition and tenure

405-1 | Limited assurance

## 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 (1).

## Independent directors

According to Sections 219c and 239 of the Government Companies Law, at least two external directors are required to serve in a "Debenture Company." Members of the Board of Directors sign a declaration verifying non-conflict of interests, and also undertake vis-a-vis the Authority, to refrain from conflicts of interest between their activities in the Company and their activities in other spheres.



## Board of directors' diversity

**Six out of ten** of our board members in 2018 were women.

Board members' diversity is achieved through coordination with the regulatory functions.

	2018	2017	2016
No. Women members of the board	6	5	5
No. Men members of the board	4	3	5
No. Independent directors	2	4	6
No. members representing a minority *	1	0	1
No. members in the sustainability committee	4	4	2

\* From the Druze community.



Continuing to expand our social and environmental risk assessments in the value chain

103-1 | 103-2 | 103-3

## Sustainable risk management

### Material topic

According to a circular of the Government Companies Authority dated June 11, 2009, a government company is required to establish an organized process of 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. IAI has established and implemented such processes and updates these from time to time.

In 2018, 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 IAI'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. In addition, the process took into consideration the changing regulatory environment and Israel's sustainable Development Guide to Governmental Companies - 2013.

17 different risk classes, including governance and environmental risks, were prioritized. The management has

appointed the Deputy CEO 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.

The risk assessments were taken into account for IAI's 2023 sustainability strategy plan, which now serve as the basis for the annual work plans of the Sustainability and Environment Organization at IAI, and closely monitored by the Senior Management Sustainability Steering Committee.

## Project-level risk management

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

## Crisis management and business continuity

### Material topic

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

## Cyber defense

### Material topic

IAI's IT and computing systems division, MAMAN, was one of the first defense industries in Israel to be certified by the Standard Institute of Israel (SII) to the ISO/IEC 27032 standard in 2016. The said certification was awarded following the demonstration of cutting-edge abilities of IAI's cyber defense center and processes, including a unique operational methodology, advance cyber forensics capabilities, enhanced cyber detection and real-time

status capabilities, as well as an effective combination of ISO 27032 and ISO 27001 (Cybersecurity standards).

MAMAN'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 and react to cyber threats and investigate complex cyber threats. MAMAN stands in the front-line with the most advanced international standards regarding Cyber Incident Response (IR) plans, Cyber Security Operational procedure & Cyber Forensics capabilities.

## Knowledge management and transfer

Successful technology companies constantly compete to develop, design, and manufacture less costly products, with increasing sophistication. The accumulated knowledge existing in the organization is inherent to this process. Such an information base is complex, eclectic, and usually company specific, making strategic knowledge management essential.

In recent years, many of IAI employees from the LAVI fighter generation had retired, and preserving their accumulated experience and know-how was noted as a priority. IAI's Chief Knowledge Officer ensures cross-organizational management and strategy are followed for knowledge transfer, accessibility and preservation, based on specific methodology for dealing with engineering know-how.

# Ethics

102-16 | 103-1 | 103-2 | 103-3 | 205-2 | Limited assurance

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## Our code of ethics

IAI is committed to creating a work environment that relies on open communication and supports employees in reporting potential violations. IAI's Code of Ethics (hereafter, the "Code") is the sum of regulations, 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, and is regularly reviewed to ensure its relevancy and applicability.

The code covers the following topics: Marketing and Sales; Quality, Sustainability, Environment, Safety, and Occupational Health; Employment and working relationships; Customers, partners, suppliers, and owners; Conflict of Interest and illegal benefits; Protection of assets, privacy, information security, and confidentiality; OECD compliance program.

IAI expects its managers and employees on all levels to comply with the code on a daily basis. This expectation is communicated and practiced through training, company procedures, work instructions, and supervision. The Code is available on IAI's public website, and its training materials are available through the company's INTRANET.

Concerns can be raised safely through a designated Human Resources personnel or direct managers, particularly in cases that are not defined in the Code, or are not clear-cut under the

law.

## Employees' ethics training

All new employees sign the Code upon commitment of employment. A refresher course is then conducted once every two years, and is mandatory for all employees. The training covers various topics from the Code, and demonstrates real-life dilemmas faced by IAI employees over the years. **91.2% of our employees** completed the web-based Code of Ethics training in 2018, as part of the 2017-2018 cycle of refreshers.

## The 2017 non-ethical claims case

During 2017, an investigation was launched by the Israeli police against the company on suspicions regarding several employees in the company (including a senior officer) which consist of alleged illegal acts. The company maintains that the investigation will not have a material impact on IAI's operations or business.

Internal compliance, anti-corruption and bribery prevention practices

Material topic

IAI manages its business activities in compliance with the applicable laws of the State of Israel and of other countries in which it operates, and is committed to running its business with integrity, fairness, reliability, and professionalism. IAI has integrated and implemented a compliance program, led by the company's compliance officer, which was appointed by the Board of Directors and reports directly to the CEO. The comprehensive Anti- Bribery Compliance Program reflects Israel's adherence to the OECD's convention on Combating Bribery of Foreign Public Officials in International Transactions, and IAI's values (see page 11), and is reviewed and updated from time to time.

Training of employees that manage foreign relationships on behalf of IAI

About 800 employees are trained annually on anti-corruption via e-learning and 500 additional employees in frontal classes. All trainees are managers with relationships with foreign customers, such as marketing, contracts, financial and more.


Prohibition on financial contributions and donations

IAI is prohibited by the Government Companies Authority,

as a governmental company, from gathering any financial contributions or donations in all circumstances, public or otherwise.

IAI had established an internal procedure to ensure this requirement is met, and all senior managers are required to review and approve the procedure on an annual basis.

Reported cases to IAI's hotline	2018	2017
Code of ethics and integrity	16	16

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

 Link to corruption prevention program  
<https://www.iai.co.il/about/compliance>





A photograph of a male technician in a grey shirt working on a car engine. The image is overlaid with a semi-transparent yellow rectangle. The technician is looking up at the engine. A pressure gauge is visible on the left side of the engine. The text "VALUE CREATION" is written in white, bold, sans-serif capital letters across the middle of the yellow overlay. The technician's shirt has a logo that partially reads "ALERT".

**VALUE CREATION**

# Business development

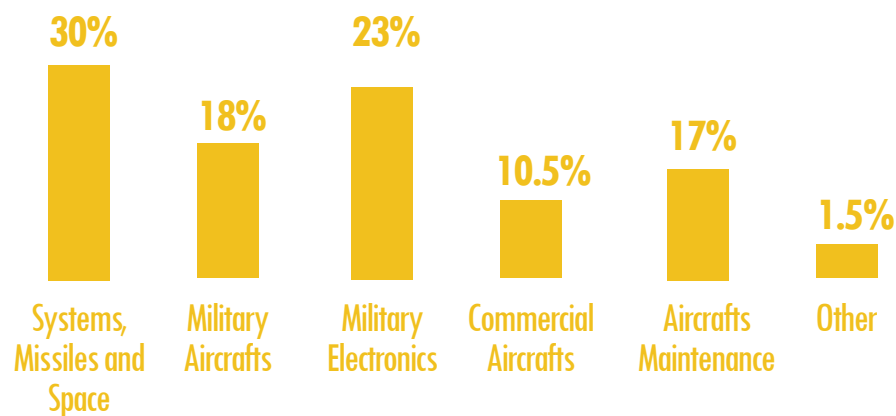
102-6 | 102-7 | 103-1 | 103-2 | 103-3 | 201-1

## Material topic

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 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 creating 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.

IAI was ranked **39 out of 100 companies** in the international A&D sector 2018 index by Defense News.



2018 revenues by operating segments

# Products and services

102-2 | 102-6

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## Defense

### Air

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

### Naval

IAI's comprehensive naval solutions for coastal or offshore applications range from maritime radars and electro-optical payloads, to security systems and unmanned aerial systems.

### Land

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

## Space

IAI, the National Space House of Israel, is acting as a one-stop-shop for cost-effective small to medium size satellites. With nearly 40 years of experience in space technologies, and with proven records in conducting a full space project cycle, IAI focuses on space systems for national security, scientific/research and commercial applications. These include: Observation satellites with different types of payloads (EO and SAR), a moon lander and Nano-satellites, Communication satellites, Space platforms, Ground Control Stations, Mission and Applications Centers and a full range of space sub-systems.



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

### 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-jets 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.

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

#### General applications

IAI offers a range of other commercial developments, such as the SeeFar, an innovative train driver-assistance system providing real-time railway obstacle detection and early warning, and a comprehensive UAS commercial solution for Precision Agriculture, Oil & Gas and First Response.



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

## Cyber and Homeland security

### Cyber

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

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

### Homeland security

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



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



# Financial performance

102-7 | 102-5 | 103-1 | 103-2 | 103-3 | 201-1 | 201-4 | Limited assurance

## Material topic

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

On December 31, 2018, IAI held a backlog of orders amounting to 13.5 billion US Dollars equaling 3.4 years of activity.

The total company equity stands at 836 million US Dollars and the total company debt stands at 4,680 million US Dollars. 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.

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Financial item	2018 (Million US \$)	2017 (Million US \$)	2016 (Million US \$)
Net Sales	3,682	3,520	3,577
Tax Income	0	0	28
Total economic value produced (income):	3,682	3,520	3,605
Operating costs (including salaries and benefits)	3,670	3,399	3,682
Finance Expenses	49	29	41
Tax Expenses	15	8	-
Dividends	0	5	0
Total economic value distributed:	3,734	3,441	3,723
Total economic value gained*	-52	79	-118
Net income	-44	81	-110
Government support: R&D grant by the Chief Scientist in the Ministry of Economy	6	5	9

\* Calculated as the total value produced less total value distributed.



Link to financial statements  
<https://www.iai.co.il/iai-publishes-its-annual-financial-statements-2018>

# Supply chain management

102-9 | 103-1 | 103-2 | 103-3

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## Material topic

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 is a unique player in the A&D supply chain, since it serves as the OEM for some of its products and as a Tier 1, 2 and 3 supplier 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 continues to track their financial performance throughout the

entire business relationship. We are now moving to implement these same requirements vis-a-vis our TIER 2 suppliers.

## Suppliers certification process

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

- A Central system for supplier quality assurance management, designed to assure that the quality of the products supplied meets IAI requirements, and includes the implementation of any follow-up requests. Our goal is for all our suppliers to embrace the same standards and commitments that IAI has set for itself as a supplier to other OEMs.
- An online Suppliers' web portal (IAI SupplierNET), containing all the data and information required by suppliers that engage in business with IAI. Through this portal, the suppliers report on any use of sub-contractors and TIER 2 suppliers, thus enabling higher levels of supply chain transparency and control.
- Keeping our Israeli supply base up-to-date through different initiatives regarding requirement changes, supplier delivery schedule, accounting and billing through e-sources. This significantly minimizes the use of paper, and makes the transfer process more efficient and much shorter.



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

## 2023 Strategy highlights

- Expand sustainability-driven collaborations in the value chain
- 100% of new strategically-managed suppliers complete full sustainability assessments

102-9 | 103-1 | 103-2 | 103-3

### 8 DECENT WORK AND ECONOMIC GROWTH



### Sustainable practices in our supply chain

IAI's Procurement and Logistics (P&L) Organization practices structured processes and mechanisms that ensure ethics, governance, social and environmental considerations are continuously exercised for decision-making. Our 2023 strategic sustainability plan focuses on widening this important impact.

