

# DEFENCE COMPANIES INDEX (DCI) ON ANTI-CORRUPTION AND CORPORATE TRANSPARENCY 2020

## FINAL ASSESSMENT

### ISRAEL AEROSPACE INDUSTRIES LTD.

The following pages contain the detailed scoring for this company based on publicly available information.

The table below shows a summary of the company's scores per section:

Section	Number of Questions*	Score Based on Publicly Available Information
1. Leadership and Organisational Culture	4	7/8
2. Internal Controls	6	6/12
3. Support to Employees	7	5/14
4. Conflict of Interest	4	1/8
5. Customer Engagement	6	4/12
6. Supply Chain Management	5	3/10
7. Agents, Intermediaries and Joint Ventures	10	6/20
8. Offsets	4	1/8
9. High Risk Markets	4	2/8
10. State-Owned Enterprises	5	5/10
<b>TOTAL</b>		<b>40/110</b>
<b>BAND</b>		<b>D</b>

\*This column represents the number of questions on which the company was eligible to receive a score; i.e. where the company did not receive a score of N/A.

## 1. Leadership and Organisational Culture

Question
<b>1.1. Does the company have a publicly stated anti-bribery and corruption commitment, which is authorised by its leadership?</b>
Score
<b>2</b>
Comments
There is evidence that the company has a publicly stated anti-bribery and corruption commitment, which details the company's stance against any form of corruption within the organisation. It is clear that this commitment was authorised and endorsed by the company's leadership.
Evidence
<p><b>[6] President and CEO Letter (Document)</b>  Accessed 18/07/2019  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-06/IAI%27s%20President%20and%20CEO%20Letter.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-06/IAI%27s%20President%20and%20CEO%20Letter.pdf</a>  [p.1] Israel Aerospace Industries (IAI) is one of the world's leading companies in both the defense and commercial markets delivering state-of-the-art technologies and systems in all domains.</p> <p>IAI's core values are compliance with laws and regulations, ethical conduct, avoidance of corruption and observance of fair and appropriate competition standards. IAI has a declared policy to prevent corruption in our business, and we convey this message to our officers, managers and employees, as well to third parties with whom we engage in business.</p> <p>As part of its policy IAI has established a comprehensive Anti- Bribery Compliance Program (the "Compliance Program"), which reflects Israel's adherence to the OECD's convention (on Combating Bribery of Foreign Public Officials in International Transactions) and IAI's values. The Compliance Program includes clear guidance and detailed procedures that must be satisfied at all times. IAI is committed to effective enforcement of the Compliance Program and acts diligently in the event of any deviations.</p> <p>As the President and CEO of IAI, I fully support IAI's Compliance Officer organization and I am confident that IAI's high standards and values will continue to guide us to excellence in all areas.</p> <p><b>[5] Compliance Officer Letter (Document)</b>  Accessed 18/07/2019  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-06/IAI%27s%20Compliance%20Officer%20Letter.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-06/IAI%27s%20Compliance%20Officer%20Letter.pdf</a>  [p.1] Israel Aerospace Industries (IAI) places great importance on conducting its business honestly, equitably, fairly, professionally and in accordance with applicable laws and regulations.</p> <p>As IAI's Compliance Officer, I report directly to IAI's President &amp; CEO and the Board of Directors.</p> <p>My responsibilities as Compliance Officer include supervising, integrating and monitoring the execution of IAI's comprehensive Anti- Bribery Compliance Program (the "Compliance Program").</p> <p>IAI's Compliance Program includes training, oversight, reporting and procedures relating to engaging, working with and compensating third parties including marketing consultants, as well as internal policies and controls to ensure compliance by IAI's employees at all levels.</p>

IAI has implemented a company-wide program of training to communicate effectively IAI's compliance with its guidelines and policies.

IAI strongly believes that compliance with the law, ethical conduct, avoidance of corruption and observing fair and appropriate competition standards are key values that are essential to IAI's long term success.

IAI, its officers, managers and employees are all committed to an ethical and compliant work environment in order to create enhanced business performance with the highest standards of integrity.

Question
<p><b>1.2. Does the company have a comprehensive anti-bribery and corruption policy that explicitly applies to both of the following categories:</b></p> <p>a) All employees, including staff and leadership of subsidiaries and other controlled entities;</p> <p>b) All board members, including non-executive directors.</p>
Score
1
Comments
<p>There is evidence that the company publishes an anti-bribery and corruption policy, which makes specific reference to bribery and payments to foreign public officials. This policy clearly applies to all employees and board members as described in (a) and (b) above.</p> <p>However, the company does not explicitly prohibit facilitation payments or commercial bribery.</p>
Evidence
<p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a></p> <p>[p.2] IAI is an Israeli government company that engages in commercial activities while complying with the laws of Israel and the laws of the countries in which IAI operates. IAI is committed to conduct its business with integrity, fairly, equitably and professionally, while maintaining the highest standards of administration. IAI believes that compliance with the law, ethical conduct, avoidance of corruption and observing fair and appropriate competition standards are key building blocks towards gaining the trust of our customers, partners, suppliers and employees, and are pivotal to IAI's long term success and survival.</p> <p>IAI acts to ensure that its managers, employees and representatives, as well as its subsidiaries, will behave in accordance with the law and IAI's policies in every aspect, including those relating to preventing corruption and avoidance of bribery, and that any violation of law and/or IAI's policies in this regard will be cause for material and legal sanction.</p> <p>[p.5] IAI has a declared policy with regards to preventing corruption, generally, and particularly in respect of international transactions. IAI demands total compliance with applicable laws relating to the prohibition of bribing foreign public officials.</p> <p>IAI's policy applies to the members of IAI's Board of Directors, officers and employees, as well as Controlled Entities (defined herein).</p> <p><b>[2] Compliance (Webpage)</b>  Accessed 18/07/2019  <a href="https://www.iai.co.il/about/compliance">https://www.iai.co.il/about/compliance</a></p> <p>IAI has a declared policy with regards to preventing corruption, generally, and particularly in respect of international transactions. IAI demands total compliance with applicable laws relating to the prohibition of bribing foreign public officials and transmits this message to its managers and workers, as well as to third parties with whom it engages in business.</p> <p>As part of its policy IAI has established a comprehensive Anti- Bribery Compliance Program which reflects Israel's adherence to the OECD's convention (on Combating Bribery of Foreign Public Officials in International Transactions) and IAI's values.</p> <p>IAI is committed to conduct its business with integrity, fairly, equitably and professionally, while maintaining the highest standards of administration. IAI believes that compliance with the law, ethical conduct, avoidance of corruption and observing fair and appropriate competition standards are key building blocks towards gaining the trust of our customers, partners, suppliers and employees, and are pivotal to IAI's long term success and survival.</p> <p>IAI acts to ensure that its managers, employees and representatives, as well as its subsidiaries, will act in accordance with the law and IAI's policies in every aspect, including those relating to preventing corruption and</p>

avoidance of bribery. IAI shall have zero tolerance to any violation of laws and/or its policies or procedures and any violation in this regard will be cause for material and legal sanction.

**[1] Code of Ethics (Webpage)**

Accessed 18/07/2019

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

At IAI, everything we do - for our employees, customers, partners, stakeholders and the wider community of which we are a part - is governed by our Code of Ethics.

Each employee, officer, representative and supplier of the company is required to uphold the values of the Code; values that include conducting our activities honestly and fairly, avoiding conflicts of interest, honoring customers' expectations, promoting a safe and fair work environment, and achieving growth through sophisticated technological systems, products and services.

As such, the Code is the unwavering lynchpin of all our activities, whether internal or external, at home or around the world, guiding us as we grow our business and create a lasting legacy for future generations.

**The Code's Chapters**

Our Code of Ethics is divided into seven chapters, summarized briefly below.

1. Marketing: managing our customer relations fairly, seriously and with integrity, adhering to the International Convention on Corruption; promoting commercial fairness; providing efficient and dependable service to our customers.

Question
<b>1.3. Does the board or a dedicated board committee provide oversight of the company's anti-bribery and corruption programme?</b>
Score
<b>2</b>
Comments
There is evidence that the board is ultimately responsible for the oversight of the company's anti-bribery and corruption programme. This includes reviewing reports from the company's Compliance Officer on the programme's performance and ensuring that required changes are made.
Evidence
<p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a></p> <p>[p.11] The Compliance Officer will be responsible for regular reporting in the field of compliance, as follows:</p> <ul style="list-style-type: none"> <li>- The Compliance Officer shall report to the Company's Chief Executive Officer twice a year, and to the Board of Directors once each year, regarding the implementation of the Compliance Program and with respect to violations that have been discovered in the field of compliance. These reports shall, inter alia, include: <ul style="list-style-type: none"> <li>- A summary of operations (planning as against execution).</li> <li>- Details of recommendations for actions in the future.</li> </ul> </li> <li>• A report on violations that have been discovered during the period, the steps that were taken for dealing with them, and the recommendations of the Compliance Officer in regard to steps that require to be taken in relation to such violations and/or for preventing the recurrence thereof.</li> </ul> <p>[p.12] 2. Board of Directors</p> <ul style="list-style-type: none"> <li>• The Board of Directors will meet annually for the purpose of receiving reports and approval of framework rules. The VP-Marketing will present the company's annual marketing plan to the Board of Directors and report on actual Commission payments in the previous year. At such meeting the Compliance Officer will present the Board of Directors with (a) an annual risk review, (b) details of the training conducted in the past year, (c) details of the relevant publications in the area, (d) details of supervision and control activities and (e) details of procedures that were updated / canceled.</li> <li>• In addition to the annual meeting, the Board of Directors shall convene from time to time, following request by the CEO to approve extraordinary payment of Commissions, as well as to discuss additional matters brought by the CEO.</li> <li>• The Board of Directors is authorized, at its discretion and in accordance with the circumstances, to order changes or updates to the Compliance Program, including adding restrictions and limitations regarding the level/rate of the commission.</li> </ul> <p>[p.13]</p> <ul style="list-style-type: none"> <li>• The foregoing does not diminish or derogate from the authority of the Board of Directors to discuss and decide on any matter relating to compliance or to the Compliance Program, including with regard to the abovementioned matters.</li> </ul>

Question
<b>1.4. Is responsibility for implementing and managing the company's anti-bribery and corruption programme ultimately assigned to a senior executive, and does he or she have a direct reporting line to the board or board committee providing oversight of the company's programme?</b>
Score
<b>2</b>
Comments
<p>There is evidence that a designated senior executive, the Compliance Officer, has ultimate responsibility for implementing and managing the company's anti-bribery and corruption programme. It is clear that the Compliance Officer has a direct reporting line to the board. There is evidence of reporting and feedback activities between the Compliance Officer and the board as part of the company's reporting structure.</p>
Evidence
<p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a></p> <p>[p.8] Definitions</p> <p>Compliance Officer – Officer-level individual who is appointed by the Company's Board of Directors, reports directly to the CEO and to the Board of Directors, and who has the authorities and responsibilities set forth in this Compliance Program. The Company's Board of Directors has sole authority to terminate the employment of the Compliance Officer and the grounds for such termination must be specified.</p> <p>Compliance Office – Group of employees reporting to the Compliance Officer who assist him in performing his job.</p> <p>[p.9] 1. The Compliance Officer has the following responsibilities:</p> <ul style="list-style-type: none"> <li>• To act to instill and implement this Compliance Program within the company.</li> <li>• To ensure that due diligence of Marketing Consultants has been performed and to determine, based on the results, the propriety/impropriety of engaging such Marketing Consultants.</li> <li>• To ensure the performance of renewed examinations including due diligence of Marketing Consultants, and the signing of the Marketing Consultants on all the required forms, should it be decided to extend the engagement with a Marketing Consultant for more than five consecutive years and / or for any other reason at the Compliance Officer's discretion, including in the case of information that came to the Company's attention which suggests the need to conduct such an examination.</li> </ul> <p>[p.10]</p> <ul style="list-style-type: none"> <li>• To review and consider the rate of Commission and any other or additional consideration to be paid to the Marketing Consultants, as well as approve the bank(s) proposed by the Marketing Consultants, and review and approve any unusual terms included in the terms of agreement with Marketing Consultants, if such terms may have any ramifications in respect of compliance.</li> <li>• To consider the approval of retention of Procurement Representatives, consultants and Reseller.</li> <li>• To design and establish training programs, together with IAI's Mahut and Maman Divisions, and to ensure its implementation, as set forth in Chapter 3 below.</li> <li>• As needed from time to time in the Compliance Officer's discretion, to request clarification or information from any level of IAI's employees and management, who must comply with the request.</li> <li>• To act as an addressee for receiving reports of suspected violations of this Compliance Program, including establishing a Hot Line for receipt of anonymous reports. In this framework, the Compliance Officer will act</li> </ul>

to provide protection to, and prevent retaliation against an employee who has reported a violation of this Compliance Program.

- Where the Compliance Officer has received a report from a Company employee, or if information has come to his knowledge, regarding a suspicion of the Company's involvement in the offering or the giving of a bribe to a foreign public official, or to a breach of any of the provisions of this program, the Compliance Officer shall conduct a factual investigation of the matter.
- An obligation is imposed on the Company's employees to cooperate with the Compliance Officer and to assist him in this regard to whatever extent is necessary.
- Where the Compliance Officer has found that there is indeed a factual basis for the suspicion, he shall report on this to the Chief Executive Officer and to the legal advisor of the Company, and shall take steps for the canvassing and investigation of the suspicion, in accordance with the instructions of the Chief Executive Officer and in coordination with the legal advisor.
- Subject to the foregoing in this paragraph, if the Compliance Officer identifies a violation or a suspicion of a violation of the provisions of the law or of other regulatory demands in the field of compliance, the Compliance Officer may order the stoppage, suspension or immediate curtailment of the operations connected with the violation / suspected violation, including contractual arrangements, trips abroad, transportation of goods, meetings with customers, marketing consultants and partners, until a thorough investigation of the matter has been carried out and until a decision is made by the Company's Chief Executive Officer in regard to such operations.