#### 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 etc.

#### Environmental

Setting annual savings, inventory values and circulation targets for raw materials, utilities and resource procurement through the use of database system and 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 employees training includes code 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 (impact on Israel)

102-9 | 103-1 | 103-2 | 103-3 | 203-2 | 204-1

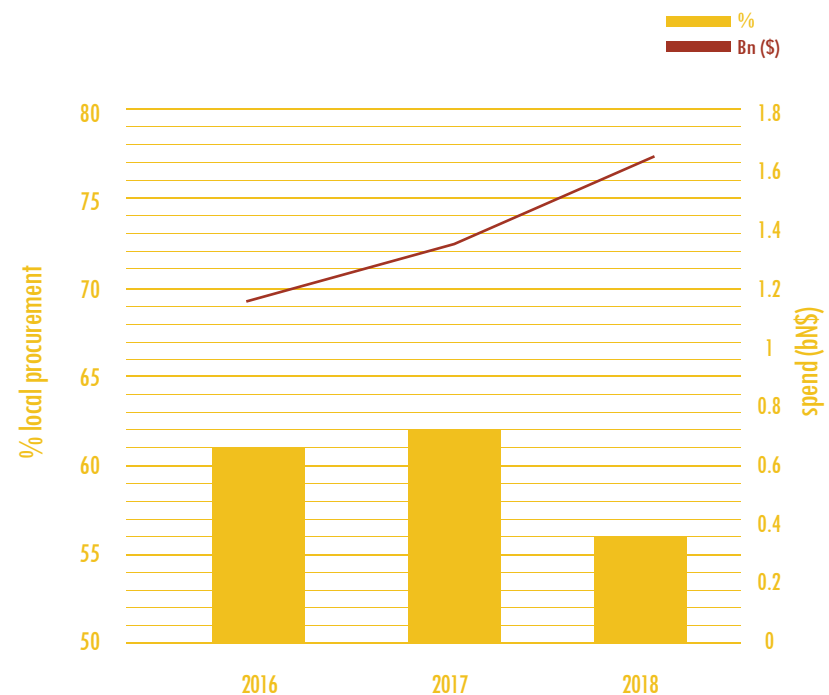
### Limited assurance

#### Material topic

As a government owned company, IAI contributes to the development of Israel's economy in general, and pays particular attention to purchasing locally ("Blue-and-White").

The majorities of our suppliers overseas are engaged based on economic grounds, expertise, and requests of our customers or by the terms of reciprocal trade (offset obligations). 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.

In 2018, we have spent **56% of our total annual procurement**, buying from Israeli suppliers. Our overall blue-and-white purchases percentage decreased due to offset obligations, but our nominal local procurement continued to rise, compared to earlier years.



# Product responsibility and customer service

103-1 | 103-2 | 103-3 | 417-1

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## Material topic

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

- IAI views the customer as its long-term partner
- IAI's management views customer satisfaction as a supreme value and is thoroughly committed to achieving it.
- IAI shall invest top effort to understand its customer's needs and to respond to the same with suitable solutions, while maintaining high quality, standards, and schedules.
- IAI shall promptly respond to its customer requests and will coordinate the provision of support and assistance to derive the utmost efficiency from its products in their life cycle. Towards this goal, IAI shall make available the required resources and infrastructure.
- Customer feedback shall guide IAI in its continuous quest to improve the quality of its customer support, communication, and level of satisfaction.

## Quality management at IAI

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

We drive continual improvement through:

- Operating a Quality Management System to ensure consistent and continual compliance
- Focusing on customer satisfaction
- Setting measurable quality objectives and targets throughout the company groups and divisions
- Training and developing our managers and employees and cultivating their personal and business skills
- Encouraging processes for incident reporting, investigation and cross-organizational learning
- Integrating our suppliers as partners in order to meet our quality goals
- Investing in the implementation of advanced tools and



methods that contribute to our products' level of quality, safety, and reliability.

- Joining in mutual efforts as members of professional societies and associations that lead the industry to quality improvements.

As a part of this commitment, all IAI's manufacturing divisions own a valid AS9100 certification issued by the Standard Institute of Israel (SII). All other IAI's operational entities hold an ISO 9001 certification.

#### **Environmental management system ISO 14001**

All IAI's divisions own a valid ISO 14001 certification issued by the Standards institution of Israel (SII). For more details, please refer to the environmental management section in this report (see page 72).

#### **Safety management system OSHAS 18001/ISO 45001**

All IAI's divisions own a valid OSHAS 18001 certification, and some already completed their transition to ISO 45001 issued by the Standards institute of Israel (SII). For more details, please refer to the safety management section in this report (see page 64).

#### **LEVEL-5 Capability maturity model integration for development (CMMI-DEV)**

The CMMI-DEV, developed at Carnegie-Melon University, consists of a structured collection of best practices in process areas such as Project management, Engineering, Organizational process areas and Support areas (e.g. Quality Assurance and Configuration Management). A special appraisal method, SCAMPI, is used to measure the level of compliance of the processes employed in an organization to the practices in the CMMI model. This level of compliance is called the Maturity Level and rates from 1 (lowest) to 5 (highest).

since 2002, IAI has implemented a continuous process improvement effort based on the Capability Maturity Model integration for Development (CMMI-DEV). Currently, the Systems, Missiles and Space Group, as well as the Unmanned Aircraft division are rated at maturity level 5 of the CMMI-DEV model. IAI organizations implementing CMMI-DEV based process improvement efforts undergo a formal SCAMPI-A CMMI appraisal every 3 years, and, in addition, 1-2 informal SCAMPI-B appraisals once a year, to ensure that their development processes are implemented properly, meet the CMMI model expectations, and to come up with new improvement opportunities.



A photograph of a male scientist in a white lab coat and safety glasses, working with a large, complex industrial machine. The machine has a long, dark, cylindrical component and a large circular hatch. The scene is set in a laboratory or industrial facility. The entire image is overlaid with a semi-transparent purple gradient. The word "INNOVATION" is written in large, bold, white capital letters across the center of the image.

**INNOVATION**

# Technological innovation

103-1 | 103-2 | 103-3

**9** INDUSTRY, INNOVATION  
AND INFRASTRUCTURE



## Material topic

Over the years, IAI has delivered, supplied, and supported advanced systems for the Israeli Ministry of Defense as well as for multiple customers worldwide. As a national center of excellence in advanced technology 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 subsystems to large scale fully-integrated system of systems.

IAI is equipped with the most advanced research and development software tools, material laboratories, multiple wind tunnels, ground test facilities and flight test facilities. These strong capabilities enable significant progress from low Technology Readiness Levels (Low TRLs) to high TRLs.

IAI has been a significant participant in the European Framework Programs, for more than 20 years, since the beginning of Program Framework 4 in the late 90's. Over the years, IAI has participated in dozens of EU R&D Projects mainly in the following areas:

- Aerospace & Transport
- Nanotechnologies
- Advanced Materials
- Biotechnology
- Advanced Manufacturing and Processing (NMBP)
- Information and Communication Technologies (ICT)
- Security

IAI has taken the role of either project coordinator or partner within the EU large L2 projects such as TANGO, AWIATOR, ALCAS, MAAXIMUS, CRESCENDO, SARISTU, LOCOMACHS, AFLONEXT and smaller L1 projects such as ALAMSA, PPLANE, 4DCo-GC, PUL-AERO, VIBRATION, CANAL, IFATS, CAPECON, USICO, UAV-NET and many more. IAI has so far successfully collaborated in the EU R&D Projects with hundreds of European entities, including Academia, Research Centers, Engineering companies, Industrial companies, and end users.

## Patents

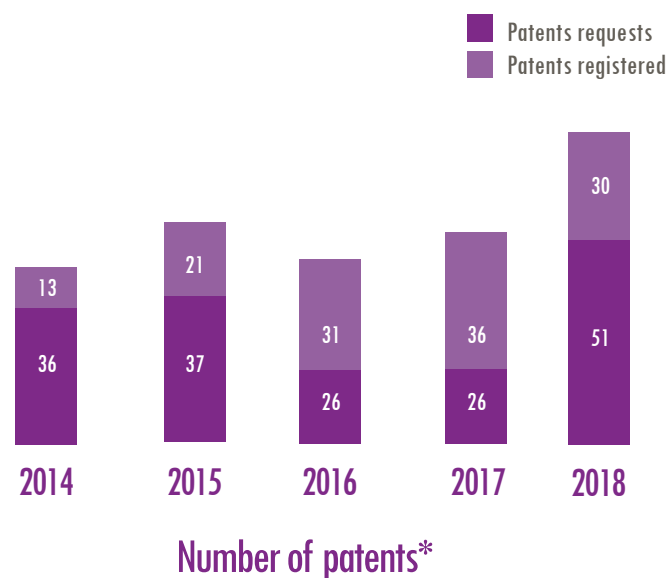
Patents are considered an important asset and an indicator of innovation. A company's Research and Development process is highly expensive and risky, thus requiring a realization of the full economic value of the inventions. One way to achieve this is by patent registration, as defined by the patent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

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's team during the idea's development, as well as a rewards system based on successful inventions that were accepted for patent registry.

## Take-off day

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



\* From the annual report of Israel's patents authority (2018)



# HANGAR: Aviation group innovation hub

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The Aviation Group Innovation Unit supports these on-going efforts by applying its homegrown, commercial aviation-specific innovation methodologies.

Targeting core aspects of aviation product development and service provision, the Innovation Unit strives to identify, evaluate and introduce fresh tech into the Aviation Group R&D feedstock.

The Innovation Unit focuses its attention and resources on these vectors:

- Initiation and formulation of cross-company new initiatives
- Streamlining the introduction process of cutting-edge supporting tech

HANGAR is the startup's innovation hub of Aviation Group, the commercial aviation arm of Israel Aerospace Industries (IAI).

Established in 2017, HANGAR is dedicated to the development and implementation of innovative technologies in the commercial aviation industry. Dictated by the Aviation Group's lines of business, HANGAR focuses on MRO, connected-cargo, executive jets, supply chain, and P2F technologies.

HANGAR pursues Industry 4.0 technologies that can transform commercial aerospace into a data-driven and semi-automated industry.

We are interested in big data and analytics, IIoT, additive manufacturing and other technologies that can optimize Connected Cargo and Connection (C3) and smart Maintenance, Repair and Overhaul (MRO)

solutions.

By Employing Spin-In techniques, HANGAR allows IAI's Aviation Group to accelerate the initial phases of R&D procedures, and reduce the overall allocation of resources for each technological milestone. The "Fail Cheap and Fast" methodology ensures that, although many different technologies and solutions are being evaluated, actual R&D attention is only directed at those that show initial signs of compatibility with the company's business strategy. By transferring proven technology already applied in other fields to the commercial aviation arena, HANGAR provides IAI with a technological and business risk-mitigation mechanism.

HANGAR also aims to extend IAI's highly sustainable conversion line (reusing end-of-life commercial aircraft and cargo repurposing), by building new layers of technology and capabilities on top of this versatile flying platform, such as connected cargo, advanced sensors and IoT. This allows further expansion of their value and operational efficiency to the final operator.



Link to HANGAR website  
<https://www.hangar-labs.com/>

# Beresheet: How high can we fly?

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Beresheet, a co-development spacecraft of IAI and SpacEL and the first commercial lunar mission, began in response to the Google-XPRIIZE competition and became a national-like mission with a primary goal of promoting technology education and creating the Israeli Apollo effect – the Beresheet effect. Beresheet had many firsts in its mission: The first non-governmental mission to the moon, the first ride share to the moon and the smallest spacecraft to aim and reach the moon.

Beresheet launched on February 22<sup>nd</sup> 2019 (the first ride- share mission to the moon), then made several maneuvers around the Earth for approaching the moon, and finally on April 11 directed itself for soft-landing on the moon. Unfortunately, 15 km from the moon, during the landing procedure after sending a selfie picture with the moon surface, Beresheet has not landed successfully on the moon thus placing Israel as the 4<sup>th</sup> country to attempt a landing and the 7<sup>th</sup> country that managed to orbit the moon.

IAI's moon-lander (about 1.6m height, 2.3m in diameter, and a launch mass of 600 Kg) is suitable for:

- Multiple payload housing options (such as cubesats, sensors or rovers) in lunar orbit or on the lunar surface.
- Payload capacity of several tens of kilograms
- Flexible landing site selection

IAI is expanding its new space activities with ILL opportunities and is exploring new possibilities to take Israel's space industry to new frontiers and space exploration.

# Environmental R&D

103-1 | 103-2 | 103-3 | 201-2

4 QUALITY  
EDUCATION



9 INDUSTRY, INNOVATION  
AND INFRASTRUCTURE



12 RESPONSIBLE  
CONSUMPTION  
AND PRODUCTION



## Material topic

### Design for Sustainability (DFS)

Design for sustainability methodology supports design and manufacturing perspectives which consider the whole environmental life cycle of a product or service, and integrates both environmental risk management and opportunity leveraging from the earliest stage of definition. Adopting DFS practices allow the developed products and services to become more flexible in a tightening regulatory atmosphere, reducing short-term and long-term risks throughout the life cycle, and systematically contribute to overall cost reductions.

In 2018, two 40-hour courses of design for sustainability in A&D products were delivered, allowing the participating IAI engineers to develop awareness and receive practical tools in addressing the

environmental challenges and opportunities throughout the life cycle of products and services. The courses covered global mega-trends (including climate change), the social license to operate and stakeholder inputs, life cycle analysis, the 21 design

for sustainability principles, environmental and social impacts in the supply chain and future trends.

The innovative DFS program is planned to be further expanded as part of our 2023 strategic sustainability plan, in order to allow full integration with our engineering best practices.

## Clean sky 2

### 201-2

In recent years, IAI has been a significant participant in the European Horizon 2020 Joint Undertaking Clean Sky (Associate Partner in the Eco-Design ITD), Clean Sky 2 (Core Partner in the Airframe ITD, Coordinating the OPTICOMS and ecoTECH projects) and SESAR (participating in AIRPASS, SAFEDRONE and AW-DRONES projects).

IAI has espoused the environmental improvement of aerospace technology as one of its strategic business goals, and is actively involved in these global efforts for the last 20 years. Our endeavors cover both waste treatment solutions at the end-of-pipe and the development

of innovative technologies with improved efficiency and environmental capabilities that reduce the product's overall footprint. We truly believe that the best action is through prevention of environmental risks wherever feasible, and this belief corresponds with global progress and customer support and cooperation on industrial ecology.

Expand our design for sustainability  
(DFS) practices

CLEAN SKY is a joint undertaking of the European Commission and the European Aeronautics industry, as part of the HORIZON 2020 research and innovation program. It is considered the most ambitious aeronautical R&D program ever launched in Europe, aiming to develop feasible technologies for reducing CO<sub>2</sub> emissions and noise levels produced by aircrafts technology today.

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

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

With projects such as CLEAN SKY, IAI is demonstrating state-of-the-art developments in different phases of a product's life-cycle, achieving better energy performance, higher manufacturing

efficiency, new materials introduction, and waste minimization.

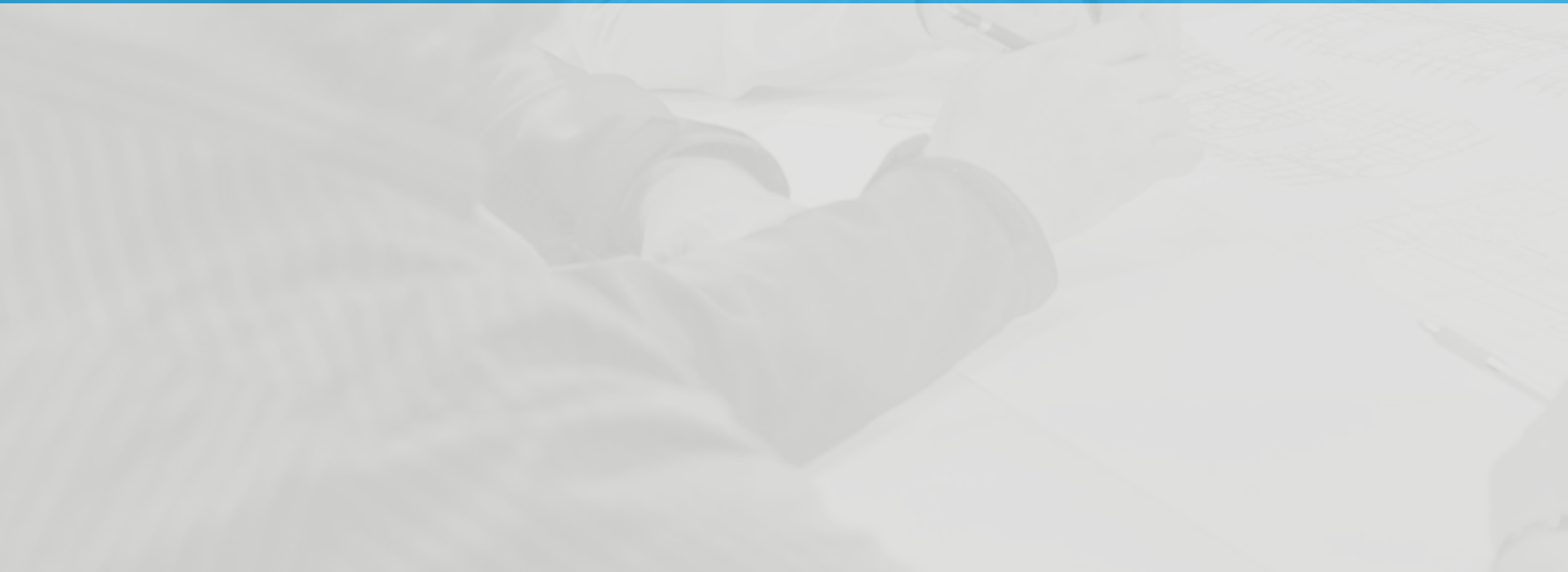
In an extremely conservative industry such as A&D, having the ability to revolutionize and challenge some of the most applied engineering practices is exciting and raises hope for a complete remodeling in the future.

IAI leads the ecoTECH innovative eco-friendly airframe consortium under the framework of CLEAN SKY 2, and alongside partners from Germany, Spain, Greece, and the Netherlands, it develops a set of new technologies (materials, manufacturing processes and methods, recycling operations, etc.) to reduce the environmental footprints of aircraft production from a global life-cycle perspective, while using life cycle assessment methodologies. In the final stage of the project, key enabling technologies will be used to manufacture four demos (Thermoplastics, Thermoset, Metallic, and Biomaterial) to verify the novel technologies.

#### **Expected accumulating results from EcoTECH airframe:**

50%+ reduction in:

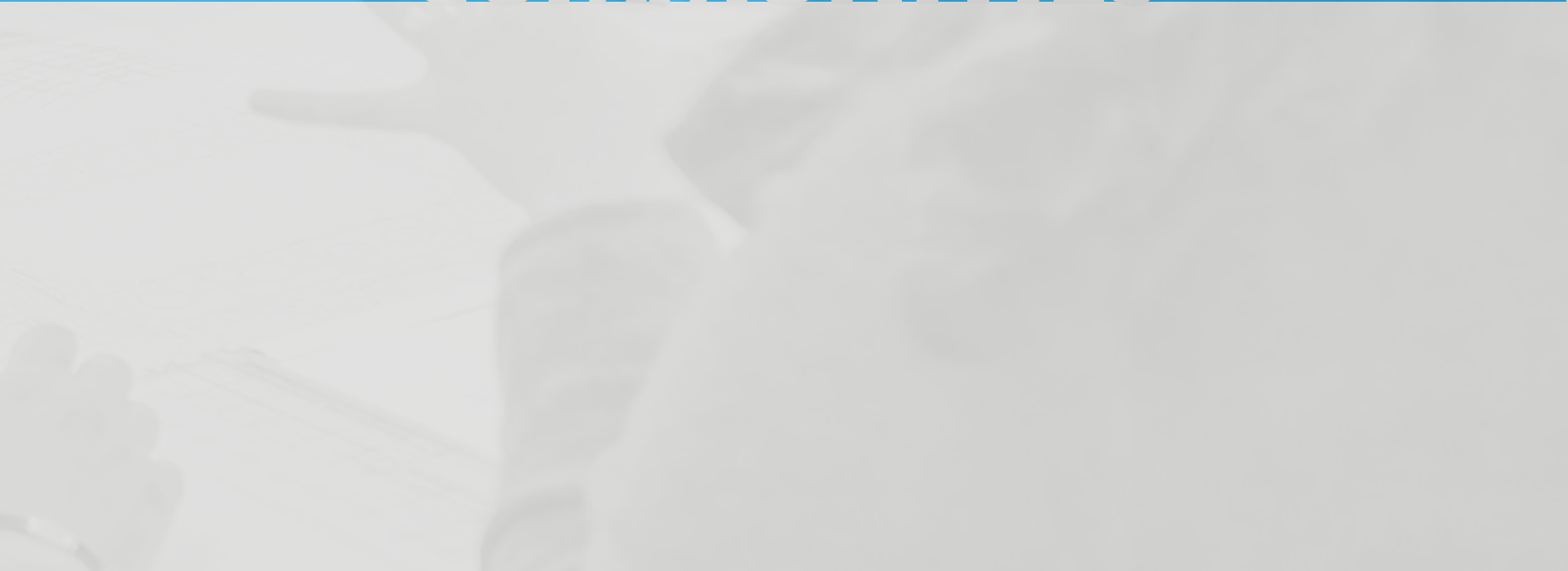
1. Manufacturing effluents
2. Manufacturing waste
3. Green House Gases (GHG) emissions





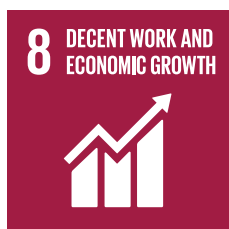


# EMPLOYEES AND COMMUNITIES



# HR management: Empowering our employees

102-8 | 103-1 | 103-2 | 103-3



## Material topic

IAI is proud to have an exceptional team of employees, whose enthusiasm and professionalism promote our business value through demonstrable innovative achievements and outstanding products.