[p.11]

- To convey information regarding events of suspected violations reported to the Compliance Officer, to the V.P. Internal Audit and the Deputy V.P. Corporate Security, which shall each act according to procedures within its jurisdiction.
- The Compliance Officer will be responsible for regular reporting in the field of compliance, as follows:
  - The Compliance Officer shall report to the Company's Chief Executive Officer twice a year, and to the Board of Directors once each year, regarding the implementation of the Compliance Program and with respect to violations that have been discovered in the field of compliance. These reports shall, inter alia, include:
    - A summary of operations (planning as against execution).
    - Details of recommendations for actions in the future.
- A report on violations that have been discovered during the period, the steps that were taken for dealing with them, and the recommendations of the Compliance Officer in regard to steps that require to be taken in relation to such violations and/or for preventing the recurrence thereof.
- To mete out significant sanctions of employees who have violated this Compliance Program.
- To consult with the IAI Legal Department on all matters pertaining to interpretation of legal directives applicable to this program.
- To consult with any other branch of the company on matters pertaining to implementation of this Compliance Program, fulfillment of its directives and conformance with its terms.
- To receive reports of any unusual or extraordinary event relating to a Marketing Consultant in order to deliberate and decide whether to take action in order to conform with this Compliance Program.
- The Compliance Officer will be responsible for maintaining regular followup and control checks on the implementation of the Compliance Program by the various entities in the Company, including by way of:
  - Performing random examinations, from time to time, on all matters pertaining to adherence to the provisions of the Compliance Program by the Company's employees.



-Performing of examinations, from time to time, to such extent and on such scale as the Compliance Officer shall decide, with regard to verification and authentication of the data pertaining to the employment of the Company's agents and its consultants.

[p.12]

-Performance of periodic review of the Compliance Program in order to evaluate and improve the effectiveness of the Compliance Program in preventing and detecting bribery, considering developments in the field and evolving international and industry standards.

- To establish, in accordance with his/her discretion, processes for follow-up and monitoring in order to ensure compliance with this program.
- To present to the Board of Directors or the CEO his/her recommendations, from time to time and as needed, for minor or material changes (as applicable and in his/her discretion) required to modify and update this Compliance Program.
- To periodically review the centralization of management of the following documents at the office of the deputy VP Marketing:
  - i. Verification of employee training;
  - ii. Copies of certifications by employees dealing with Marketing Consultants;
  - iii. Verification of extraordinary entertainment expenses;
  - iv. Copies of certifications by BT relating to not making donations and not providing gifts in violation of policy.
  - v. Periodically review the Due diligence documents that are kept at the Marketing Office.

For purposes of fulfilling his function the Compliance Officer will be entitled to inspect any document or record in the Company, and to meet with any entity that is necessary in the circumstances of the matter.

The Compliance Officer shall properly document the actions taken by him in the scope of his function as needed, and under all circumstances shall keep and preserve the documents pertaining to his actions and operations for a period of not less than seven (7) years. The recording of documents that relate to the Company's activities which are relevant to the field of compliance shall also be done in accordance with the aforesaid procedure.

#### **[5] Compliance Officer Letter (Document)**

Accessed 18/07/2019

<https://www.iai.co.il/drupal/sites/default/files/2019-06/IAI%27s%20Compliance%20Officer%20Letter.pdf>

[p.1] Israel Aerospace Industries (IAI) places great importance on conducting its business honestly, equitably, fairly, professionally and in accordance with applicable laws and regulations.

As IAI's Compliance Officer, I report directly to IAI's President & CEO and the Board of Directors.

My responsibilities as Compliance Officer include supervising, integrating and monitoring the execution of IAI's comprehensive Anti- Bribery Compliance Program (the "Compliance Program").

IAI's Compliance Program includes training, oversight, reporting and procedures relating to engaging, working with and compensating third parties including marketing consultants, as well as internal policies and controls to ensure compliance by IAI's employees at all levels.

IAI has implemented a company-wide program of training to communicate effectively IAI's compliance with its guidelines and policies.

IAI strongly believes that compliance with the law, ethical conduct, avoidance of

corruption and observing fair and appropriate competition standards are key values that are essential to IAI's long term success.

IAI, its officers, managers and employees are all committed to an ethical and compliant work environment in order to create enhanced business performance with the highest standards of integrity.

## 2. Internal Controls

Question
<b>2.1. Is the design and implementation of the anti-bribery and corruption programme tailored to the company based on an assessment of the corruption and bribery risks it faces?</b>
Score
<b>1</b>
Comments
<p>There is evidence indicating that the company has a formal risk assessment procedure that incorporates reviews of governance and compliance issues. The results of risk assessments are reviewed by the board on an annual basis.</p> <p>However, in publicly available information, the company does not explicitly refer to reviews of bribery and corruption risks.</p>
Evidence
<p><b>[7] 2019 Sustainability Report (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf</a>  [p.32] 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 supervise the establishment of a risk management processes. IAI has established and implemented such processes and updates these from time to time.</p> <p>In 2019, IAI reassessed the key risk list that was established in 2018, as an outcome of 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.</p> <p>Furthermore, to emphasize the importance IAI's management sees in the area of risk management, a new approach was set in 2019; this was characterized by establishing a strong bond between the risk management methodology and IAI's corporate strategy. For this, we appointed a Head of Risk Management and Corporate Strategy, which manages these two significant subjects and is in charge of maintaining the adequacy between them.</p> <p>26 different risk classes, including governance and environmental risks, were prioritized in the annual key risks assessment process of 2019. 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.</p> <p>[p.34] Material topic</p> <p>Our code of ethics</p> <p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a>  [p.12] The Board of Directors will meet annually for the purpose of receiving reports and approval of framework rules. The VP-Marketing will present the Company's annual marketing plan to the Board of Directors and report on actual Commission payments in the previous year. At such meeting the Compliance Officer will present the Board of Directors with (a) an annual risk review (b) details of the training conducted in the past year, (c) details of the</p>

relevant publications in the area, (d) details of supervision and control activities and (e) details of procedures that were updated / canceled.

Question
<b>2.2. Is the company's anti-bribery and corruption programme subject to regular internal or external audit, and are policies and procedures updated according to audit recommendations?</b>
Score
<b>1</b>
Comments
<p>There is some evidence suggesting that the company conducts an annual internal audit of its anti-bribery and corruption programme, and that the results of these audits are reviewed at board level.</p> <p>However, the company receives a score of '1' because there is no clear ownership assigned to units and/or individuals for planned updates and improvements to the anti-bribery and corruption programme. The company additionally does not specify that its entire programme is audited to ensure that it is consistent with best practice and the business risks facing the company.</p>
Evidence
<p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a></p> <p>[p.7] 1. Policy 112.01.04 "Internal Controls – Job Description" - This directive establishes the function and significance of the IAI Internal Controls office as an independent and objective department. The Internal Controls office, by definition, operates in accordance with standards for professional audit of internal controls which impose upon it the obligation for examination and repair of the Company's efforts to comply with law, normative management practices, ethical behavior and efficient operations.</p> <p><b>[21] Integrity And Complaints Concerning Unethical Conduct (Document)</b>  Accessed 04/08/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2020-07/integrity-and-complaints-concerning-unethical-conduct.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-07/integrity-and-complaints-concerning-unethical-conduct.pdf</a></p> <p>[p.2] 3. Internal Auditor  In accordance with the Internal Audit Law (1992) and the Government Companies Law (1975), every government body including state-owned enterprises, e.g., IAI, is required to</p> <p>[p.3] carry-out internal audits. The body's Internal Auditor reports directly to and is under the direct management of the company's CEO and Chairman.</p> <p>The board of directors appoints the Internal Auditor. The Internal Auditor must verify, among other things, that:</p> <ul style="list-style-type: none"> <li>• the actions of the government body and its officers comply with the law and the regulations applicable to it;</li> <li>• the actions of the government body and its officers comply with the principles of sound management, ethics, economy and efficiency; and</li> <li>• the operations of the government body contribute to its declared goals and decisions are made according to proper procedure.</li> </ul> <p>Moreover, under Section 48 of the Government Companies Law (1975) the board of directors of a state-owned enterprise such as IAI is required to appoint an Internal Auditor. Israel's Supreme Court has emphasized the importance of strengthening the independence of the Internal Auditor particularly vis-à-vis the audited company. Under applicable regulations a state-owned enterprise such as IAI must implement a process in which an external party selected by the board of directors verifies the quality of the work of the Internal Auditor and of the Internal Auditor's staff.</p> <p>Like all the other organs of the company, the Compliance Officer and the Compliance Officer's staff are audited by the Internal Auditor (referenced as the IAI Internal Controls Office in the Summary Translation of the Anti- Bribery Compliance Program. Such Summary is viewable at the following link. For further information regarding the Internal Auditor and the Internal Auditor's activities please see the Disclosure regarding the Internal Auditor which appears in IAI's 2019 Annual Financial Statements and is viewable at the following link.</p>

[p.4] Also under Israel's "Basic Law: the State Comptroller", the State Comptroller of Israel audits state bodies including state-owned companies like IAI. The State Comptroller examines the legality, moral integrity, orderly management, efficiency and economy of the audited bodies, and any other matter which she/he deems necessary.

## **[22] Disclosure Regarding the Internal Auditor (Document)**

Accessed 04/08/2020

<https://www.iai.co.il/drupal/sites/default/files/2020-07/disclosure-regarding-the-internal-auditor.pdf>

[p.1] Disclosure Regarding the Internal Auditor

### **1 The Internal Auditor in the Corporation, Shaul Dabby, CPA**

The Company's Board of Directors in meeting No. 2-15 on 25.2.2015, approved the appointment of CPA Shaul Dabby as VP, Internal Auditor. The auditor began his position at the start of May 2015. His education, skills and experience are among the Board of Directors' considerations in approving the appointment.

The internal auditor is a Company employee. Mr. Dabby holds a BA in Business Administration (Financing and Accounting), MBA in Business Administration (Financing and Information Systems Analysis), is a certified public accountant with the Auditors Council in Israel. Mr. Dabby has experience in internal audits and financial management in leading companies such the Africa Israel Group and Teva Pharmaceutical Industries Ltd.. The internal auditor fulfills the role of internal auditor in the subsidiary Elta Systems Ltd. ("Elta").

In his previous position,

Mr. Dabby served as chief internal auditor of the Africa Israel Group, and as internal auditor of AFI Investments Ltd., and its public subsidiaries, including companies that operate and/or that are listed overseas.

### **2 Compliance with the Provisions of The Law**

The internal auditor is in compliance with the terms set forth in Section 3(a) and 8 of the Internal Audit Law 5752-1992 and with the provisions of Section 146(b) of the Companies Law.

### **3 Identity of the supervisor of the internal auditor**

The internal auditor is subject to the Chairperson of the Board of Directors and to the Company's CEO, as specified in the government companies law.

### **4 Annual and multi-year audit work plans**

The internal audit work plan for 2019, and the multi-year work plan for 2019- 2021, are risk-based plans. Their formulation was based on a risk mapping survey performed by the Company (including Elta), a audit targets mapping survey (conducted for the internal audit organization), proposals for tasks received from the Chairperson of the Board of Directors, directors and Company management, and based on accumulated knowledge of the internal audit

[p.2] organization. The plans were created to conform to the developing trends in the Company, with the agenda of Company management and with the challenges and risks faced by the Company.

The Company's annual and multi-annual internal audit plan was discussed and approved by its Audit Committee in its meeting on 22.1.19, and by the Board of Directors in its meeting on 27.3.19.

The work plan does not grant the internal auditor discretion to deviate from it. Any changes that are required in the work plan, if any, will be brought before the Company's Audit Committee for approval.

### **5 Reference to the Company's material transactions**

In 2019, the Company reported two material transactions (as defined in the fourth addendum to the Securities Regulations (Periodic and Immediate Reports) 5730-1970 ("The Regulations) – a transaction to acquire 50% of Eltel from Malam Team (through Elta) and a transaction with a foreign company (not related), that operates in the field of aviation, to finance the development of licenses to convert certain types of passenger planes to cargo planes, and to convert the planes of the foreign company to cargo planes, by the Company, at the minimum established amount. The transactions were approved by the Company's Board of Directors (Eltel Transaction was also approved by Elta's Board of Directors), in meetings in which the internal auditor was present but did not review.

### **6 Reference to the Company's material held corporations**

The Company's internal auditor also serves as internal auditor for the Company's material held corporations ("Held Corporations" – as specified in the Regulations) and the audit for which is included in his work plan. The Company's

material Held Corporations, according to the Company's report to the internal auditor, in tests of sales, assets and net profits in the consolidated company report, are Elta and IAI NA.

[p.3] 7 Reference to Activity of the Company and its Held Corporations, outside of Israel  
The audit plan refers to Company activity and the activity of its Held Corporations, outside of Israel.

#### 8 Scope of the internal auditor's employment

The internal auditor works in the Company in full-time position, and is a member of Company management at the level of the CFO.

The internal auditor was defined as supervisor of queries and complaints of the employees and public, and is involved in managing them. His performance in his position as supervisor as specified does not derogate from his main position as internal auditor, and is performed in addition to his main function, insofar as this is permitted under the Internal Audit Law. A summary of the management of the queries and complaints is reported to management and to the Audit Committee.

In 2019, the Internal Auditor had a professional team of 15 auditors and team managers, in full time position on average. For details on the scope of hours invested in the audit, see the table below.