Our “can do” spirit lies at the basis of all our invaluable relationships - employees, retirees, customers, contractors, suppliers, and the communities we live and operate in.

In 2018, IAI ranked **5th “best place to work” in Israel’s BDlcode INDEX**, reflecting our long term commitment to foster a great work environment; from in-house service facilities such as large catering halls, banking, employee transportation, gyms and synagogues, through health care offered by our 24/7 occupational health clinics and social workers, to processes and training programs to advance active listening and enhance internal communications.

Strategic focus is placed upon the advancement of women through all echelons of the organization, by setting specific goals for women overall intake and their promotion to senior management roles. Further, we seek to create a diverse and inclusive workplace by setting goals for intake of underrepresented populations: Orthodox Jews, Druze,

Ethiopian-origin and employees with disabilities.

We continue to provide extensive training and personal development programs, scholarships, position transfers, innovation hubs and general wellbeing activities, and smooth retirement through tailored processes designed to accompany the employee during outplacement or pension.

We maintain and continue to focus our community outreach and engagement as an invaluable part of our social responsibility strategy, and continue to support local communities through multiple social initiatives. Our commitment to Israel’s society, both through our products and our people, is indeed the source of our true value.

IAI is the largest governmental employer in Israel in 2018, with 14,917 employees, including permanent and temporary employees, as well as contracted employees, students and apprentices. The proportion of senior management hired from the local community is 100%.

	Total			Women			Men		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Number of Employees	<b>14,917</b>	14,857	15,359	<b>3,275</b>	3,156	3,199	<b>11,642</b>	11,701	12,610
Number of Managers*	<b>58</b>	58	59	<b>8</b>	7	8	<b>50</b>	51	51

\* This includes vice presidents and direct managers reporting to the CEO.

# Diversity and inclusion

102-8 | 103-1 | 103-2 | 103-3 | 405-1 | Limited assurance



## Material topic

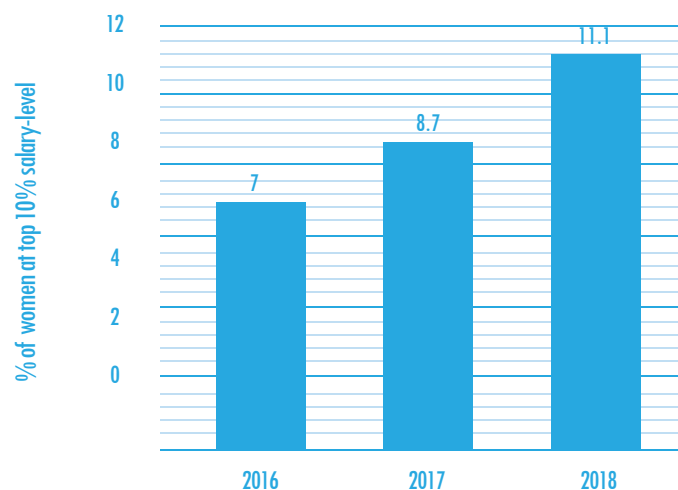
IAI continues to promote equal opportunities in employment and seeks to increase the number of underrepresented populations in our workforce, including Israelis of Ethiopian origins, as well as members of the Druze community, Orthodox Jews, and people with disabilities. In addition, IAI has no age limit, and regularly welcomes employees over 45, such as IDF retirees.

In 2018, IAI'S proportion of **women as a percentage of the total workforce increased to 22%** from 20.55% in 2015.

A notable increase was noted in employees with disabilities in the company, from 2.54% in 2017, to 4.16% in 2018. Objectives and targets were set with specific cross-organizational referents from the company's HR organization, to support and continually promote the intake process for each underrepresented group.

IAI is striving to change the traditional management composition that typically characterizes A&D and technology companies worldwide, by gradually expanding the number of women in its Senior Management roles. This requires long-term investment in training and advancing skilled women from junior management roles, as well as actively identifying and resolving

any organizational barriers impeding this change.



## 2023 Strategy highlights

- 20% of senior management are women
- 5% annual increase in hiring of diverse work populations

## 2023 Strategy highlights

- 35% overall annual women intake of all new employees hiring in core professions (engineering and science)
- 35% overall annual women intake of all new employees hiring

102-8 | 405-1

		% Total		
		2018	2017	2016
Employees	From Ethiopian origins	1.5	1.6	1.5
	From the Druze community	0.1	0.1	Not reported
	Orthodox Jews	2.7	2.5	Not reported
	Age < 30 years	12.5	11.7	10.7
	Age 31-50 years	48.9	51.6	45.2
	Age > 51 years	38.6	36.7	44.1
	With disabilities	4.2	2.5	3.3
Managers	Age < 30 years	0	0	0
	Age 31-50 years	21	27.6	20.3
	Age > 51 years	79	72.4	79.7
	With disabilities	8.6	8.6	Not reported



# Employees development and benefits

404-1 | 404-2 | Limited assurance

4 QUALITY EDUCATION



## Professional training and certification

IAI invests extensively in training its employees and establishing a long-term development plan for their continual individual evolution within the organization. In 2018, **the average number of training hours per employee was 35** (normalized per total number of IAI's employees (see page 57)).

8 DECENT WORK AND ECONOMIC GROWTH



One of our operational divisions is MAHUT, which, among other responsibilities, is our powerhouse for training both in-

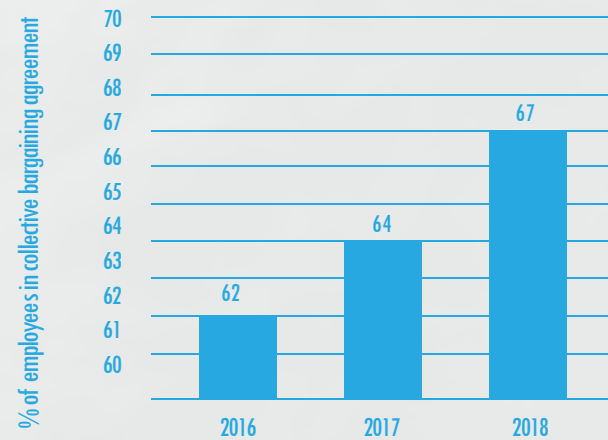
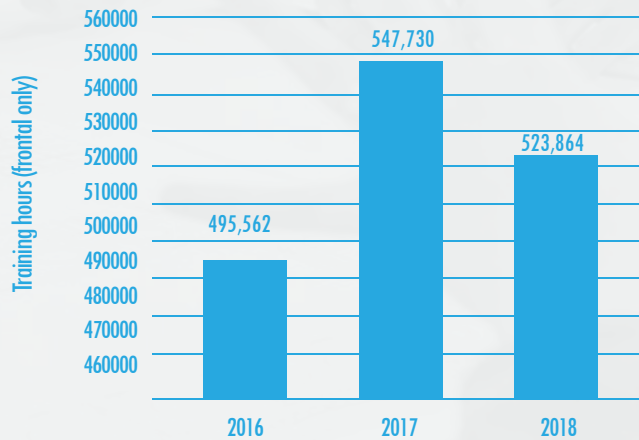
house and external trainees in numerous general and expert-specific courses. It offers technical, aviation, and management training for employees at different levels of knowledge and experience, serving as a meaningful tool to help employees in their career development at the IAI, as directed by our Human Resources organization. MAHUT is also considered a certifying and registration entity on behalf of the Israeli Aviation Authority, the American Federal Aviation Administration (FAA), and the European Aviation Safety Agency (EASA). Training is available as frontal and online courses, and is utilizing IAI's INTRANET for tracking completion of both mandatory and elective requirements. We conduct academic studies towards practical

engineering and Bachelors level degrees within our facilities, and support collaborations with authorized academic colleges and universities in Israel for the accreditation of Master's and Doctorate level degrees for our employees.

Our training programs are designed to support:

- New employee orientation (including safety, occupational health and ethics)
- Professional and managerial level training to advance employees through roles from the bottom-up
- Annual Refreshers on mandatory topics
- Regulatory-required training
- New technologies instructions
- IAI's future managers training (LeadAir)
- Career change classes
- Retirement readiness
- Enrichment courses
- Academic bachelor's, master's and doctorate degrees

Training within IAI continues to be evaluated by a training effectiveness system. The evaluation of training effectiveness is supported by the certifications which IAI holds, including: ISO 9001:2015, AS9100, and CMMI (see pages 44-45).



## Sustainability-related training

IAI employees regularly participate in various online courses (web-based training), focusing on ethics, environment and social issues, such as: sustainability, cyber and information security, internal use of information, traffic safety, energy savings, safety and ergonomics and the code of ethics. **77% of our employees** participated in sustainability-related training in 2018.

## Employees benefit plans

### 201-3

IAI's employee benefit plans and pensions are reported in the 2018 financial statement, Note 3 section (m), pages 39-41.

## 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 discount 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.

## Collective bargaining

### Material topic

### 102-41 | 103-1 | 103-2 | 103-3

At IAI, our employees exercise their rights of freedom of association and collective bargaining. In 2018, **67% of our permanent employees** were covered by collective bargaining agreements.

# Organizational transitions

401-1 | Limited assurance

## New employees

In 2018, IAI has welcomed a total of 1,325 employees. Approximately 98% of all professional contractors that were employed for 9 months in 2018, and were granted good performance reviews, became direct company employees.

IAI regards its relationship with Israel's academic institutions as imperative, and conducts hiring events in cooperation with universities and colleges throughout Israel year-round, including tours, presentation days and more.

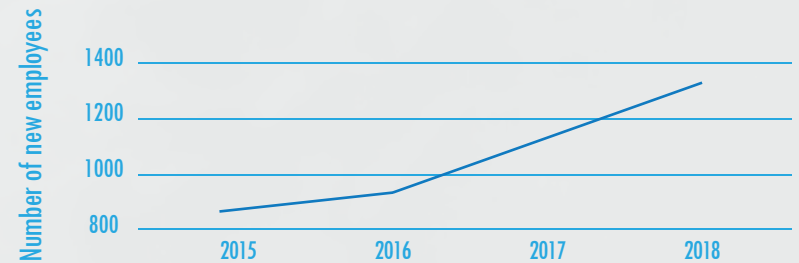
Specific hiring events are conducted by IAI's HR for underrepresented populations, in order to encourage the intake of quality employees from these backgrounds.

	% Women			% Men		
	2018	2017	2016	2018	2017	2016
Number of New Employees	31	28.3	31.9	69	71.7	68.1

%	2018	2017	2016
Employees from Ethiopian origins	1.1	2.2	Not reported
Employees from the Druze community	0.1	0	Not reported
Employees with disabilities	1.0	0.3	Not reported
No. Employees age < 30 years	764	687	580
No. Employees age 31-50 years	469	369	283
No. Employees age > 51 years	92	95	69



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



### Employees mobility within the organization

IAI offers a wide range of roles and professional positions. This abundance of opportunities allows employees to pursue internal transfers as part of their career evolution. Roles available throughout IAI's groups and divisions are routinely published in IAI's INTRANET. Internal transfer between roles is based on a systematic procedure, accompanied by skilled HR personnel.

### Retiring from IAI

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

- 4-day retreat for retirees and their spouses, covering lectures and workshops around the impact of retirement on family life, retirees' social security rights, savings and pension, rights reserved specifically for IAI's 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. This program was attended by 99% of our retiring employees in 2018.

- A retiree club, open to all retired employees, where they can access specific guidance, as well as continue enjoying activities such as tours, travels, and courses.
- A newsletter is issued periodically to all retirees, keeping them up-to-date with all the company's latest news and stories. These are also available through IAI's app.

# Occupational health and safety

103-1 | 103-2 | 103-3 | 403-1 | 403-2 | Limited assurance

8 DECENT WORK AND  
ECONOMIC GROWTH



## Material topic

### Occupational health and safety management at IAI

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

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 with 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.

### Transitioning from OSHAS 18001 to ISO 45001

All IAI's operational divisions own valid business licenses and

OSHAS 18001 certifications. LAHAV division was the first IAI division to obtain a valid ISO 45001 certificate, and a plan is in place for the transition of all other divisions. The company 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 guidelines. The Safety Management System (SMS) is operated for continuous improvements, with periodic surveys and management reviews, and a designated annual budget committed by all division managers.

IAI continuously reviews and adheres to all required ISO standards transitions in our EH&S programs, as acceptable in the A&D sector.

The divisions' safety committees comprise of 50% management and 50% employee representatives from the employees' organization. Safety and occupational health issues are handled on an annual basis as part of the company's safety plan, and derived from the joint collective agreements between management and the employees' organization.

### Contractors and suppliers health and safety

IAI includes Occupational Health and Safety practices clauses in all contracts. Information regarding these aspects of the supply chain will be presented in future reports as part of IAI's 2023 goals.



## 2023 Strategy highlights

- 5% annual decrease in total recordable accident cases
- Full implementation of ISO 45001 standard in all IAI manufacturing divisions

	2018	2017	2016
No. of contractors' accidents	12	10	21

\* Data is based on insurance claims only.

403-9 | 403-10

Group	No. Accidents*			No. Absence days*		
	2018	2017	2016	2018	2017	2016
BEDEK aviation (valid until 2017)***	NA	59	44	NA	2,173	1,487
Aviation	38	NA	NA	1,344	NA	NA
ELTA systems Ltd.	17	14	16	412	269	485
Engineering and Development***	NA	1	2	NA	2	71
Systems, Missiles and Space	12	16	17	272	297	578
Commercial Aircraft	2	4	18	14	179	619
Military Aircraft	9	5	4	249	174	289
Supporting units**	7	2	5	235	23	159
Board of Directors/Management	2	2	4	74	76	191
Total	87	146	110	2,600	3,193	3,879
Total per 1000 Direct Employees	5.8	6.9	7.2	174	219	253

\* The data represented in this table is based on a cutoff analysis from February 2019. Some of the data appearing in earlier reports may be restated due to safety system update with late-reporting of events, as the Israeli law allows 5-year intervals for accident reporting.

\*\* Industrial Services, MAMAN (IT services), and MAHUT.

\*\*\* BEDEK and Engineering and Development are reported under Aviation from 2018 onwards.

There were no work-related fatalities at IAI during 2018.

## Traffic safety

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

Both Industrial services division and MALAM division hold a valid Israeli standard certification ISO 9301, relating to traffic safety and quality.

	2018	2017	2016
Number of Traffic accidents (insurance activated)	16	28	59
Number of pedestrian injured	2	6	6

The major improvements in 2018 included:

- Installation of elevated speed humps, to increase pedestrian safety, in various locations at IAI's sites.
- Installation of designated pedestrian routes within operational areas.
- Repainting and marking of lanes and parking spaces.
- 37% fewer violations were noted in TRAFFILOG, an INTRANET-based system used to document and record speed limits exceeding, compared to 2017 performance.
- 15% fewer reports were submitted through "NOHAL 6", a system documenting violations reported anonymously, of IAI's vehicles traveling outside our campuses.

All reported accidents occurred within IAI's operational areas. The number of accidents is a combination of accidents with/without insurance activation, all internally investigated.



# Community engagement: technological education

103-1 | 103-2 | 103-3 | 413-1

4 QUALITY  
EDUCATION



## Material topic

IAI remains committed to communities located in the vicinity of our operations, as well as to the Israeli society as a whole. The invaluable sense of giving and positively influencing 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.

In 2018, **a total of 20,518 volunteering hours was recorded.** An increase in volunteering hours was noted from 2017.

In addition, about 5,600 food packages were donated to families in need by our employees, in the Jewish holidays (Rosh Hashanah and Passover).

## Ort IAI

In 1963, IAI established a vocational school in Lod, in order to realize an educational vision – allowing youth to receive a diploma and gain a profession. The school is part of the national ORT school chain spread throughout Israel. This unique model combines conventional studies with a weekly day of practical employment at the IAI's Hi-Tech production facilities. Out of thousands graduates to date, about a third of alumni have returned to IAI as employees, and about a third developed

careers in other aerospace-related companies.

The school's training is based on three specializations: Aircraft Mechanics, Electrical and Electronic Systems and Unmanned Aircrafts. These fields of expertise enable the students to smoothly integrate in the Israeli Air force.

IAI fully supports the operational and educational aspects of the school, from arranging daily transportations and catering, to giving frontal lectures, tours and practical lessons in various divisions, as well as assisting students through English and Mathematics private lessons. The students are also being compensated on their weekly employment, including all social allocations.

## Women engineers of tomorrow

The "Women Engineers of Tomorrow" project was launched towards the end of 2015, to address a pressing national need to develop and expand Israel's workforce with STEM (Science, Technology, Engineering and Mathematics) skills. One way to reach this goal is to increase the number of female students studying and working in these fields, starting from high school.

In 2018, the 4th cycle of high school students participating in the project was initiated. In each cycle, 100 outstanding high school girls who chose technology and sciences as their major are selected and offered a unique experience designed to encourage them to prefer STEM (Science, Technology,

## 2023 Strategy highlights

- Increase our strategic social impact
- 60% of community engagement activities are long-term (over a year)

Engineering, and Mathematics) as their future careers.

The 100 students are divided into 10 teams, mentored by women engineers and business experts from various divisions at IAI. Each team is presented with a specific challenge and work for three months on devising a solution, while also attending facility tours and panels with professional and inspiring technological experts from IAI and Israel at large.

In this cycle, feasible technological solutions were offered, including: sleeping capsules in passenger planes, underwater monitoring system to prevent drowning, a life-saving system to be used in the ocean, a moon colony etc.

At the end of the project, the prototypes and business ideas were presented to the students' families, IAI's employees and management, as well as notable Israeli economic leaders.

### Space education program

Space division employees engage in various space-specific initiatives, including:

- Lectures on **space and satellite technology** in dozens of schools throughout Israel
- Pupils tours in the **integration and testing site** of our **satellites**, led by our space engineers
- Building nano-satellites as school projects

- Joint activities and lectures on **Beresheet moon lander** (see page 51) with SpacEL NGO

### Additional STEM initiatives

IAI's divisions' employees are engaged year-round in many additional educational programs, such as **Ramon Spacelab** for middle school children, designing experiments for the international space station, **Technological touch** and **Feedel**, programs for students from Ethiopian origins, designed to develop computing skills and technological orientation, as well as mathematical studies, and more.









# ENVIRONMENT

# Environmental management at IAI

103-1 | 103-2 | 103-3

## 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



## 12 RESPONSIBLE CONSUMPTION AND PRODUCTION



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. Today, with all of our manufacturing divisions certified to ISO 14001:2015 standard as a basic practice, IAI is continually monitoring its environmental impact and strives for effective energy, air, water, effluents, and waste management, while cooperating in confronting the challenges faced locally and globally by the A&D industry, such as climate change.

Aviation 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.

Current aircraft technologies 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 aircraft 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 within the A&D value chain in improving the overall sector's sustainability performance. From developing new solutions for aircraft as part of the European Union Horizon 2020 program (see pages 52-53), to participating in setting the industry guidelines and solutions developed by IAEG (see page 19).

## Compliance

### Material topic

#### 307-1

IAI's sustainability program is founded on our uncompromising commitment to comply with all 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, is 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 2018 environmental performance.

## Environmental risk management

### Material topic

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 the planning and implementation of such matters. In addition, management reports specifically on these items are directed 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 2018, pages 110-112.

# Energy management

103-1 | 103-2 | 103-3 | 302-1 | 302-4 | Limited assurance

9 INDUSTRY, INNOVATION  
AND INFRASTRUCTURE



12 RESPONSIBLE  
CONSUMPTION  
AND PRODUCTION



## Material topic

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 Trustees for monitoring and following up on designated facilities, promoting employees' awareness

and ensuring preventive maintenance, as well as reporting on the facility's performance to the division energy officer.

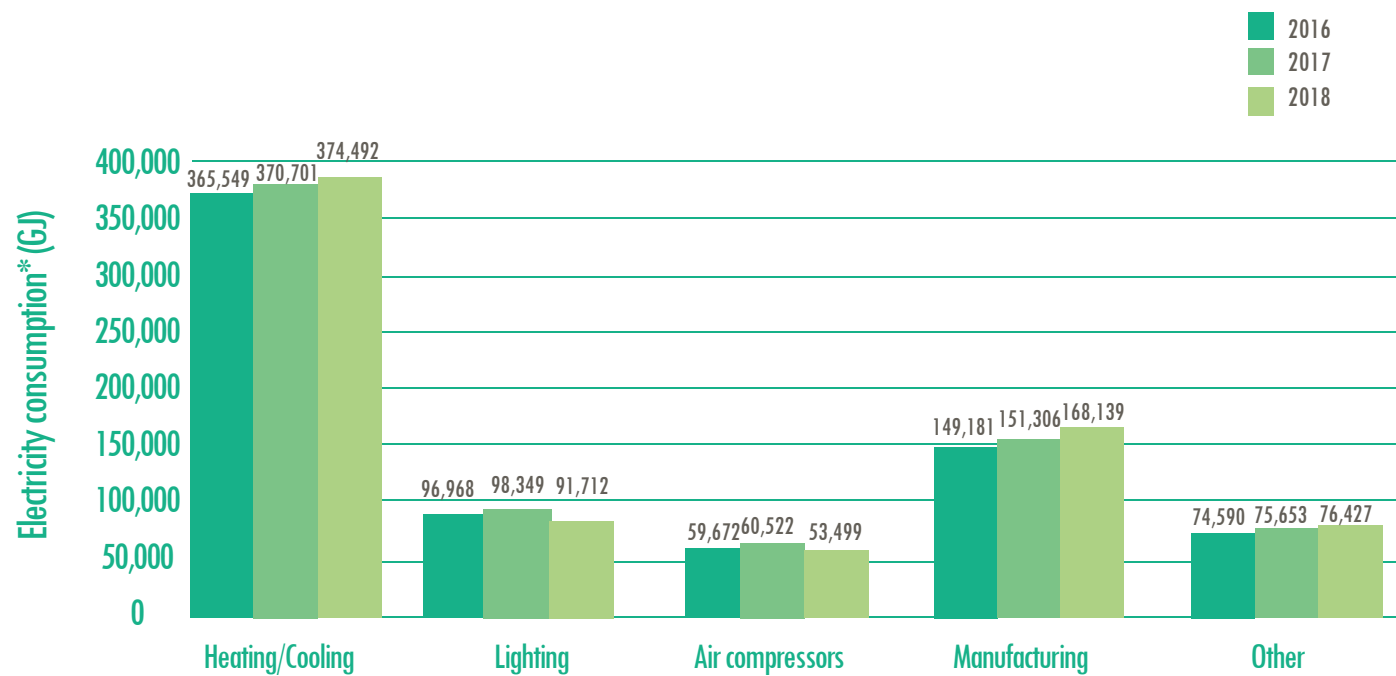
In 2018, over 180 hours of training on energy supply and consumption were delivered to key employees, including division general managers, energy officers, and energy trustees. Each division manager was given a concise kit for operational guidelines on energy consumption, allowing them to address all levels in their respective units, and establish an annual work plan. Three of IAI's divisions received their certification of ISO 50001 standard for energy management in operations. Additional certification is expected in coming years.