The scope of audit activity in 2019, in addition to the scope of the internal auditor's position as specified above, is as follows:

	<u>Hours invested by Company employees from audit organization*</u>	<u>Hours invested by outsourcing, For audit organization</u>
<b>Total number of hours</b>	Approximately 21,070	Approximately 4,400
<b>Hours invested on the Company itself</b> (of the total number of hours)	Approximately 18,730 (All invested in reviewing activity in Israel)	Approximately 4,000 (All invested in reviewing activity in Israel)
<b>Hours invested on held companies**</b> (of the total number of hours)	Approximately 2,340 (Approximately 380 of which were invested in reviewing activity outside of Israel)	Approximately 400 (Approximately 100 of which were invested in reviewing activity outside of Israel)

\* The aforementioned includes direct audit and does not include hours of training, management of employee complaints, public queries, etc.

\*\*The number of hours invested on held companies also includes hours invested in the Elta audit. Additional audit hours were also invested in Elta, as part of the lateral audit conducted in the company, of which Elta is one of its divisions. The scope of this additional activity was not measured in a manner that can be specifically attributed to Elta and as such, is included in the

[p.4] number of hours performed in the Company and not as hours invested in held companies.

#### 9 The professional standards guiding the audit

The accepted professional standards as specified in Section 4(b) of the Internal Audit Law, by which the internal audit in the Company is performed, are the international standards of the Institute of Internal Auditors (IIA). The



Company's Board of Directors is of the opinion that the internal auditor satisfies the requirements set forth in said professional standards, noting the professionalism of the internal auditor, his skills, experience and education.

#### 10 Free access of the Internal Auditor

The Internal Auditor was issued the documents and information as specified in Section 9 of the Internal Audit Law. Additionally, the Internal Auditor was given access to information as specified in said section, including regular and direct access to the Company's information systems, including financial data.

#### 11 The Internal Auditor's report

The Internal Auditor submits the written audit reports on a regular basis, during the report year, to the Chairperson of the Board of Directors, the Company CEO, to the Chairperson of the Audit Committee and to Committee members. Additionally, the Internal Auditor reports on audit activity, twice a year, to the government Companies Authority, through the Company Secretary.

In 2019, the Company's Audit Committee convened for 14 sessions. In 10 sessions, the audit reports that included the findings of the Internal Auditor were discussed. The Audit Committee discussions, in which the Audit Reports were discussed, convened on the following dates: 22.1.19, 25.2.19, 25.3.19, 15.4.19, 27.5.19, 29.7.19, 9.9.19, 28.10.19, 25.11.19 and 22.12.19.

During the year, discussions were held between the Internal Auditor and the Chairperson of the Board of Directors, the Chairperson of the Audit Committee and the Company CEO, if required and under the circumstances.

#### [p.5] 12 Scope, nature and continuity of work and work plans of the Internal Auditor

The Board of Directors are of the opinion that the scope of the internal audit, its nature and continuity of actions as well as the internal auditor's plan are reasonable under the circumstances, and achieve the purposes of the internal audit. The Internal Auditor, Company management and the Audit Committee review on an annual basis the scope of personnel and budget required for the internal audit work in the company.

#### 13 Compensation

The compensation for the Internal Auditor is provided through a monthly salary and benefits, as is standard in the Company (compensation – in accordance with the Company's approved general compensation policy). According to the Board of Directors, the method of compensation for the Internal Auditor does not affect his professional discretion.



Question
<b>2.3. Does the company have a system for tracking, investigating and responding to bribery and corruption allegations or incidents, including those reported through whistleblowing channels?</b>
Score
<b>1</b>
Comments
<p>There is evidence that the company publicly commits to investigating incidents, which are handled by the Compliance Officer. There is evidence that information on each investigation is documented. The company commits to put in place remediation plans and to report investigative findings to senior management and the board. A senior central body of the holding or parent company receives and reviews summary information of all incidents and their status in the organisation and its subsidiaries, on an annual basis.</p> <p>However, the company does not describe the whole investigation process from receipt to final outcome, nor does it commit to providing whistleblowers with updates on the outcome of investigations. There is also no evidence that the company takes steps to ensure the independence of its investigations, by stipulating that investigations are handled by an independent team and/or report to an independent board member</p>
Evidence
<p><b>[21] Integrity And Complaints Concerning Unethical Conduct (Document)</b>  Accessed 04/08/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2020-07/integrity-and-complaints-concerning-unethical-conduct.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-07/integrity-and-complaints-concerning-unethical-conduct.pdf</a></p> <p>[p.1] 1. Encouragement of Integrity  Israel's Law for the Encouragement of Integrity in the Public Service (1992) (the "Law"), addresses the handling of complaints about corruption made by a government employee (including employees of state-owned-enterprises such as IAI) about corrupt acts (or other unethical act) at her/his place of work.</p> <p>Where such a complaint is (a) submitted to the employee's direct or indirect supervisor (or to the Internal Auditor or body with a similar investigative role in her/his place of work), (b) submitted in good faith and in accordance with proper procedures, and the complaint is found to be substantiated, then the findings of the investigation or its results will be recorded in writing by the person to whom the complaint was submitted.</p> <p>If a government employee submitted the complaint to her/his supervisor, the supervisor will convey the complaint to a body authorized to investigate such complaints. Each body authorized to receive complaints from government employees under the Law will submit an annual report concerning complaints received during the previous year to the government's Commissioner for Public Complaints within the office of the State Comptroller. The Commission for Public Complaints in turn submits an annual consolidated report concerning such complaints to the Israeli parliament (the Knesset).</p> <p>Whereas IAI is defined under Israeli law as a defense industry company, the Director of Security of the Defense Establishment, a senior official in the Ministry of Defense, is responsible through her investigators to carry-out investigations of complaints concerning corrupt, unethical or other criminal acts at IAI.</p> <p>[p.4] 4. Investigation of Complaints by State Comptroller  Under Israel "Basic Law: the State Comptroller",<sup>1</sup> the State Comptroller serves as an ombudsman with authority to investigate complaints of the public against a variety of government bodies including state-owned companies like IAI.<sup>2</sup> Thus, any person may submit a complaint to the Office of the State Comptroller concerning IAI or any employee of IAI as permitted under such law. We also note that under law the State Comptroller is authorized to investigate complaints of employees of IAI (and other state bodies) complaining of, inter alia, harm following disclosure of an act of corruption, serious breach of a legal norm or rule of proper administration in the body they work for.</p> <p>The State Comptroller is also authorized to issue temporary or permanent orders to protect those employees' rights including reinstatement and financial compensation in case of firing. Complaints concerning IAI (by an employee or any other person) may be submitted in the manner described on the Office of the State Comptroller website (English version at: <a href="https://www.mevaker.gov.il/En/Ombudsman/Pages/default.aspx">https://www.mevaker.gov.il/En/Ombudsman/Pages/default.aspx</a>).</p>

In addition to the Hebrew and English versions of the State Comptroller website, the website also provides information concerning filing of complaints to the State Comptroller in Arabic, Russian and Amharic. As noted on the State Comptroller's website, complaints may be submitted to the State Comptroller anonymously in the manner referenced on the website above.

### **[3] Translation Anti-Bribery and Compliance Manual (Document)**

Accessed 29/05/2020

<https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf>

[p.7] Other relevant IAI policies

[p.8] 532.01.03 "Investigating Suspected Unethical Behavior" – This directive establishes the procedure for investigating suspected breach of IAI's ethical code.

[p.9] 1. The Compliance Officer has the following responsibilities:

[p.10]

- To act as an addressee for receiving reports of suspected violations of this Compliance Program, including establishing a Hot Line for receipt of anonymous reports. In this framework, the Compliance Officer will act to provide protection to, and prevent retaliation against an employee who has reported a violation of this Compliance Program.
- Where the Compliance Officer has received a report from a Company employee, or if information has come to his knowledge, regarding a suspicion of the Company's involvement in the offering or the giving of a bribe to a foreign public official, or to a breach of any of the provisions of this program, the Compliance Officer shall conduct a factual investigation of the matter.
- An obligation is imposed on the Company's employees to cooperate with the Compliance Officer and to assist him in this regard to whatever extent is necessary.
- Where the Compliance Officer has found that there is indeed a factual basis for the suspicion, he shall report on this to the Chief Executive Officer and to the legal advisor of the Company, and shall take steps for the canvassing and investigation of the suspicion, in accordance with the instructions of the Chief Executive Officer and in coordination with the legal advisor.
- Subject to the foregoing in this paragraph, if the Compliance Officer identifies a violation or a suspicion of a violation of the provisions of the law or of other regulatory demands in the field of compliance, the Compliance Officer may order the stoppage, suspension or immediate curtailment of the operations connected with the violation / suspected violation, including contractual arrangements, trips abroad, transportation of goods, meetings with customers, marketing consultants and partners, until a thorough investigation of the matter has been carried out and until a decision is made by the Company's Chief Executive Officer in regard to such operations.

[p.11]

- To convey information regarding events of suspected violations reported to the Compliance Officer, to the V.P. Internal Audit and the Deputy V.P. Corporate Security, which shall each act according to procedures within its jurisdiction.
- The Compliance Officer will be responsible for regular reporting in the field of compliance, as follows:
- -The Compliance Officer shall report to the Company's Chief Executive Officer twice a year, and to the Board of Directors once each year, regarding the implementation of the Compliance Program and with respect to violations that have been discovered in the field of compliance. These reports shall, inter alia, include:
  - - A summary of operations (planning as against execution).
  - - Details of recommendations for actions in the future.

- A report on violations that have been discovered during the period, the steps that were taken for dealing with them, and the recommendations of the Compliance Officer in regard to steps that require to be taken in relation to such violations and/or for preventing the recurrence thereof.
- To mete out significant sanctions of employees who have violated this Compliance Program.
- To consult with the IAI Legal Department on all matters pertaining to interpretation of legal directives applicable to this program.
- To consult with any other branch of the company on matters pertaining to implementation of this Compliance Program, fulfillment of its directives and conformance with its terms.
- To receive reports of any unusual or extraordinary event relating to a Marketing Consultant in order to deliberate and decide whether to take action in order to conform with this Compliance Program.

[p.12]

For purposes of fulfilling his function the Compliance Officer will be entitled to inspect any document or record in the Company, and to meet with any entity that is necessary in the circumstances of the matter.

The Compliance Officer shall properly document the actions taken by him in the scope of his function as needed, and under all circumstances shall keep and preserve the documents pertaining to his actions and operations for a period of not less than seven (7) years. The recording of documents that relate to the Company's activities which are relevant to the field of compliance shall also be done in accordance with the aforesaid procedure.

Question
<b>2.4. Does the company have appropriate arrangements in place to ensure the quality of investigations?</b>
Score
<b>0</b>
Comments
There is no evidence that the company assures itself of the quality of its internal investigations.
Evidence
<p><b>[21] Integrity And Complaints Concerning Unethical Conduct (Document)</b>  Accessed 04/08/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2020-07/integrity-and-complaints-concerning-unethical-conduct.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-07/integrity-and-complaints-concerning-unethical-conduct.pdf</a>1.</p> <p><b>Encouragement of Integrity</b>  Israel's Law for the Encouragement of Integrity in the Public Service (1992) (the "Law"), addresses the handling of complaints about corruption made by a government employee (including employees of state-owned-enterprises such as IAI) about corrupt acts (or other unethical act) at her/his place of work. Where such a complaint is (a) submitted to the employee's direct or indirect supervisor (or to the Internal Auditor or body with a similar investigative role in her/his place of work), (b) submitted in good faith and in accordance with proper procedures, and the complaint is found to be substantiated, then the findings of the investigation or its results will be recorded in writing by the person to whom the complaint was submitted.</p> <p>If a government employee submitted the complaint to her/his supervisor, the supervisor will convey the complaint to a body authorized to investigate such complaints. Each body authorized to receive complaints from government employees under the Law will submit an annual report concerning complaints received during the previous year to the government's Commissioner for Public Complaints within the office of the State Comptroller.</p> <p>The Commission for Public Complaints in turn submits an annual consolidated report concerning such complaints to the Israeli parliament (the Knesset). Whereas IAI is defined under Israeli law as a defense industry company, the Director of Security of the Defense Establishment, a senior official in the Ministry of Defense, is responsible through her investigators to carry-out investigations of complaints concerning corrupt, unethical or other criminal acts at IAI.</p> <p>In the case of a complainant whose complaint is found to be substantiated, the President of Israel is empowered to award a Certificate of Appreciation for her/his contribution to integrity in Israel's public institutions.</p>