## Electricity consumption

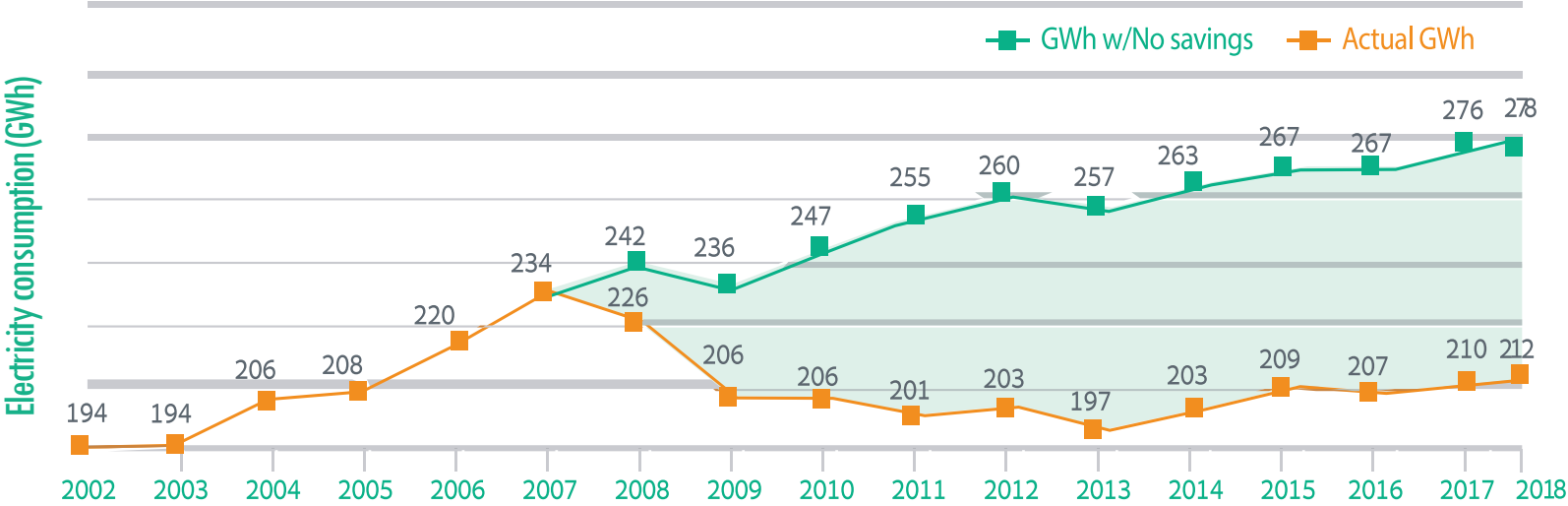
100% of IAI's electricity consumption is based on a private supplier, which produces electricity based on Natural gas.

As of 2007, IAI established a continuous working plan to implement cross-organizational efficiency and saving measures. Since 2007, 24% savings were achieved in relation to the business as usual scenario, **equaling to a total of 566 GWh**. The savings were achieved alongside a rise in total electricity consumption in 2018, due to new buildings being populated and general increase in production operations.

The total electricity consumed in 2018 was 764,269,297 MJ. In 2018 IAI did not sell any energy (electricity, cooling/heating or steam).



\* Source used for data unit conversions: the 2006 guide of the intergovernmental panel on climate change (IPCC)



Renewable energy

No renewable energy sources were utilized by IAI in 2018; however, IAI has started a long-term project of installation of solar panels in our sites, as part of our climate change strategy and our energy savings program.



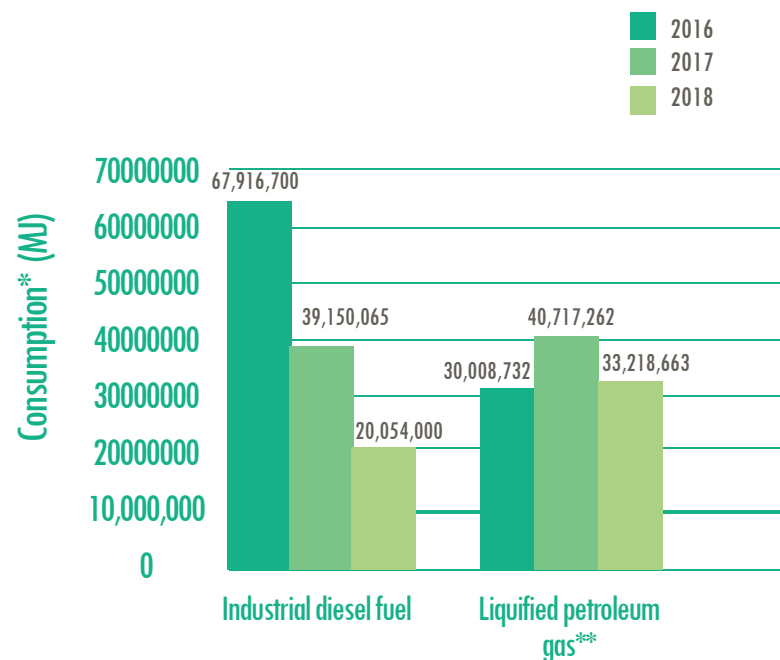
# 2023 Strategy highlights

- 10% cross-organizational electricity savings
- Diversify our electricity consumption to include renewable energy sources

## Fuel consumption in industrial uses

### 302-1 | 302-4 | Limited assurance

The total fuels consumed in 2018 for industrial uses were 53,272,668 MJ, a 33% decrease from 2017. In 2018, a decrease of 18% was noted in liquefied petroleum gas (LPG) consumption compared with 2017, accompanied by a continual and notable decrease of nearly 50% in industrial diesel fuel. This was due to increases in operational rates relying on LPG.



\* Source used for data unit conversions: the 2006 guide of the intergovernmental panel on climate change (IPCC)

\*\* Data was re-stated for both 2016 and 2017 due to LPG consumption data optimization.

### 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 2018 was 86,398,392 kilometers; a decrease of 20% compared to 2016. This indicator is estimated based on total automotive fuel consumption for transportation (see table below) and an average of 12L/Km consumption rate by vehicles.

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

In 2018, we saw an increase in our Diesel fuel consumption for transportation, and a decrease in gasoline consumption. We expect these rates to drop in 2019-2020, as a new policy set in 2017, coming into effect in 2018, limits the offering of Diesel fueled cars to our employees, while increasing the number of hybrid vehicles uptake. In 2018, the number of hybrid vehicles at IAI has doubled.

In 2018, Our Jet fuel consumption increased by 13%, due to higher rates of operations. Overall, total fuels for transportation decreased by 14% between 2015-2018.

Fuel type		2018 (Liters)	2017 (Liters)	2016 (Liters)
Automotive	Diesel fuel (50)	<b>904,907</b>	801,223	559,984
	Gasoline (95)	<b>6,294,959</b>	7,088,850	8,408,134
Aviation	Jet fuel	<b>4,083,931</b>	3,604,560	3,485,079
Total		<b>11,283,797</b>	11,494,633	12,453,197

	2018	2017	2016
Number of Hybrid vehicles	<b>308</b>	149	31

# Natural resources management

103-1 | 103-2 | 103-3 | 303-1 | Limited assurance

12 RESPONSIBLE  
CONSUMPTION  
AND PRODUCTION



## Material topic Water consumption and efficiency

Israel is situated in a geographical area that suffers from water shortage, leading to a globally-acknowledged leadership in water technologies.

Although the water economy in the region continues to stabilize with large investments in national infrastructure and efficient water recovery of over 75% effluent recovery for agriculture, IAI regards water consumption in its operations as a significant resource by taking active steps to make it more efficient and continues to promote desalination technology development.

Total **fresh water consumed in 2018 was 682,737 cubic meters**, including all water sources in use on the all the following sites: Ben Gurion Airport campus, ELTA, MLM, RAMTA, MABAT, and TAMAM. All water consumption data is based on direct internal and external consumption monitoring and billing information.

## Soil surveys

Based on the requirement of the Government Unit for Licensing Security Enterprises, in 2011, IAI conducted historic surveys (Phase I), which included collecting relevant information regarding potential areas of environmental concern in the company's real estate properties in all its sites from historical use. As of this report release date, a detailed multi-annual plan for additional surveys was delivered and authorized by the relevant authorities for additional site investigations, which are prioritized, based on the extent of operations in each site. A Phase II Environmental Site Assessment was conducted in the Production Technologies Division, from the Commercial Aircraft Group in 2016-2017. The site assessment included soil, soil vapor, and groundwater sampling. Volatile chlorinated organic compounds were measured at the former location of a tetrachloroethylene (PCE) degreaser at the site. The Israeli Water Authority received a rehabilitation plan for this area.

# Green house gases (GHGs) emissions

103-1 | 103-2 | 103-3 | 305-1 | 305-2 | 305-4 | Limited assurance



## Material topic

The year 2018 was the fourth hottest year on record, according to NASA and the National Oceanographic and Atmospheric Administration (NOAA).

IAI's carbon control cross-organizational program includes:

- Annual disclosure to the CDP (2017 was our first reporting year)
- Annual disclosure to the voluntary GHG reporting scheme led by the Israeli Ministry of Environmental Protection (2017 was our first reporting year).
- Specific goals for GHG reduction as part of our 2023 sustainability goals (see pages 20-21).
- Supporting reductions of GHG emissions through our participation in the Clean Sky 2 program (see pages 52-53).
- Supporting climate change mitigation in the A&D supply chain through IAEG (see page 19).
- Aligning our climate change focus with the UN SDGs (Goal 13: Climate action).

IAI's green house gases inventory is complex, including all our operating sites and subsidiaries in Israel. Operationally, our main efforts focus on effective energy utilization and greener company travel options, while exploring potential solutions in renewable energy.

The sources included in the calculations were fuels for industrial consumption and transportation and our electricity consumption, based on 100% natural gas use by the electricity supplier. The electricity savings noted in 2018 (scope 2) were achieved alongside a rise due to new buildings being populated and general increase in production operations.

## GHG intensity

Our GHG intensity is calculated per **total built area, 874,184** square meters in 2018.

GHG intensity	2018	2017	2016
Scope 1	<b>0.042</b>	0.045**	0.046*
Scope 2	<b>0.106</b>	0.105	0.102

\* This data was re-stated due to update in 2016 LPG consumption.

\*\* This data was re-stated due to update in 2017 LPG consumption.