Question
<b>2.5. Does the company's investigative procedure include a commitment to report material findings of bribery and corruption to the board and any criminal conduct to the relevant authorities?</b>
Score
<b>2</b>
Comments
<p>Based on publicly available information, the Compliance Officer reports material findings of bribery and corruption from investigations to the board. There is also evidence that the company commits to cooperating with government investigations and will inform authorities of corruption incidents when appropriate.</p>
Evidence
<p><b>[21] Integrity And Complaints Concerning Unethical Conduct (Document)</b>  Accessed 04/08/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2020-07/integrity-and-complaints-concerning-unethical-conduct.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-07/integrity-and-complaints-concerning-unethical-conduct.pdf</a>1.</p> <p>[p.1] Encouragement of Integrity  Israel's Law for the Encouragement of Integrity in the Public Service (1992) (the "Law"), addresses the handling of complaints about corruption made by a government employee (including employees of state-owned-enterprises such as IAI) about corrupt acts (or other unethical act) at her/his place of work. Where such a complaint is (a) submitted to the employee's direct or indirect supervisor (or to the Internal Auditor or body with a similar investigative role in her/his place of work), (b) submitted in good faith and in accordance with proper procedures, and the complaint is found to be substantiated, then the findings of the investigation or its results will be recorded in writing by the person to whom the complaint was submitted.</p> <p>If a government employee submitted the complaint to her/his supervisor, the supervisor will convey the complaint to a body authorized to investigate such complaints. Each body authorized to receive complaints from government employees under the Law will submit an annual report concerning complaints received during the previous year to the government's Commissioner for Public Complaints within the office of the State Comptroller.</p> <p>The Commission for Public Complaints in turn submits an annual consolidated report concerning such complaints to the Israeli parliament (the Knesset). Whereas IAI is defined under Israeli law as a defense industry company, the Director of Security of the Defense Establishment, a senior official in the Ministry of Defense, is responsible through her investigators to carry-out investigations of complaints concerning corrupt, unethical or other criminal acts at IAI.</p> <p>In the case of a complainant whose complaint is found to be substantiated, the President of Israel is empowered to award a Certificate of Appreciation for her/his contribution to integrity in Israel's public institutions.</p> <p>[p.4] 5. External Investigation:  Where allegations of corruption or other similar criminal activities arise at IAI, under applicable Israeli government procedures the investigation is required to be carried-out either by the police or by another special investigate unit of the Israeli government.</p> <p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a></p> <p>[p.7] Other relevant IAI policies</p> <p>[p.8] 532.01.03 "Investigating Suspected Unethical Behavior" – This directive establishes the procedure for investigating suspected breach of IAI's ethical code.</p> <p>[p.9] 1. The Compliance Officer has the following responsibilities:</p> <p>[p.10]</p> <ul style="list-style-type: none"> <li>Where the Compliance Officer has found that there is indeed a factual basis for the suspicion, he shall report on this to the Chief Executive Officer and to the legal advisor of the Company, and shall take steps for the canvassing and investigation of the suspicion, in accordance with the instructions of the Chief Executive Officer and in coordination with the legal advisor.</li> </ul>

- Subject to the foregoing in this paragraph, if the Compliance Officer identifies a violation or a suspicion of a violation of the provisions of the law or of other regulatory demands in the field of compliance, the Compliance Officer may order the stoppage, suspension or immediate curtailment of the operations connected with the violation / suspected violation, including contractual arrangements, trips abroad, transportation of goods, meetings with customers, marketing consultants and partners, until a thorough investigation of the matter has been carried out and until a decision is made by the Company's Chief Executive Officer in regard to such operations.

[p.11]

- The Compliance Officer will be responsible for regular reporting in the field of compliance, as follows:
- -The Compliance Officer shall report to the Company's Chief Executive Officer twice a year, and to the Board of Directors once each year, regarding the implementation of the Compliance Program and with respect to violations that have been discovered in the field of compliance. These reports shall, inter alia, include:

[...]

- A report on violations that have been discovered during the period, the steps that were taken for dealing with them, and the recommendations of the Compliance Officer in regard to steps that require to be taken in relation to such violations and/or for preventing the recurrence thereof.

Question								
2.6. Does the company publish high-level results from incident investigations and disciplinary actions against its employees?								
Score								
1								
Comments								
<p>The company publishes some high-level information on the number of cases reported through its whistleblowing line on an annual basis.</p> <p>However, publicly available information indicates that the company does not release data on the number of investigations launched and the number of disciplinary actions as a result of investigation findings.</p>								
Evidence								
<p><b>[7] 2019 Sustainability Report (Document)</b> Accessed 29/05/2020 <a href="https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf</a> [p.34] The 2017 non-ethical claims case</p> <p>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.</p> <p>[p.35]</p> <table><tr><th>Reported cases to IAI's hotline</th><th>2019</th><th>2018</th><th>2017</th></tr><tr><td>Code of ethics and integrity</td><td>9</td><td>15*</td><td>16</td></tr></table> <p>* Data re-stated for 2018, due to reallocation of a reported case to a different category.</p>	Reported cases to IAI's hotline	2019	2018	2017	Code of ethics and integrity	9	15*	16
Reported cases to IAI's hotline	2019	2018	2017					
Code of ethics and integrity	9	15*	16					

### 3. Support to Employees

Question
<b>3.1. Does the company provide training on its anti-bribery and corruption programme to all employees across all divisions and geographies, and in all appropriate languages?</b>
Score
<b>1</b>
Comments
<p>There is evidence that the company provides a training module that outlines the basic principles of the anti-bribery and corruption policy, including the whistleblowing options available to employees. The company provides this training to all employees across all divisions of operation. All employees are required to refresh the training every two years.</p> <p>However, the company does not state that it provides training in all appropriate languages or in all countries of operation.</p>
Evidence
<p><b>[7] 2019 Sustainability Report (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf</a>  [p.34] Employees' ethics training</p> <p>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. 92% of our employees completed the web-based Code of Ethics training in 2019, as part of the 2018-2019 cycle of refreshers.</p> <p>[p.35] Training of employees that manage foreign relationships on behalf of IAI</p> <p>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.</p> <p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a>  [p.9] 1. The Compliance Officer has the following responsibilities:</p> <p>[p.10]</p> <ul style="list-style-type: none"> <li>To design and establish training programs, together with IAI's Mahut and Maman Divisions, and to ensure its implementation, as set forth in Chapter 3 below.</li> </ul> <p>[p.18] CHAPTER 3. TRAINING</p> <p>1. The Company will take steps to inform employees, including management, marketing personnel, and corporate entities dealing with compliance matters, including the Legal Department, finance, and procurement personnel, and, as appropriate, agents or Marketing Consultants acting on behalf of the Company, of the norms required by the Compliance Program, inter alia, by way of live, in-person training sessions, inter-active presentations, personal training and guidance and in any other way it sees fit.</p> <p>Training under this Compliance Program will be carried out under the responsibility of the Compliance Officer.</p>



The training and instruction sessions will be held with the aim of explaining the Company's policy and procedures in the field of compliance, as described below.

The Compliance Officer shall ensure that live, in-person training and instruction be given at least once per annum with regard to the field of compliance, to the following sectors of the Company:

- The Company's senior management.
- The senior officers in the marketing division (including the person in charge of agents in the Company, desk chiefs, and other employees in accordance with the decision of the Vice-President Marketing).
- The Company's agents, as well as marketing consultants abroad, in accordance with a decision of the Compliance Officer.
- Employees of the legal advisor's department.
- Finance and internal audit who have responsibility for compliance function.
- The marketing managers in the business divisions at the Company.
- In addition, training and instruction sessions shall be held for employees of the Company who are not included in the foregoing, but whose duties may result in them coming into contact with foreign public officials (at such frequency as shall be determined by the Compliance Officer). The list of participants, the extent, and frequency of the training and instruction sessions for the aforesaid will be decided by the Compliance Officer in the course of taking cognizance of the nature of the aforesaid employees' contact with and exposure to foreign public officials.

2. The Compliance Officer's team will participate in conferences in Israel and abroad in order to be informed of developments in this field.

3. The Compliance Officer shall conduct, from time to time, and at his/her discretion, training for the Marketing Consultants and Resellers in Israel and abroad, and shall guide and update managers and marketing personnel of IAI foreign subsidiaries on matters of compliance.

[p.18] 4. The Compliance Officer shall issue, from time to time and at his/her discretion, notices, briefings and updates on matters relating to the implementation of the Compliance Program.

5. The Compliance Officer shall be authorized to impose restrictions on managers and employees who do not complete the training regarding their contact with Marketing Consultants.

6. The Compliance Office will monitor the implementation of the aforesaid training of the respective audiences. The Compliance Officer is authorized to impose limitations of contact with Marketing Consultants upon those employees who have not undergone required training.

#### **[5] Compliance Officer Letter (Document)**

Accessed 18/07/2019

<https://www.iai.co.il/drupal/sites/default/files/2019-06/IAI%27s%20Compliance%20Officer%20Letter.pdf>

[p.1] IAI's Compliance Program includes training, oversight, reporting and procedures relating to engaging, working with and compensating third parties including marketing consultants, as well as internal policies and controls to ensure compliance by IAI's employees at all levels.

IAI has implemented a company-wide program of training to communicate effectively IAI's compliance with its guidelines and policies.

#### **[1] Code of Ethics (Webpage)**

Accessed 18/07/2019

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

#### **Code Implementation**

We have put in place a plan for implementing the Code of Ethics and an implementation supervisor has been appointed. For any matter related to the IAI Code of Ethics, please contact the Compliance Officer Hot Line (24 hours) at Tel: +972 3 9768834 Email: [corpmkg@iai.co.il](mailto:corpmkg@iai.co.il)

Question
<p><b>3.2. Does the company provide tailored training on its anti-bribery and corruption programme for at least the following categories of employees:</b></p> <p>a) Employees in high risk positions, b) Middle management, c) Board members.</p>
Score
1
Comments
<p>There is evidence that the company provides tailored anti-bribery and corruption training to employees in different roles based on their exposure to corruption risk, including employees in middle management and high risk positions. These employees are required to refresh their training on an annual basis.</p> <p>However, the company does not make reference to tailored training for board members.</p>
Evidence
<p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a>  [p.9] 1. The Compliance Officer has the following responsibilities:</p> <p>[p.10]</p> <ul style="list-style-type: none"> <li>To design and establish training programs, together with IAI's Mahut and Maman Divisions, and to ensure its implementation, as set forth in Chapter 3 below.</li> </ul> <p>[p.18] CHAPTER 3. TRAINING</p> <p>1. The Company will take steps to inform employees, including management, marketing personnel, and corporate entities dealing with compliance matters, including the Legal Department, finance, and procurement personnel, and, as appropriate, agents or Marketing Consultants acting on behalf of the Company, of the norms required by the Compliance Program, inter alia, by way of live, in-person training sessions, inter-active presentations, personal training and guidance and in any other way it sees fit.</p> <p>Training under this Compliance Program will be carried out under the responsibility of the Compliance Officer.</p> <p>The training and instruction sessions will be held with the aim of explaining the Company's policy and procedures in the field of compliance, as described below.</p> <p>The Compliance Officer shall ensure that live, in-person training and instruction be given at least once per annum with regard to the field of compliance, to the following sectors of the Company:</p> <ul style="list-style-type: none"> <li>The Company's senior management.</li> <li>The senior officers in the marketing division (including the person in charge of agents in the Company, desk chiefs, and other employees in accordance with the decision of the Vice-President Marketing).</li> <li>The Company's agents, as well as marketing consultants abroad, in accordance with a decision of the Compliance Officer.</li> <li>Employees of the legal advisor's department.</li> <li>Finance and internal audit who have responsibility for compliance function.</li> <li>The marketing managers in the business divisions at the Company.</li> <li>In addition, training and instruction sessions shall be held for employees of the Company who are not included in the foregoing, but whose duties may result in them coming into contact with foreign public officials (at such frequency as shall be determined by the Compliance Officer). The list of participants, the extent, and frequency of the training and instruction sessions for the aforesaid will be decided by the Compliance Officer in the course of taking cognizance of the nature of the aforesaid employees' contact with and exposure to foreign public officials.</li> </ul>

2. The Compliance Officer's team will participate in conferences in Israel and abroad in order to be informed of developments in this field.
3. The Compliance Officer shall conduct, from time to time, and at his/her discretion, training for the Marketing Consultants and Resellers in Israel and abroad, and shall guide and update managers and marketing personnel of IAI foreign subsidiaries on matters of compliance.
- [p.18] 4. The Compliance Officer shall issue, from time to time and at his/her discretion, notices, briefings and updates on matters relating to the implementation of the Compliance Program.
5. The Compliance Officer shall be authorized to impose restrictions on managers and employees who do not complete the training regarding their contact with Marketing Consultants.
6. The Compliance Office will monitor the implementation of the aforesaid training of the respective audiences. The Compliance Officer is authorized to impose limitations of contact with Marketing Consultants upon those employees who have not undergone required training.

**[5] Compliance Officer Letter (Document)**

Accessed 18/07/2019

<https://www.iai.co.il/drupal/sites/default/files/2019-06/IAI%27s%20Compliance%20Officer%20Letter.pdf>

[p.1] IAI's Compliance Program includes training, oversight, reporting and procedures relating to engaging, working with and compensating third parties including marketing consultants, as well as internal policies and controls to ensure compliance by IAI's employees at all levels.

IAI has implemented a company-wide program of training to communicate effectively IAI's compliance with its guidelines and policies.

Question
<b>3.3. Does the company measure and review the effectiveness of its anti-bribery and corruption communications and training programme?</b>
Score
<b>1</b>
Comments
<p>There is some evidence that the company reviews its anti-bribery and corruption communications and personnel training programme.</p> <p>However, the measures appear to be limited to tracking the number of personnel trained and completion rates on an annual basis. Based on publicly available information, there is no evidence that the results are used to update specific parts of the company's anti-bribery and corruption communications training programme.</p>
Evidence
<p><b>[7] 2019 Sustainability Report (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf</a>  [p.34] Employees' ethics training</p> <p>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. 92% of our employees completed the web-based Code of Ethics training in 2019, as part of the 2018-2019 cycle of refreshers.</p> <p>[p.35] Training of employees that manage foreign relationships on behalf of IAI</p> <p>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.</p> <p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a>  [p.18] CHAPTER 3. TRAINING</p> <p>[...]</p> <p>6. The Compliance Office will monitor the implementation of the aforesaid training of the respective audiences.</p>

Question
<b>3.4. Does the company ensure that its employee incentive schemes are designed in such a way that they promote ethical behaviour and discourage corrupt practices?</b>
Score
<b>0</b>
Comments
Based on publicly available information, there is no evidence that the company's incentive schemes incorporate ethical or anti-bribery and corruption principles.
Evidence
No evidence found.

Question
<b>3.5. Does the company commit to and assure itself that it will support and protect employees who refuse to act unethically, even when it might result in a loss of business?</b>
Score
<b>0</b>
Comments
Based on publicly available information, there is no clear evidence that the company commits to support or protect employees who refuse to act unethically, even when it might result in a loss of business.
Evidence
No evidence found.

Question
<b>3.6. Does the company have a clear policy of non-retaliation against whistleblowers and employees who report bribery and corruption incidents?</b>
Score
<b>1</b>
Comments
<p>The company promotes a policy of non-retaliation against whistleblowers and employees who report bribery and corruption incidents. The company operates a public complaints line, which it can be inferred is open to individuals employed by the groups as third parties, suppliers and joint venture partners.</p> <p>However, based on publicly available information, there is no evidence that the company assures itself of its employees' confidence in this commitment through surveys, usage data, or other clearly stated means.</p>
Evidence
<p><b>[21] Integrity And Complaints Concerning Unethical Conduct (Document)</b>  Accessed 04/08/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2020-07/integrity-and-complaints-concerning-unethical-conduct.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-07/integrity-and-complaints-concerning-unethical-conduct.pdf</a>  [p.2] IAI views as essential and of the utmost importance ethical business conduct within the framework of compliance with the laws of the State of Israel and of other states in which IAI conducts business.</p> <p>Any employee or other person with a complaint regarding IAI's conduct in this regard, may submit such complaint anonymously.</p> <p>A potential complainant should remember that the Law for Protection of Employees (Exposure of Criminal Offenses, Corruption, Unethical Acts or Improprieties in Corporate Governance) (1997) protects against firing of an employee or other form of retribution by an employer (including an employee's supervisor) in connection with an employee's submission of a complaint about the employer or about another employee (or in connection with facilitation of another employee's submission of such a complaint).</p> <p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a>  [p.5] IAI has a declared policy with regards to preventing corruption, generally, and particularly in respect of international transactions. IAI demands total compliance with applicable laws relating to the prohibition of bribing foreign public officials.</p> <p>IAI's policy applies to the members of IAI's Board of Directors, officers and employees, as well as Controlled Entities (defined herein).</p> <p>[p.9] 1. The Compliance Officer has the following responsibilities:</p> <p>[p.10]</p> <ul style="list-style-type: none"> <li>To act as an addressee for receiving reports of suspected violations of this Compliance Program, including establishing a Hot Line for receipt of anonymous reports. In this framework, the Compliance Officer will act to provide protection to, and prevent retaliation against an employee who has reported a violation of this Compliance Program.</li> </ul> <p>[p.29] CHAPTER 7. JOINT VENTURES / ENTERPRISES, BROKERS, SUPPLIERS, LOBBYISTS, AND OTHER PARTNERS</p> <p>1. IAI has a declared policy regarding the prevention of corruption in general, and in international transactions, in particular, and a strict requirement to comply with the provisions of the law regarding the prohibition of bribery of foreign public officials. IAI's policy applies also in its engagements with third parties for the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporate vehicles as well as suppliers and subcontractors</p>

**[18] Public Requests and Complaints (Webpage)**

Accessed 18/07/2019

[https://iai-mashov.iai.co.il/prx\\_en.aspx](https://iai-mashov.iai.co.il/prx_en.aspx)



## public requests and complaints

**\*Subject:**



Ethics



Marketing



Human resources



Finance



General

Ethics – cases where behavior is thought to be socially and culturally unacceptable

**\*Description:**

**Identification Details(avoidable):**

First name:

Last name:

Email:

Cell phone:

**\* required fields**





Question
<b>3.7. Does the company provide multiple whistleblowing and advice channels for use by all (e.g. employees and external parties), and do they allow for confidential and, wherever possible, anonymous reporting?</b>
Score
<b>1</b>
Comments
<p>Based on publicly available evidence, the company has some whistleblowing and advice channels for employees to report instances of suspected corrupt activity and obtain advice on compliance matters. The company also operates a public complaints line, which it can be inferred is open to individuals employed by the groups as third parties, suppliers and joint venture partners. The company also states that, as a state owned body, reports can be submitted in various languages to a state-level agency with the remit to investigate corruption at state owned enterprises. The company states that whistleblowing reports may be submitted anonymously.</p> <p>However, the company does not explicitly refer to confidential channels and the company only offers internally operated channels. There is also no evidence that company's reporting channels are available in all relevant languages.</p>
Evidence
<p><b>[21] Integrity And Complaints Concerning Unethical Conduct (Document)</b>  Accessed 04/08/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2020-07/integrity-and-complaints-concerning-unethical-conduct.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-07/integrity-and-complaints-concerning-unethical-conduct.pdf</a>  [p.1] 1. Encouragement of Integrity Israel's Law for the Encouragement of Integrity in the Public Service (1992) (the "Law"), addresses the handling of complaints about corruption made by a government employee (including employees of state-owned-enterprises such as IAI) about corrupt acts (or other unethical act) at her/his place of work.</p> <p>Where such a complaint is (a) submitted to the employee's direct or indirect supervisor (or to the Internal Auditor or body with a similar investigative role in her/his place of work), (b) submitted in good faith and in accordance with proper procedures, and the complaint is found to be substantiated, then the findings of the investigation or its results will be recorded in writing by the person to whom the complaint was submitted. If a government employee submitted the complaint to her/his supervisor, the supervisor will convey the complaint to a body authorized to investigate such complaints.</p> <p>Each body authorized to receive complaints from government employees under the Law will submit an annual report concerning complaints received during the previous year to the government's Commissioner for Public Complaints within the office of the State Comptroller. The Commission for Public Complaints in turn submits an annual consolidated report concerning such complaints to the Israeli parliament (the Knesset).</p> <p>Whereas IAI is defined under Israeli law as a defense industry company, the Director of Security of the Defense Establishment, a senior official in the Ministry of Defense, is responsible through her investigators to carry-out investigations of complaints concerning corrupt, unethical or other criminal acts at IAI.</p> <p>In the case of a complainant whose complaint is found to be substantiated, the President of Israel is empowered to award a Certificate of Appreciation for her/his contribution to integrity in Israel's public institutions.</p> <p>[p.2] IAI views as essential and of the utmost importance ethical business conduct within the framework of compliance with the laws of the State of Israel and of other states in which IAI conducts business.</p> <p>Any employee or other person with a complaint regarding IAI's conduct in this regard, may submit such complaint anonymously.</p> <p>[p.4] 4. Investigation of Complaints by State Comptroller Under Israel "Basic Law: the State Comptroller",<sup>1</sup> the State Comptroller serves as an ombudsman with authority to investigate complaints of the public against a variety of government bodies including state-owned companies like IAI.<sup>2</sup></p> <p>Thus, any person may submit a complaint to the Office of the State Comptroller concerning IAI or any employee of IAI as permitted under such law. We also note that under law the State Comptroller is authorized to investigate</p>

complaints of employees of IAI (and other state bodies) complaining of, inter alia, harm following disclosure of an act of corruption, serious breach of a legal norm or rule of proper administration in the body they work for.

The State Comptroller is also authorized to issue temporary or permanent orders to protect those employees' rights including reinstatement and financial compensation in case of firing.

Complaints concerning IAI (by an employee or any other person) may be submitted in the manner described on the Office of the State Comptroller website (English version at: <https://www.mevaker.gov.il/En/Ombudsman/Pages/default.aspx>).

In addition to the Hebrew and English versions of the State Comptroller website, the website also provides information concerning filing of complaints to the State Comptroller in Arabic, Russian and Amharic.

### **[3] Translation Anti-Bribery and Compliance Manual (Document)**

Accessed 29/05/2020

<https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf>


[p.10]

- As needed from time to time in the Compliance Officer's discretion, to request clarification or information from any level of IAI's employees and management, who must comply with the request.
- To act as an addressee for receiving reports of suspected violations of this Compliance Program, including establishing a Hot Line for receipt of anonymous reports. In this framework, the Compliance Officer will act to provide protection to, and prevent retaliation against an employee who has reported a violation of this Compliance Program.
- Where the Compliance Officer has received a report from a Company employee, or if information has come to his knowledge, regarding a suspicion of the Company's involvement in the offering or the giving of a bribe to a foreign public official, or to a breach of any of the provisions of this program, the Compliance Officer shall conduct a factual investigation of the matter.
- An obligation is imposed on the Company's employees to cooperate with the Compliance Officer and to assist him in this regard to whatever extent is necessary.
- Where the Compliance Officer has found that there is indeed a factual basis for the suspicion, he shall report on this to the Chief Executive Officer and to the legal advisor of the Company, and shall take steps for the canvassing and investigation of the suspicion, in accordance with the instructions of the Chief Executive Officer and in coordination with the legal advisor.
- Subject to the foregoing in this paragraph, if the Compliance Officer identifies a violation or a suspicion of a violation of the provisions of the law or of other regulatory demands in the field of compliance, the Compliance Officer may order the stoppage, suspension or immediate curtailment of the operations connected with the violation / suspected violation, including contractual arrangements, trips abroad, transportation of goods, meetings with customers, marketing consultants and partners, until a thorough investigation of the matter has been carried out and until a decision is made by the Company's Chief Executive Officer in regard to such operations.

### **[18] Public Requests and Complaints**


Accessed 18/07/2019


[https://iai-mashov.iai.co.il/prx\\_en.aspx](https://iai-mashov.iai.co.il/prx_en.aspx)





## public requests and complaints


**\*Subject:**

  
Ethics

  
Marketing

  
Human resources

  
Finance

  
General

Ethics – cases where behavior is thought to be socially and culturally unacceptable

**\*Description:**

**Identification Details(avoidable):**


First name:

Last name:

Email:

Cell phone:

**\* required fields**

 **Send**

**[7] 2019 Sustainability Report (Document)**  
 Accessed 29/05/2020  
<https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf>

[p.34] 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. in 2020, we plan to review and expand our business ethics program, as one of the company's strategic processes.

**[1] Code of Ethics (Webpage)**  
 Accessed 18/07/2019  
<https://www.iai.co.il/about/code-of-ethics>

We have put in place a plan for implementing the Code of Ethics and an implementation supervisor has been appointed. For any matter related to the IAI Code of Ethics, please contact the Compliance Officer Hot Line (24 hours) at Tel: +972 3 9768834 Email: [corpmkg@iai.co.il](mailto:corpmkg@iai.co.il)

## 4. Conflict of Interest

Question
<b>4.1. Does the company have a policy defining conflicts of interest – actual, potential and perceived – that applies to all employees and board members?</b>
Score
<b>1</b>
Comments
<p>There is evidence that the company has a policy for actual and potential conflicts of interest, which refers to financial interests, employee relationships, and applies to all employees and board members.</p> <p>However, in publicly available evidence, the company does not refer to perceived conflicts. It also does not refer to conflicts associated with government relationships or other employment.</p>
Evidence
<p><b>[21] Integrity And Complaints Concerning Unethical Conduct (Document)</b>  Accessed 04/08/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2020-07/integrity-and-complaints-concerning-unethical-conduct.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-07/integrity-and-complaints-concerning-unethical-conduct.pdf</a></p> <p>[p.2] 2. Conflicts of Interest  It is critical for the good of the company that IAI's employees carry-out their daily work with integrity and fairness and that they avoid situations or acts that may lead to a conflict of interest between their personal good and the good of the company. To this end, IAI adopted internal policies and procedures under which each employee must avoid such conflicts of interest and must report on any matter which may place him in a conflict of interest in his position with the company or otherwise vis-à-vis the company.</p> <p>The internal policies and procedures set forth situations (in the form of a non-exhaustive list) which may lead to a conflict of interest. The list includes, among others, financial relations or business relationships of the employee or the employee's family. Every employee is obligated to comply with these internal policies and procedures.</p> <p><b>[1] Code of Ethics (Webpage)</b>  Accessed 18/07/2019  <a href="https://www.iai.co.il/about/code-of-ethics">https://www.iai.co.il/about/code-of-ethics</a></p> <p>At IAI, everything we do - for our employees, customers, partners, stakeholders and the wider community of which we are a part - is governed by our Code of Ethics.</p> <p>Each employee, officer, representative and supplier of the company is required to uphold the values of the Code; values that include conducting our activities honestly and fairly, avoiding conflicts of interest, honoring customers' expectations, promoting a safe and fair work environment, and achieving growth through sophisticated technological systems, products and services.</p> <p>[...]</p> <p>Our Code of Ethics is divided into seven chapters, summarized briefly below.</p> <p>[...]</p> <p>4. Customers: fair treatment for all customers, suppliers and partners; prohibition on receipt of benefits in exchange for procurement; specific prohibition on engaging in any situation that has direct or indirect conflict of interest with IAI suppliers and contractors; creation of credible and precise publications; requirement to present necessary permits, licenses and approvals; respect for international trade laws.</p> <p>5. Conflict of Interest &amp; Benefits: employees to refrain from connection or other activities that could cause a conflict of interest between their position at IAI and their personal lives; prohibition on accepting benefits; prohibition on use of internal information for securities trading; prohibition on acceptance of gifts by employees from customers or suppliers.</p>

**[3] Translation Anti-Bribery and Compliance Manual (Document)**

Accessed 29/05/2020

<https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf>

[p.5] IAI's policy applies to the members of IAI's Board of Directors, officers and employees, as well as Controlled Entities (defined herein).

[p.15] CHAPTER 4. GENERAL DIRECTIVES

1. The identity of IAI's Marketing Consultants, the products they market and the countries in which they operate are valuable trade secrets and, therefore, information relating to such activities is treated as commercially classified. Furthermore, directives issued by IAI's Security Office apply to such activities.

[...]

4. No foreign public official or employee of any actual or potential customer may be appointed as a Marketing Consultant.

5. Whenever there is a potential for conflicts of interest, the Chairperson of the Management Commissions Committee shall provide the approval of the Compliance Officer, prior to the committee issuing its recommendation.