Source	2018 (CO <sub>2</sub> equivalent emissions)	2017 (CO <sub>2</sub> equivalent emissions)	2016 (CO <sub>2</sub> equivalent emissions)	Trends between 2017-2018
Stationary fuel sources (Industrial fuels)	6,559	8,932**	7,244*	
Mobile fuel sources (transportation fuels)	30,059	30,121	32,166	
<b>Total scope 1: direct emissions</b>	<b>36,618</b>	39,053**	39,410*	↓
Electricity consumption	92,837	92,045	88,265	
<b>Total scope 2: indirect emissions</b>	<b>92,837</b>	92,045	88,265	↑
<b>Total emissions (scopes 1 &amp; 2)</b>	<b>129,455</b>	131,097**	127,676*	↓

\* This data was re-stated due to update in 2016 LPG consumption.

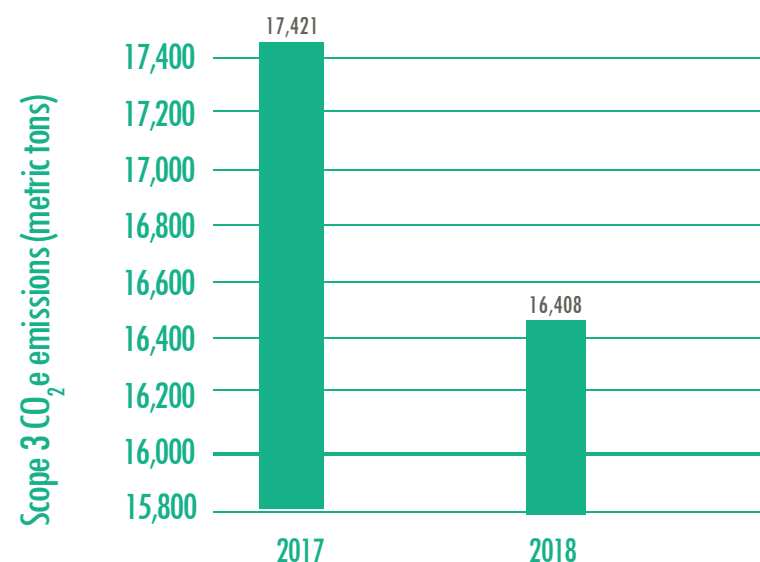
\*\* This data was re-stated due to update in 2017 LPG consumption.

305-1 | 305-2

### Scope 3: Employees' air travel for business purposes

The scope 3 business travel data represents 90% of total business travel occurring during the calendric year, which represent the majority of emissions. The calculation methodology is based on WRI Scope 3 calculation guidance, category 6 – business travel.

Calculations were based on distance-based data of air travel only. According to the guidance, the activity data (i.e., person-kilometers travelled by air) was multiplied by the emission factors (international flight emission factors of average air passenger, DEFRA 2018).



# Waste and effluents

103-1 | 103-2 | 103-3 | 306-2 | 306-4

12 RESPONSIBLE  
CONSUMPTION  
AND PRODUCTION



## Material topic

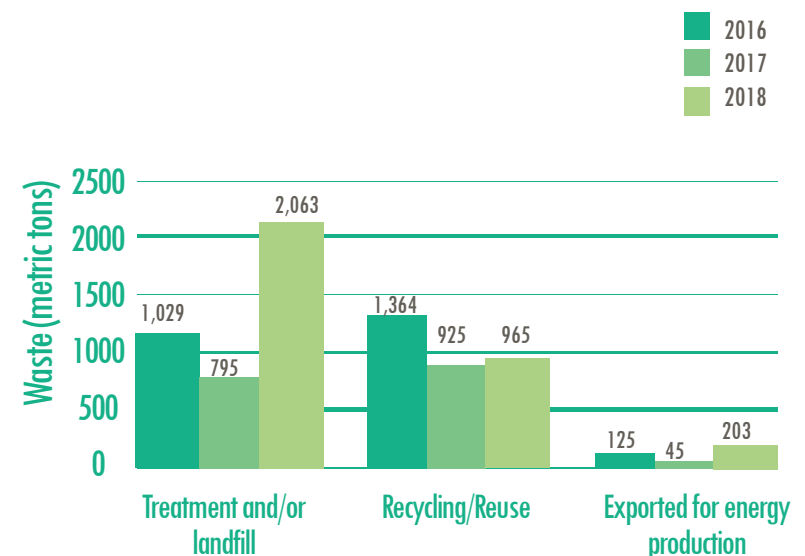
Raw materials are quickly exhausted on a global scale. This situation calls for better management of waste – both economically and environmentally – and employing systems that go beyond mere pollution prevention actions. IAI is

focusing its efforts in continually looking for more recycling and reuse opportunities, while implementing a smarter raw material use.

Compared with 2017, our recycling/reuse rate for hazardous waste dropped from 54% to 30% while our **recycling/reuse rate for non-hazardous waste increased from 56% to 63%**. Both our hazardous and non-hazardous wastes overall weight increased due to higher operations rates, compared with 2017.

## Hazardous waste

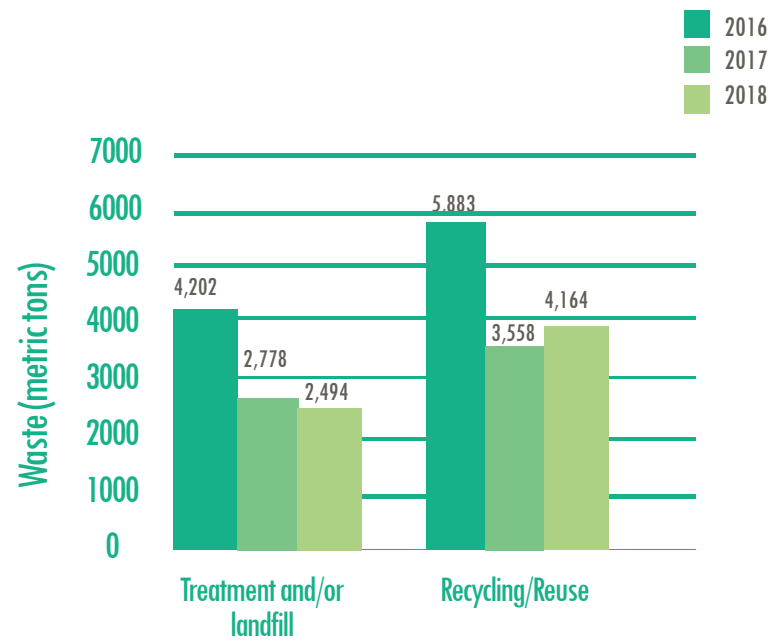
In 2018, a total of 3,231 metric tons of hazardous waste were evacuated from IAI's sites, and all waste designated for reuse or recycling was treated based on the waste contractor alternatives. All exported hazardous waste was designated for Waste-to-Energy via a hazardous waste exporter, who is compliant and authorized by the Israeli Ministry of environmental protection.





Non-hazardous waste

In 2018, a total 6,658 metric tons of Non-hazardous waste were evacuated from IAI's sites, of which 63% were sent for recycling and the rest for landfill. All waste recycling was done based on the waste contractor alternatives.



Effluents treatment  
306-1

Total Effluents discharged in 2018 was 249,745 cubic meters at Ben Gurion Airport campus only (where the majority of IAI's industrial wastewater is emitted). This is an increase of 19% compared with 2017, originating from higher operating rates.

All effluent consumption data are based on internal and external monitoring and billing information.

# Air emissions

103-1 | 103-2 | 103-3 | 305-7 | Limited assurance

## Material topic

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 use in its manufacturing lines, as well as implementing systems to reduce emissions from its operations and transportation sources.

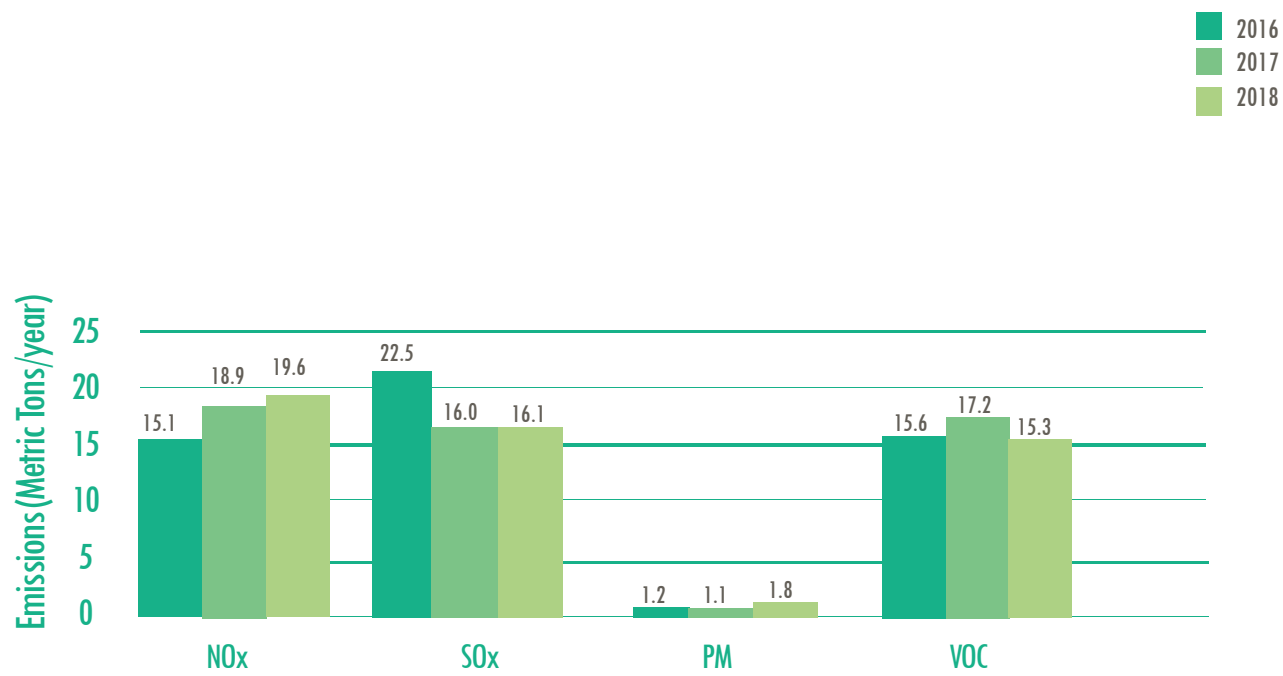
## IAI facilities' compliance with the Israeli Clean Air Law – 2008 regulations

The Israeli Clean Air Law, which came into effect January 2011, was designed to dramatically impact all sources affecting air quality in Israel through regulatory mechanisms. Following an extensive evaluation process done in all our facilities, two of them were found to fall under the Israeli Clean Air Law – 2008 regulations criteria. Those facilities underwent a series of processes to meet all legal requirements, and their 2018 performance is according to stack monitoring and calculation methodologies defined in the Israeli Pollutant Release and Transfer Register - 2012.