**[7] 2019 Sustainability Report (Document)**

Accessed 29/05/2020

<https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf>

[p.31] Independent directors

According to Sections 219c and 239 of the Companies Law, at least two external directors are required to serve in a "Debenture Company." 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.

Question
<b>4.2. Are there procedures in place to identify, declare and manage conflicts of interest, which are overseen by a body or individual ultimately accountable for the appropriate management and handling of conflict of interest cases?</b>
Score
<b>0</b>
Comments
Based on publicly available evidence, directors are required to make conflicts of interest declarations. The company also states that it has policies through which it manages and avoids conflicts of interest throughout the organisation. However, the company does not provide further clarifying information and its wider procedures for managing conflicts are therefore sufficiently unclear that they cannot satisfy the requirements of a score of '1'.
Evidence
<p><b>[21] Integrity And Complaints Concerning Unethical Conduct (Document)</b>  Accessed 04/08/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2020-07/integrity-and-complaints-concerning-unethical-conduct.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-07/integrity-and-complaints-concerning-unethical-conduct.pdf</a>  [p.2] 2. Conflicts of Interest  It is critical for the good of the company that IAI's employees carry-out their daily work with integrity and fairness and that they avoid situations or acts that may lead to a conflict of interest between their personal good and the good of the company. To this end, IAI adopted internal policies and procedures under which each employee must avoid such conflicts of interest and must report on any matter which may place him in a conflict of interest in his position with the company or otherwise vis-à-vis the company.</p> <p>The internal policies and procedures set forth situations (in the form of a non-exhaustive list) which may lead to a conflict of interest. The list includes, among others, financial relations or business relationships of the employee or the employee's family. Every employee is obligated to comply with these internal policies and procedures.</p> <p><b>[7] 2019 Sustainability Report (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf</a>  [p.31] Independent directors</p> <p>According to Sections 219c and 239 of the 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.</p> <p><b>[1] Code of Ethics (Webpage)</b>  Accessed 18/07/2019  <a href="https://www.iai.co.il/about/code-of-ethics">https://www.iai.co.il/about/code-of-ethics</a>  At IAI, everything we do - for our employees, customers, partners, stakeholders and the wider community of which we are a part - is governed by our Code of Ethics.</p> <p>Each employee, officer, representative and supplier of the company is required to uphold the values of the Code; values that include conducting our activities honestly and fairly, avoiding conflicts of interest, honoring customers' expectations, promoting a safe and fair work environment, and achieving growth through sophisticated technological systems, products and services.</p> <p>[...]</p> <p>Our Code of Ethics is divided into seven chapters, summarized briefly below.</p> <p>[...]</p> <p>4. Customers: fair treatment for all customers, suppliers and partners; prohibition on receipt of benefits in exchange for procurement; specific prohibition on engaging in any situation that has direct or indirect conflict of interest with IAI suppliers and contractors; creation of credible and precise publications; requirement to present necessary permits, licenses and approvals; respect for international trade laws.</p>

5. Conflict of Interest & Benefits: employees to refrain from connection or other activities that could cause a conflict of interest between their position at IAI and their personal lives; prohibition on accepting benefits; prohibition on use of internal information for securities trading; prohibition on acceptance of gifts by employees from customers or suppliers.

**[3] Translation Anti-Bribery and Compliance Manual (Document)**

Accessed 29/05/2020

<https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf>

[p.5] IAI's policy applies to the members of IAI's Board of Directors, officers and employees, as well as Controlled Entities (defined herein).

[p.15] CHAPTER 4. GENERAL DIRECTIVES

1. The identity of IAI's Marketing Consultants, the products they market and the countries in which they operate are valuable trade secrets and, therefore, information relating to such activities is treated as commercially classified. Furthermore, directives issued by IAI's Security Office apply to such activities.

[...]

4. No foreign public official or employee of any actual or potential customer may be appointed as a Marketing Consultant.

5. Whenever there is a potential for conflicts of interest, the Chairperson of the Management Commissions Committee shall provide the approval of the Compliance Officer, prior to the committee issuing its recommendation.

Question
4.3. Does the company have a policy and procedure regulating the appointment of directors, employees or consultants from the public sector?
Score
0
Comments
Based on publicly available information, there is no evidence that the company has a policy regulating the employment of current or former public officials.
Evidence
No evidence found.



Question
4.4. Does the company report details of the contracted services of serving politicians to the company?
Score
0
Comments
There is no evidence that the company publicly reports details of the contracted services of serving politicians.
Evidence
No evidence found.

## 5. Customer Engagement

### 5.1 Contributions, Donations and Sponsorships

Question
<b>5.1.1. Does the company have a clearly defined policy and/or procedure covering political contributions?</b>
Score
<b>2</b>
Comments
<p>There is evidence that the company prohibits all financial contributions and donations. On the basis of other policies published by the company, which prohibit political activities on the company premises, it is understood that this includes a prohibition of political contributions.</p>
Evidence
<p><b>[7] 2019 Sustainability Report (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf</a>  [p.35] 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.</p> <p>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.</p> <p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a>  [p.6] c. Donations – In order to prevent a situation whereby government companies obtain improper advantage in their businesses, the Israel Government Companies Authority prohibits IAI and its subsidiaries from making donations to third parties for any purpose, with the exception of providing services that do not have material value in accordance with IAI's policies. Accordingly, IAI has adopted Policy 100.01.04, which provides further details on this subject.</p> <p><b>[1] Code of Ethics (Webpage)</b>  Accessed 18/07/2019  <a href="https://www.iai.co.il/about/code-of-ethics">https://www.iai.co.il/about/code-of-ethics</a>  Our Code of Ethics is divided into seven chapters, summarized briefly below.</p> <p>[...]</p> <ol style="list-style-type: none"> <li>1. Employment: creation of a positive, healthy and safe work environment; equal opportunities hiring; fair and equal treatment of employees; respect for employees' individual rights; prohibition on political activities being conducted on company premises; making a contribution to the wider community.</li> </ol> <p><b>[4] Compliance Certification (Document)</b>  Accessed 18/07/2019  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-06/Compliance%20Certification%20and%20Representations.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-06/Compliance%20Certification%20and%20Representations.pdf</a>  [p.1] I _____ (Applicant Name), a duly authorized representative of _____ (Applicant employing company) ("Certifying Entity"), do hereby certify for and on behalf of such company, that neither I nor to my knowledge any other person, including but not limited to, every officer, director, stockholder, employee, representative and agent of Certifying Entity has improperly made, offered to make, or agreed to make any loan, gift, donation or payment, or transfer of any other thing of value directly or indirectly, whether in cash or in kind, to or for the benefit of any entities, persons or class of persons listed below ("government officials") in connection with any business activity of Israel Aerospace Industries Ltd. ("IAI"). I further certify that the Certifying Entity</p>

has taken no action in violation of applicable anti-corruption laws.

For purposes of this certification, “government officials” include:

1. any employee or officer of a government of a foreign country (i.e., a country other than Israel), including any federal, regional or local department, agency, or local department, agency, or enterprise owned or controlled by the foreign government,
2. any official of a political party,
3. any official or employee of a public international organization,
4. any person acting in an official capacity for, or on behalf of, such entities; and
5. any candidate for political office.

Question
<b>5.1.2. Does the company publish details of all political contributions made by the company and its subsidiaries, or a statement that it has made no such contribution?</b>
Score
<b>N/A</b>
Comments
The company publishes a clear statement that it prohibits corporate political contributions, so therefore it is exempt from scoring on this question.
Evidence
<p><b>[7] 2019 Sustainability Report (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf</a>  [p.35] 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.</p> <p>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.</p>

Question
<b>5.1.3. Does the company have a clearly defined policy and/or procedure covering charitable donations and sponsorships, whether made directly or indirectly, and does it publish details of all such donations made by the company and its subsidiaries?</b>
Score
<b>1</b>
Comments
<p>The company publishes a statement that it does not make donations for any purpose with the exception of providing services that do not have material value.</p> <p>The company does not meet the criteria for a score of '2' as it does not provide further information on how it defines the value of services. It refers to a policy on this subject but this is not publicly available.</p>
Evidence
<p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a>  [p.6] Donations – In order to prevent a situation whereby government companies obtain improper advantage in their businesses, the Israel Government Companies Authority prohibits IAI and its subsidiaries from making donations to third parties for any purpose, with the exception of providing services that do not have material value in accordance with IAI's policies. Accordingly, IAI has adopted Policy 100.01.04, which provides further details on this subject.</p>

## 5.2 Lobbying

Question
<b>5.2.1 Does the company have a policy and/or procedure covering responsible lobbying?</b>
Score
<b>0</b>
Comments
While the company indicates that its anti-corruption policy applies to lobbyists, in publicly available information it provides no further evidence concerning its procedures and policies on lobbying itself.
Evidence
<p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a>  [p.29] CHAPTER 7. JOINT VENTURES / ENTERPRISES, BROKERS, SUPPLIERS, LOBBYISTS, AND OTHER PARTNERS</p> <p>1. IAI has a declared policy regarding the prevention of corruption in general, and in international transactions, in particular, and a strict requirement to comply with the provisions of the law regarding the prohibition of bribery of foreign public officials. IAI's policy applies also in its engagements with third parties for the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporate vehicles as well as suppliers and subcontractors.</p> <p>2. Third parties with whom IAI engages in business must ensure and verify that their activities comply with the provisions of the applicable laws for their entire business activities, and not only to activities connected to the joint business activities of IAI and the third party.</p> <p>3. As part of the Due Diligence procedures that IAI conducts in examining the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporate vehicles, IAI will verify and ensure that the third parties with whom it intends to set up a joint venture/enterprises are acting in accordance with the laws applicable in Israel and in any other relevant country regarding the prohibition of bribery of foreign public officials.</p> <p>4. In agreements between IAI and third parties for the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporations, the Legal Department will include terms and conditions stating that IAI is meticulous in implementing the provisions of the law prohibiting bribery of foreign public employees and that third parties, i.e., IAI's counterparties under such agreements must ensure that their activities comply with the provisions of the applicable laws.</p> <p>5. An IAI employee that becomes aware of any suspicion or concern regarding any third party with whom the Company conducts business (including a Marketing Consultant, a Reseller, a partner in a joint venture/enterprise or a subcontractor) of not complying with the provisions of the law prohibiting bribery of foreign public officials shall immediately report such suspicion or concern to the Compliance Officer who will examine the facts of the matter and provide instructions, if necessary, of any steps required to be taken in the matter.</p>

Question
<b>5.2.2 Does the company publish details of the aims and topics of its public policy development and lobbying activities it carries out?</b>
Score
<b>0</b>
Comments
The company does not publish any information on its lobbying aims, topics or activities.
Evidence
No evidence found.

Question
5.2.3 Does the company publish full details of its global lobbying expenditure?
Score
0
Comments
The company does not publish any details about its global lobbying expenditure.
Evidence
No evidence found.



### 5.3 Gifts and Hospitality

Question
<b>5.3.1 Does the company have a policy and/or procedure on gifts and hospitality to ensure they are bona fide to prevent undue influence or other corruption?</b>
Score
<b>1</b>
Comments
<p>There is evidence that the company has a policy on the giving and receipt of gifts and hospitality. This policy addresses the risks associated with gifts and hospitality given to public officials. The company's management are required to sign an annual certification that they have not provided gifts in contravention of the company's compliance programme.</p> <p>However, based on publicly available information, there is no evidence that all gifts and hospitality above a certain threshold are recorded in a dedicated register or central depository that is accessible to those responsible for oversight of the process. The policy also does not specify financial or proportional limits or different approval procedures for different types of promotional expense. It is noted that the company has a separate policy on gifts but this does not appear to be publicly accessible.</p>
Evidence
<p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a></p> <p>[p.5] Furthermore, in accordance with IAI's policies and procedures, IAI's managers and workers are committed to the highest standards in various areas, including accounting controls and accurate document management, with the purpose of avoiding, directly and indirectly, improper payments or in-kind transactions, gifts or other forms of payment, for the goal of obtaining unfair advantage in the Company's business.</p> <p>[p.6] Token gifts – Providing tokens (product models, pens, paper-weights and the like) to third parties is, on the one hand, a legitimate method to foster positive relations and to publicize IAI's name and products. On the other hand, giving tokens to third parties, especially foreign public officials, could be construed as an attempt to bribe or improperly curry favor. Therefore, IAI carefully oversees the process whereby only authorized IAI personnel may give such tokens to third parties and implements this policy diligently. Details of these policies are set forth in IAI Policy 421.01.03.</p> <p>c. Donations – In order to prevent a situation whereby government companies obtain improper advantage in their businesses, the Israel Government Companies Authority prohibits IAI and its subsidiaries from making donations to third parties for any purpose, with the exception of providing services that do not have material value in accordance with IAI's policies. Accordingly, IAI has adopted Policy 100.01.04, which provides further details on this subject.</p> <p>All members of IAI's management at the level of BT are required to sign an annual certification (Exhibit 11 to the Compliance Program) that they have not provided gifts or made donations during the prior year in contravention of IAI's Compliance Program. Said certifications shall be deposited in the office of deputy VP Marketing.</p> <p>[p.7] Hosting Visitors - IAI often hosts visitors and guests at and outside of its facilities. Within IAI's facilities, the company has a Customers' Center that enables presentation of IAI's technical capabilities, business discussions and meal services, all under suitable conditions, without disturbing IAI's operational activities. IAI's policy sets forth the level of internal approvals required for hosting guests, including requiring notification to IAI's CEO and Vice President – Marketing for visitors of varying levels. In order to ensure compliance with IAI's ethical standards, IAI's Marketing Department and Compliance Officer provide suitable</p>

oversight of the terms of such visits, with any disputes between the Vice President-Marketing and the Compliance Officer to be resolved by the CEO. Details of IAI's policies regarding entertainment are set forth in Policy 422.01.03 and 422.01.07.