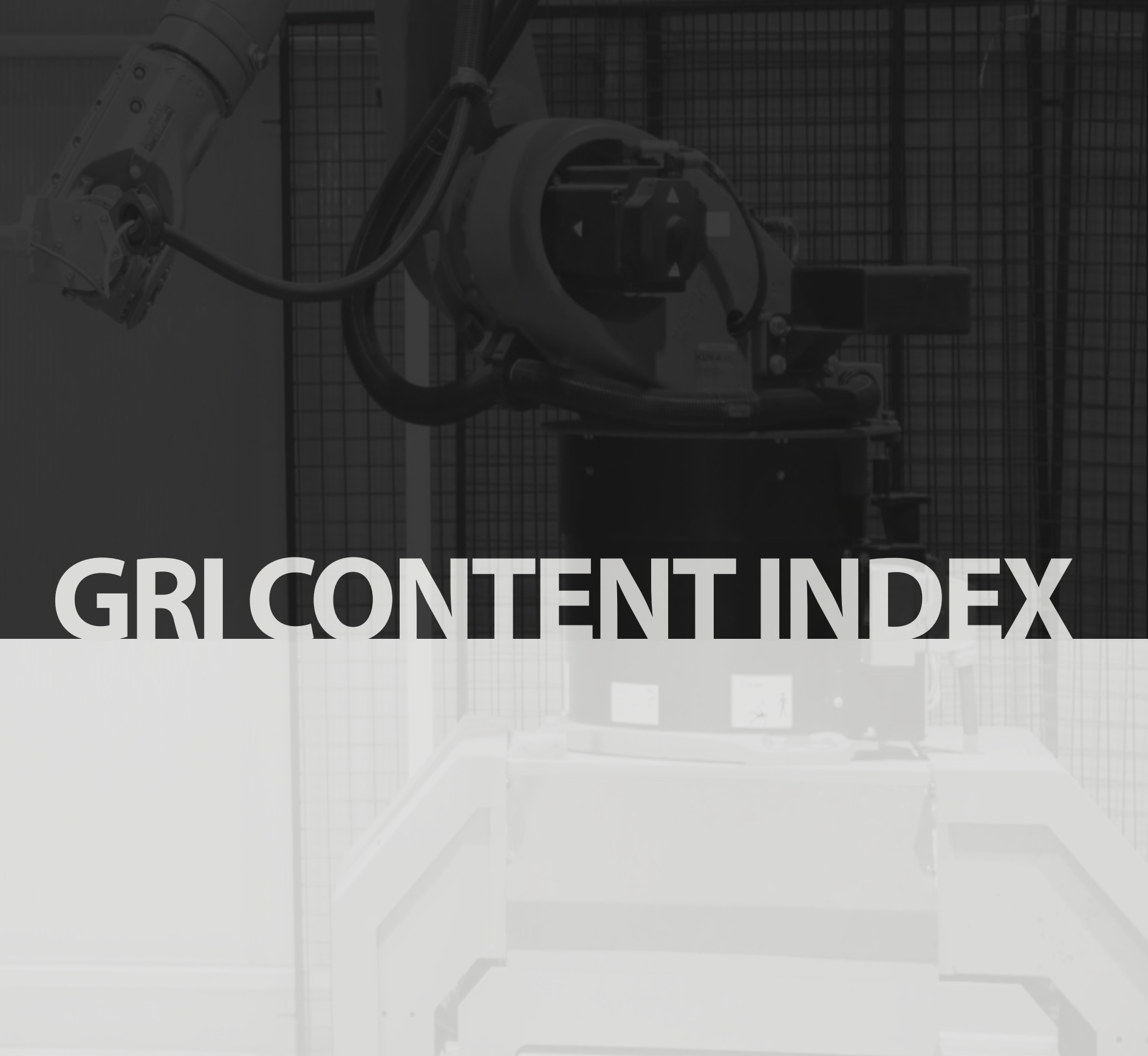
Note that Persistent Organic Pollutants (POP) are not present in IAI's operations.

The continual rise in 2018 NOx emissions is attributed to

a significant workload undertaken by one of the facilities compared with past years.







# GRI CONTENT INDEX

# GRI Content index

102-55



For the GRI Content Index Service, GRI Services reviewed that the GRI content index is clearly presented and the references for all disclosures included align with the appropriate sections in the body of the report.

GRI standard	Disclosure	Page	Omissions
<b>GRI 101: Foundation 2016</b>			
<b>General Disclosure: Organizational profile</b>			
<b>GRI 102: General disclosures 2016</b>	102-1	Name of the organization	12
	102-2	Activities, brands, products, and services	37-39
	102-3	Location of headquarters	12
	102-4	Countries of operations	12
	102-5	Ownership and legal form	12, 40, 100
	102-6	Markets served	12-13, 36-39
	102-7	Scale of the organization	12, 36, 40
	102-8	Information on employees and other workers	56-59
	102-9	Supply chain	41-43
	102-10	Significant changes to the organization and its supply chain	13, 100
	102-11	Precautionary principle or approach	14
	102-12	External initiatives	19
	102-13	Membership of associations	19



GRI standard	Disclosure		Page	Omissions
General Disclosure: Strategy				
GRI 102: General disclosures 2016	102-14	Statement from senior decision-maker	4-5	
	102-15	Key impacts, risks and opportunities	5	
General Disclosure: Ethics and Integrity				
GRI 102: General disclosures 2016	102-16	Values, principles, standards, and norms of behavior	11, 32	
General Disclosure: Governance				
GRI 102: General disclosures 2016	102-18	Governance structure	26	
	102-22	Composition of the highest governance body and its committees	26	
	102-26	Role of highest governance body in setting purpose, values, and strategy	14	
	102-29	Identifying and managing economic, environmental, and social impacts	14	
	102-32	Highest governance body's role in sustainability reporting	14	
	102-33	Communicating critical concerns	14	
	102-34	Nature and total number of critical concerns	14	

GRI standard	Disclosure		Page	Omissions
General Disclosure: Stakeholder Engagement				
GRI 102: General disclosures 2016	102-40	List of stakeholder groups	16-17	
	102-41	Collective bargaining agreements	61	
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	102-43	Approach to stakeholder engagement	16-18	
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	102-53	Contact point for questions regarding the report	102	
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	103-3	Evaluation of the management approach	26	
Material topics: Corporate Governance: Sustainable risk management				
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	103-2	The management approach and its components	30, 73	
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	103-2	The management approach and its components	32	
	103-3	Evaluation of the management approach	32	
GRI 205: Anti- corruption 2016	205-2	Communication and training about anti-corruption policies and procedures	32-33	

GRI standard	Disclosure		Page	Omissions
Material topics: Corporate Governance: Compliance				
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	32	
	103-2	The management approach and its components	32	
	103-3	Evaluation of the management approach	32	
GRI 307: Environmental compliance 2016	307-1	Non-compliance with environmental laws and regulations	72	
Material topics: Corporate Governance: Future regulations				
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	103-2	The management approach and its components	72	
	103-3	Evaluation of the management approach	72	
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GRI standard	Disclosure		Page	Omissions
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	103-3	Evaluation of the management approach	31	
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	103-3	Evaluation of the management approach	40	
GRI 201: Economic performance 2016	201-1	Direct economic value generated and distributed	36, 40	
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GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	48	
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	103-3	Evaluation of the management approach	48	

GRI standard	Disclosure		Page	Omissions
Material topics: Economic: Supply chain management				
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	41-42	
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GRI 417: Marketing and labeling 2016	417-1	Requirements for product and service information and labeling	44	
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GRI 203: Indirect economic impacts 2016	203-2	Significant indirect economic impacts	43	
GRI 204: Procurement practices 2016	204-1	Proportion of spending on local suppliers	43	



GRI standard	Disclosure		Page	Omissions
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	103-2	The management approach and its components	56	
	103-3	Evaluation of the management approach	56	
GRI 201: Economic performance 2016	201-3	Defined benefit plan obligations and other retirement plans	61	
GRI 202: Market presence 2016	202-2	Proportion of senior management hired from local community	57	
GRI 401: Employment 2016	401-1	New employee hires and employees turnover	62-63	
GRI 404: Training and education 2016	404-1	Average hours of training per year per employee	61	
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GRI standard	Disclosure		Page	Omissions
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	103-2	The management approach and its components	58	
	103-3	Evaluation of the management approach	58	
GRI 405: Diversity and equal opportunity 2016	405-1	Diversity of governance bodies and employees	29, 58-59	

<b>Material topics:</b> <b>Social: Technological education</b>				
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	103-2	The management approach and its components	68	
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<b>GRI 413: Local communities 2016</b>	413-1	Operations with local community engagement, impact assessments, and development programs	68	

GRI standard	Disclosure		Page	Omissions
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	103-2	The management approach and its components	64	
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Material topics: Social: Employees organization (freedom of association and collective bargaining)				
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundaries	61	
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GRI standard	Disclosure		Page	Omissions
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	103-2	The management approach and its components	74, 80, 84	
	103-3	Evaluation of the management approach	74, 80, 84	
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	305-2	Energy indirect (Scope 2) GHG emissions	80-81	
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GRI 201: Economic performance 2016	201-2	Financial implications and other risks and opportunities due to climate change	52-53	

GRI standard	Disclosure		Page	Omissions
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# Report profile

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This report presents the Israel Aerospace Industries Ltd. performance on corporate responsibility and ethics, as well as on social, economic, and environmental matters. 2018 is IAI's fourth reporting year; our last reporting year was 2017. 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, 2018. In some cases, earlier years were considered for the sake of comparison, trend analysis, and future goal-setting. When such cases appear in the report, this fact was noted adjacent to the data.

## Reporting cycle

This is IAI's fourth sustainability report. Our company shall continue to publish these reports on an annual basis and in accordance with the latest GRI Sustainability Reporting Standards, in order to keep our stakeholders updated on our performance.

## Reporting 'in accordance' with the GRI Standards: Core option

This report has been prepared in accordance with the GRI Standards: Core option. This level of reporting is in line with the company's resources and requirements from its stakeholders. These reporting standards can be found at the GRI website [www.globalreporting.org](http://www.globalreporting.org). For the GRI Content Index Service, GRI Services reviewed that the GRI content index is clearly presented and the references for all disclosures included align with the

appropriate sections in the body of the report. The GRI Standards Content Index is located at the end of this report, on page 88.

## Reporting scope

IAI has a worldwide business and financial activity, with the majority of its managerial and manufacturing activities taking place in Israel's territory. Relevant financial data specified in this report are in line with IAI's 2018 financial statement and concerns IAI's global activity.

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

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

## Significant changes in operations, size, or sites that were noted in 2018:

Throughout 2018, IAI had laid the foundation for the establishment of the aviation group, consisting of former groups: Bedek aviation group, Engineering and development group, Commercial aircrafts group and LAHAV division's aero-structures business.

## Reporting process and External Assurance

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



and effective process in future reporting procedures.

As a governmental company, we see great importance in supplying our stakeholders with accurate and reliable information about the environmental and social impacts of our activity. This report was externally assured for a third consecutive year.

### **Reporting language**

This report is fully written in English. A key highlights report is available in Hebrew at [www.iai.co.il/Sustainability](http://www.iai.co.il/Sustainability).

### **Restatements**

#### **102-49**

The following restatements were done in this report, compared with earlier reports:

- LPG Data was re-stated for both 2016 and 2017 due to LPG consumption data optimization.
- GHG emissions data was re-stated for both 2016 and 2017 based on restatement of LPG

### **Legal disclaimer**

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

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

**Please direct these to:**

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Meets Technology***