[p.9] 1. The Compliance Officer has the following responsibilities:

- To periodically review the centralization of management of the following documents at the office of the deputy VP Marketing:
  - i. Verification of employee training;
  - ii. Copies of certifications by employees dealing with Marketing Consultants;
  - iii. Verification of extraordinary entertainment expenses;
  - iv. Copies of certifications by BT relating to not making donations and not providing gifts in violation of policy.
  - v. Periodically review the Due diligence documents that are kept at the Marketing Office

#### **[4] Compliance Certification (Document)**

Accessed 18/07/2019

<https://www.iai.co.il/drupal/sites/default/files/2019-06/Compliance%20Certification%20and%20Representations.pdf>

[p.1] I \_\_\_\_\_ (Applicant Name), a duly authorized representative of \_\_\_\_\_ (Applicant employing company) ("Certifying Entity"), do hereby certify for and on behalf of such company, that neither I nor to my knowledge any other person, including but not limited to, every officer, director, stockholder, employee, representative and agent of Certifying Entity has improperly made, offered to make, or agreed to make any loan, gift, donation or payment, or transfer of any other thing of value directly or indirectly, whether in cash or in kind, to or for the benefit of any entities, persons or class of persons listed below ("government officials") in connection with any business activity of Israel Aerospace Industries Ltd. ("IAI"). I further certify that the Certifying Entity has taken no action in violation of applicable anti-corruption laws.

For purposes of this certification, "government officials" include:

1. any employee or officer of a government of a foreign country (i.e., a country other than Israel), including any federal, regional or local department, agency, or local department, agency, or enterprise owned or controlled by the foreign government,
2. any official of a political party,
3. any official or employee of a public international organization,
4. any person acting in an official capacity for, or on behalf of, such entities; and
5. any candidate for political office.

#### **[1] Code of Ethics (Webpage)**

Accessed 18/07/2019

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

Conflict of Interest & Benefits: employees to refrain from connection or other activities that could cause a conflict of interest between their position at IAI and their personal lives; prohibition on accepting benefits; prohibition on use of internal information for securities trading; prohibition on acceptance of gifts by employees from customers or suppliers.

## 6. Supply Chain Management

Question
<b>6.1. Does the company require the involvement of its procurement department in the establishment of new supplier relationships and in the oversight of its supplier base?</b>
Score
<b>2</b>
Comments
<p>There is evidence that dedicated procurement organisations in each of the company's business units, as well as a group-level procurement organisation, are involved in the establishment of new suppliers and also hold responsibility for overseeing and managing the company's supplier base. The company states that it has a corporate-level supplier selection committee, used in reviewing and approving key supplier agreements. There is also evidence that the company maintains proper standards and procedures in procurement activities by way of the corporate procurement organisation providing oversight of and assurance processes for all procurement activities.</p>
Evidence
<p><b>[23] IAI Procurement Procedures (Webpage)</b>  Accessed 07/08/2020  <a href="https://www.iai.co.il/suppliers/procurement-procedures">https://www.iai.co.il/suppliers/procurement-procedures</a></p> <p>Under IAI's procurement procedures, dedicated procurement organizations in each of IAI's corporate groups and corporate units are responsible for selecting, contracting with and managing most suppliers for their activities. Supplier selections are subject to approval within the pertinent corporate group or corporate unit but may also require approval by a supplier selection committee at the senior corporate management level depending on the value and other characteristics of the proposed supply contract.</p> <p>Certain company-wide procurement activities are run by IAI's corporate headquarters procurement organization, which is a unit within IAI's COO organization. In these cases, the corporate headquarters procurement unit is responsible for selecting, contracting with and managing the suppliers. Supplier selection may also require approval by a supplier selection committee at the senior corporate management level depending on the value and other characteristics of the proposed supply contract.</p> <p>The IAI corporate headquarters procurement organization is also responsible for professional training and supervision of the procurement organizations in IAI's corporate groups and corporate units. Thus, with very limited exceptions IAI's procurement organizations are responsible for selecting, contracting with and managing IAI's suppliers in accordance with IAI's procurement procedures. Furthermore, IAI's procurement activities are subject to Israeli laws in respect of procurement by government bodies including the Tenders Obligation Law (1992).</p> <p><b>[12] Procurement and Quality Management (Webpage)</b>  Accessed 18/07/2019  <a href="https://www.iai.co.il/suppliers/procurement-and-quality-management">https://www.iai.co.il/suppliers/procurement-and-quality-management</a></p> <p>Corporate Procurement and Quality Management is an organization established at the corporate level, headed by a Corporate Vice President, who reports to the Corporate Executive Vice President and Chief Operations Officer.</p> <p>Procurement, logistics, supplier management and Quality Management daily activities at Israel Aerospace Industries Ltd. (IAI) are being managed and conducted by dedicated directorates at each of the Israel Aerospace Industries Ltd. Divisions, in accordance with the business goals of their respective Group/Division and in concurrence with IAI strategy, policy and professional guidance of the Corporate Procurement and Quality Management Organization.</p> <p>The organization consists of two functions:</p> <p>Procurement and Logistics</p> <p>Corporate Procurement and Logistics is a professional function whose main task is to navigate the procurement, supply base management and logistic processes at IAI and to ensure their continuous improvement.</p>

The Corporate Procurement and Logistics function deals mainly in establishing policy, coordination, guidance and monitoring of the activities of Procurement & Logistics organizations in each of IAI Divisions in Israel and overseas, stemming from strategic and global viewpoint. It is responsible for the implementation of company wide strategic sourcing (frame agreements), and implementation of improved uniform processes and infrastructures pertinent to supply chain management.

General Manager Procurement and Logistics who reports to the Corporate VP Procurement and Quality Management leads the Corporate Procurement and Logistics function in the organization.

#### **[10] Vision and Targets of Procurement and Logistics (Webpage)**

Accessed 18/07/2019

<https://www.iai.co.il/suppliers/vision-and-targets-iai-procurement-and-logistics>

##### **Targets**

- Continuous improvement in Procurement and Logistics total cost of ownership
- Supply of materials and services at the right schedule and the right quality
- Creating a creative work environment, with ongoing development of professional, well-trained personnel, involved in improving the procurement and logistics processes
- Creating a small supplier base with the best suppliers, who are involved in processes and support their improvement
- Procurement Organization involvement in company's major processes and decisions
- Implementation of standardized procedures, and leveraging the size of the company

#### **[3] Translation Anti-Bribery and Compliance Manual (Document)**

Accessed 29/05/2020

<https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf>

[p.5] In order to ensure that the engagement and activation of Procurement Representatives is done in accordance with the Compliance Program, appropriate oversight is conducted by the Corporate Marketing Department (via the Marketing Consultant Department due to its tools and experience in similar oversight of Marketing Consultants), in the Corporate Procurement and Logistics Department, and by the Compliance Officer. Details of these procedures are set forth in IAI Policy 921.01.07.

[...]

Distributors/Marketing Intermediaries – IAI occasionally uses distributors/intermediaries ("Distributors") in its marketing efforts. In order to ensure that engagement of Distributors complies with the company's policies and the directives of this Compliance Program, IAI conducts centralized oversight of such engagements via its Marketing Consultant Department and the Compliance Office. Further details are provided in Policy 423.01.02.

Question
<b>6.2 Does the company conduct risk-based anti-bribery and corruption due diligence when engaging or re-engaging with its suppliers?</b>
Score
<b>0</b>
Comments
Based on publicly available information, there is no clear evidence that the company subjects suppliers to risk-based anti-bribery and corruption due diligence.
Evidence
<p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a>  [p.29] CHAPTER 7. JOINT VENTURES / ENTERPRISES, BROKERS, SUPPLIERS, LOBBYISTS, AND OTHER PARTNERS</p> <p>1. IAI has a declared policy regarding the prevention of corruption in general, and in international transactions, in particular, and a strict requirement to comply with the provisions of the law regarding the prohibition of bribery of foreign public officials. IAI's policy applies also in its engagements with third parties for the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporate vehicles as well as suppliers and subcontractors.</p> <p>2. Third parties with whom IAI engages in business must ensure and verify that their activities comply with the provisions of the applicable laws for their entire business activities, and not only to activities connected to the joint business activities of IAI and the third party.</p> <p>3. As part of the Due Diligence procedures that IAI conducts in examining the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporate vehicles, IAI will verify and ensure that the third parties with whom it intends to set up a joint venture/enterprises are acting in accordance with the laws applicable in Israel and in any other relevant country regarding the prohibition of bribery of foreign public officials.</p> <p>4. In agreements between IAI and third parties for the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporations, the Legal Department will include terms and conditions stating that IAI is meticulous in implementing the provisions of the law prohibiting bribery of foreign public employees and that third parties, i.e., IAI's counterparties under such agreements must ensure that their activities comply with the provisions of the applicable laws.</p> <p>5. An IAI employee that becomes aware of any suspicion or concern regarding any third party with whom the Company conducts business (including a Marketing Consultant, a Reseller, a partner in a joint venture/enterprise or a subcontractor) of not complying with the provisions of the law prohibiting bribery of foreign public officials shall immediately report such suspicion or concern to the Compliance Officer who will examine the facts of the matter and provide instructions, if necessary, of any steps required to be taken in the matter.</p>

Question
<b>6.3 Does the company require all of its suppliers to have adequate standards of anti-bribery and corruption policies and procedures in place?</b>
Score
<b>1</b>
Comments
<p>There is some evidence that the company requires its suppliers to have anti-bribery and corruption policies in place. The company includes contractual clauses on bribery and corruption in its agreements with suppliers and states that suppliers should uphold the values outlined in its own Code of Ethics.</p> <p>However, in publicly available information, the company does not explicitly state that all suppliers must have, at a minimum, policies that prohibit foreign and domestic bribery, prohibit facilitation payments, and policies that cover conflicts of interest, gifts &amp; hospitality, and whistleblowing. There is also no evidence that the company takes active steps to ensure that its suppliers have adequate anti-bribery and corruption policies and procedures in place.</p>
Evidence
<p><b>[8] General Purchase Terms and Conditions (Document)</b> 18/07/2019 <a href="https://www.iai.co.il/drupal/sites/default/files/2019-05/General%20purchase%20terms%20and%20conditions.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-05/General%20purchase%20terms%20and%20conditions.pdf</a> [p.17] 35. Prohibition on Bribery and Corruption</p> <p>35.1 The Supplier agrees that in consideration of this Agreement, neither Supplier nor any agent or representative of Supplier has nor will pay any fees, commissions, percentages, brokerage fees or other sums to persons contingent upon or resulting from execution of this Agreement nor has or will Supplier extend or offer any form of compensation or remuneration (including money, services or any other benefit), directly or indirectly, to Purchaser's employees for the purposes of securing this Agreement, or obtaining favorable treatment with respect to Supplier's performance of this Agreement.</p> <p>35.2 In the event of breach or violation of Sub-Article 35.1 above, Purchaser shall have the right at its option to terminate this Agreement for default without liability, or at its option may deduct from amounts that otherwise may be owed to the Supplier the full amount of any such fees, commissions, remuneration or other sums. Such rights and remedies of Purchaser shall be in addition to any other rights and remedies provided by law or under the terms of this Agreement.</p> <p>35.3 The Supplier warrants that it shall not perform any action, directly or indirectly, in contravention to the provisions of the Israeli Penal Law and other applicable legislation concerning prevention of bribery and corruption concerning a public servant and/or foreign public servant.</p> <p>36. Ethical Code and Human Trafficking</p> <p>36.1 The Purchaser has an ethical code, which is published on the Purchaser's Website, and the Purchaser expects the Supplier to act in accordance with such ethical code. In addition the Purchaser is a registered supplier in the list of suppliers of the United Nations ("UN") and expects the Supplier to comply with the principles of the UN Supplier Code of Conduct, which can be found on the UN website at <a href="https://www.ungm.org/Public/CodeOfConduct">https://www.ungm.org/Public/CodeOfConduct</a>.</p> <p><b>[1] Code of Ethics (Webpage)</b> Accessed 18/07/2019 <a href="https://www.iai.co.il/about/code-of-ethics">https://www.iai.co.il/about/code-of-ethics</a> At IAI, everything we do - for our employees, customers, partners, stakeholders and the wider community of which we are a part - is governed by our Code of Ethics.</p> <p>Each employee, officer, representative and supplier of the company is required to uphold the values of the Code; values that include conducting our activities honestly and fairly, avoiding conflicts of interest, honoring customers' expectations, promoting a safe and fair work environment, and achieving growth through sophisticated technological systems, products and services</p> <p><b>[6] President and CEO Letter (Document)</b> Accessed 18/07/2019</p>



<https://www.iai.co.il/drupal/sites/default/files/2019-06/IAI%27s%20President%20and%20CEO%20Letter.pdf>

[p.1] IAI's core values are compliance with laws and regulations, ethical conduct, avoidance of corruption and observance of fair and appropriate competition standards.

IAI has a declared policy to prevent corruption in our business, and we convey this message to our officers, managers and employees, as well to third parties with whom we engage in business.

### **[3] Translation Anti-Bribery and Compliance Manual (Document)**

Accessed 29/05/2020

<https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf>

[p.29] CHAPTER 7. JOINT VENTURES / ENTERPRISES, BROKERS, SUPPLIERS, LOBBYISTS, AND OTHER PARTNERS

1. IAI has a declared policy regarding the prevention of corruption in general, and in international transactions, in particular, and a strict requirement to comply with the provisions of the law regarding the prohibition of bribery of foreign public officials. IAI's policy applies also in its engagements with third parties for the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporate vehicles as well as suppliers and subcontractors.
2. Third parties with whom IAI engages in business must ensure and verify that their activities comply with the provisions of the applicable laws for their entire business activities, and not only to activities connected to the joint business activities of IAI and the third party.
3. As part of the Due Diligence procedures that IAI conducts in examining the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporate vehicles, IAI will verify and ensure that the third parties with whom it intends to set up a joint venture/enterprises are acting in accordance with the laws applicable in Israel and in any other relevant country regarding the prohibition of bribery of foreign public officials.
4. In agreements between IAI and third parties for the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporations, the Legal Department will include terms and conditions stating that IAI is meticulous in implementing the provisions of the law prohibiting bribery of foreign public employees and that third parties, i.e., IAI's counterparties under such agreements must ensure that their activities comply with the provisions of the applicable laws.
5. An IAI employee that becomes aware of any suspicion or concern regarding any third party with whom the Company conducts business (including a Marketing Consultant, a Reseller, a partner in a joint venture/enterprise or a subcontractor) of not complying with the provisions of the law prohibiting bribery of foreign public officials shall immediately report such suspicion or concern to the Compliance Officer who will examine the facts of the matter and provide instructions, if necessary, of any steps required to be taken in the matter.

Question
<b>6.4 Does the company ensure that its suppliers require all their sub-contractors to have anti-corruption programmes in place that at a minimum adhere to the standards established by the main contractor?</b>
Score
<b>0</b>
Comments
There is no evidence that the company takes steps to ensure that the substance of its anti-bribery and corruption programme and standards are required throughout the supply chain.
Evidence
No evidence found.



Question
<b>6.5 Does the company publish high-level results from ethical incident investigations and disciplinary actions against suppliers?</b>
Score
<b>0</b>
Comments
The company does not publish any data on ethical or anti-bribery and corruption investigations relating to its suppliers.
Evidence
No evidence found.

## 7. Agents, Intermediaries and Joint Ventures

### 7.1 Agents and Intermediaries

Question
<b>7.1.1 Does the company have a clear policy on the use of agents?</b>
Score
<b>2</b>
Comments
<p>There is evidence that the company has policies and procedures to control the use of agents and intermediaries (referred to as marketing consultants or the procurement of expert services) which addresses the corruption risks associated with the use of agents and intermediaries. The company provides details of specific controls to mitigate these risks. As part of this policy, the company commits to establishing and verifying that the use of an agent or intermediary is, in each case, necessary to perform a legitimate business function. There is evidence indicating that the policy applies to all divisions within the organisation which might employ agents and intermediaries, including subsidiaries and joint ventures.</p>
Evidence
<p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a>  [p.5] IAI's policy applies to the members of IAI's Board of Directors, officers and employees, as well as Controlled Entities (defined herein).</p> <p>[...]</p> <p>a. Marketing Consultants – In the course of marketing IAI's products and services internationally, the Company engages marketing consultants as needed. IAI diligently ensures that the retention and activation of marketing consultants complies with its policies to prevent corruption. Therefore, IAI conducts thorough, centralized oversight of all aspects of these activities, including early evaluation of candidates considered for marketing consultants, meetings and negotiations with such candidates, etc., under the auspices of its Vice President-Marketing, its Compliance Officer and the Finance Department. Details are set forth in Chapter 5 of the Compliance Program.</p> <p>As part of the implementation of IAI's policy with regards to preventing corruption, IAI ensures that the Marketing Consultants are familiar with the Company policy regarding the prevention of bribery and the provisions of the relevant laws, and that the Marketing Consultants undertake to comply with such policies and laws.</p> <p>In addition, the Marketing Consultants will undertake to participate in training conducted by the Compliance Officer, which takes place from time-to-time, in a manner and at times according to the discretion of the Compliance Officer.</p> <p>In this framework, the Marketing Consultants are required and undertake not to offer or give, directly or indirectly, any valuables to foreign public officials with the</p> <p>[p.6] purpose of obtaining an improper advantage in an international transaction or for expediting or ensuring the execution of a governmental action. Provisions in this regard are also included in the contracts between the Company and the Marketing Consultants, as well as, in declarations and undertakings of the Marketing Consultants and as part of the training materials.</p> <p>[...]</p> <p>d. Procurement of Expert Services – IAI has periodic requirement to engage experts to provide specialized services, including with respect to international marketing. The engagement of such experts must comply with this Compliance Program and may occur only when it is needed, i.e., when the services cannot be obtained from IAI's employees and internal resources and when it is not practicable for the Company to hire such expert as an</p>

employee. The engagement of such experts shall not create an employer-employee relationship and such experts may not become part of IAI's corporate hierarchy nor may they supervise IAI's employees. Similarly, such experts may not represent IAI to third parties, unless specifically authorized by IAI at the level of Division General Manager or higher and in early coordination with the Vice President – Human Resources or with the Director of Employment. The initial engagement of such experts shall not exceed 24 months and shall be in accordance with standard terms and conditions prepared in coordination with the IAI Legal Department, and may be extended for periods of 12 months each and up to a cumulative period of five years in accordance with the provisions of this Compliance Program. Payment shall be made in accordance with invoices submitted pursuant to such terms and conditions. Such experts will sign IAI's compliance documentation (compliance certificate and Representations). The Compliance Officer will consider providing training in accordance with the circumstances. Details of these procedures are set forth in IAI Procedure 523.01.04.

[p.8] CHAPTER 1. DEFINITIONS

3. Marketing Consultant – A person, company or entity (excluding a foreign public official as defined in Section 91a of the Penal Law) who supports IAI in marketing IAI's products and services to specified customers and who meets the following criteria:

- a. Generally present physically in the target territory;
- b. Acts as intermediary between IAI and the customer but is not authorized to act as IAI's agent;
- c. Does not purchase the product from IAI and receives compensation, usually a commission, relating to IAI's signing a contract with the customer.
- d. Receives payment, usually a commission derived from the value of the transaction or a fixed monthly payment or a combination of monthly payment and commission.

In addition, the following will be included in the definition of Marketing Consultant:

An offset consultant or broker, who arranges procurement on behalf of IAI by other companies from local companies in satisfaction of IAI's offset requirements and who assists IAI in obtaining related offset credits from the local authorities.

[...]

Controlled Entity- Any entity in which IAI, directly or indirectly, has a greater than 50% interest, earns over 50% of the profits, or has the right to appoint more than 50% of the seats on the board or other governing body; or any entity in which IAI has any other type of controlling power.

[p. 9] 1. The Compliance Officer has the following responsibilities:

- To ensure that due diligence of Marketing Consultants has been performed and to determine, based on the results, the propriety/impropriety of engaging such Marketing Consultants.
- To ensure the performance of renewed examinations including due diligence of Marketing Consultants, and the signing of the Marketing Consultants on all the required forms, should it be decided to extend the engagement with a Marketing Consultant for more than five consecutive years and / or for any other reason at the Compliance Officer's discretion, including in the case of information that came

[p.10] to the Company's attention which suggests the need to conduct such an examination

- To review and consider the rate of Commission and any other or additional consideration to be paid to the Marketing Consultants, as well as approve the bank(s) proposed by the Marketing Consultants, and review and approve any unusual terms included in the terms of agreement with Marketing Consultants, if such terms may have any ramifications in respect of compliance.
- To consider the approval of retention of Procurement Representatives, consultants and Resellers.

[p.17] The Compliance Officer shall ensure that live, in-person training and instruction be given at least once per annum with regard to the field of compliance, to the following sectors of the Company:

- The Company's agents, as well as marketing consultants abroad, in accordance with a decision of the Compliance Officer.

[...]

3. The Compliance Officer shall conduct, from time to time, and at his/her discretion, training for the Marketing Consultants and Resellers in Israel and abroad, and shall guide and update managers and marketing personnel of IAI foreign subsidiaries on matters of compliance.

[p.19] CHAPTER 4. GENERAL DIRECTIVES RELATED TO MARKETING CONSULTANTS

1. The identity of IAI's Marketing Consultants, the products they market and the countries in which they operate are valuable trade secrets and, therefore, information relating to such activities is treated as commercially classified. Furthermore, directives issued by IAI's Security Office apply to such activities.

2. In light of the foregoing, any person involved in these activities shall refrain from providing information to any unauthorized person or entity. Only Authorized Individuals and Authorized Negotiators may engage in activities relating to Marketing Consultants. Each person engaged in marketing activities will sign a certification that includes a summary of IAI's policies and guidelines on these matters. The signed forms of the Authorized Individuals and Authorized Negotiators will be kept at the offices of the Marketing Consultant Department.

3. When meeting with Marketing Consultants, the Authorized Individuals shall take into consideration the security and commercial classification of the transaction and act as follows:

a. Prior to meeting a new Marketing Consultant, the Authorized Individual will provide to the head of that applicable Corporate Marketing Desk (and, in his/her absence, to the VP-Marketing) a document specifying with whom s/he intends to meet and their capabilities, and whom they represent. The subject of Commissions shall not be discussed at this meeting, unless expressly authorized in writing and only if the person is an Authorized Negotiator.

b. At least 2 IAI employees shall be present at all negotiation meetings with a Marketing Consultant, whether in Israel or abroad (including telephonic negotiations), one of whom shall be an Authorized Negotiator and the other an Authorized Individual or another employee in accordance with the decision of the VP-Marketing.

c. Negotiations with a candidate for Marketing Consultant shall commence only following receipt of guidelines and red-lines from the Vice President - Marketing or Deputy Vice-President as determined by the Vice-President for Marketing from time-to-time.

4. No foreign public official or employee of any actual or potential customer may be appointed as a Marketing Consultant.

5. Whenever there is a potential for conflicts of interest, the Chairperson of the Management Commissions Committee shall provide the approval of the Compliance Officer, prior to the committee issuing its recommendation.

6. No person who has other business with or is a supplier to IAI may be appointed as a Marketing Consultant without the approval of the Management Commissions Committee.

7. The appointment of Marketing Consultants in IAI's foreign subsidiaries will be done by such subsidiary's compliance officer and subject to the final approval of the Compliance Officer.

8. A. As part of the Due Diligence procedures that IAI conducts in examining the establishment and/or investment in joint ventures/enterprises, including

[p.20] companies, partnerships and other corporate vehicles, IAI will verify and ensure that the third parties with whom it intends to set up a joint venture/enterprises are acting in accordance with the laws applicable in Israel and in any other relevant country regarding the prohibition of bribery of foreign public officials.

B. In agreements between IAI and third parties for the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporations, the Legal Department will include terms and conditions stating that IAI is meticulous in implementing the provisions of the law prohibiting bribery of foreign public employees and that third parties, i.e., IAI's counterparties under such agreements must ensure that their activities comply with the provisions of the applicable laws.

9. The Legal Department will act to add a clause to the Company's Standard Terms and Conditions for Procurement, which stipulates the obligation of the supplier/ subcontractor to comply with the provisions of the law prohibiting bribery of foreign public officials.

10. An IAI employee that becomes aware of any suspicion or concern that any third party with whom the Company conducts business (including a Marketing Consultant, a Reseller, a partner in a joint venture/enterprise or a subcontractor) is not complying with the provisions of the law prohibiting bribery of foreign public officials shall immediately report such suspicion or concern to the Compliance Officer who will examine the facts of the matter and provide instructions, if necessary, of any steps required to be taken in the matter.

## CHAPTER 5. PROCESS FOR ENGAGING MARKETING CONSULTANT

### 1. Evaluation of Need

- a. The determination of a need to engage a Marketing Consultant on a new matter requires prior written approval of the VP-Marketing.
- b. No contact, meeting or negotiation may occur with any Marketing Consultant candidate prior to receipt of such approval in the form attached as Exhibit 12.
- c. The decision of the VP-Marketing shall be implemented within the boundaries of his/her approval including maximum amount of Commission.

### 2. Due Diligence

- a. The Authorized Individual who proposes engagement of a Marketing Consultant will check its suitability for IAI's purposes (after receipt of the VP-Marketing's authorization as set forth in section 1 above), as follows:

- i. Business status and reputation in the applicable domain
- ii. Other companies represented by the candidate which may create conflicts of interest
- iii. As part of the examination process, the following forms will be filled: (1) By the Authorized Individual: Due Diligence form (Exhibit 5)

[p.21] (2) By the Marketing Consultant candidate: Consultant Application form including, Applicant's Questionnaire for Sales Representation (Exhibit 2) (3) Compliance Forms. (4) Request for Consultant Security Check form (Exhibit 6) The results of the due diligence investigation shall be conveyed to the chief of the Marketing Consultants Department and the Compliance Office. The Compliance Officer will evaluate the results and determine the propriety of engaging the candidate.

Following the examination, the Compliance Officer may decide on one of the following actions:

- Disqualification of the candidate - in such event the Company will cease all contact with the candidate.
- Determination of conditions or restrictions for engagement with the candidate, including in the case of a Red Flag. In such event, the Company will ensure that all conditions and restrictions are met by the Marketing Consultant prior to continuing any negotiations.
- Initial approval to continue negotiations with the candidate, in such event the Company will negotiate with the candidate to determine the Commission and the other financial terms as detailed herein.

Exhibit 13 of the Compliance Program lists the findings that constitute a "Red Flag". Insofar as the examination process reveals the existence of a Red Flag in relation to the candidate, the Company through which the candidate operates, or in relation to any of such Company's employees, managers or representatives, the Compliance Officer shall examine such findings carefully in the framework of the examination and the approval of such candidate.

- b. With respect to defense exports – Marketing Consultants that are Israeli citizens, Israeli residents and/or an Israeli licensed/registered corporation, are required to be registered and/or obtain a license from the MOD (AP"l) as provided by law and/or directives issued by the MOD.

In the event of any proposed change in the terms of engagement (including contract terms) the documents will be resubmitted to the Compliance Officer for approval of the proposed changes.

### 3. Negotiation

- a. An Authorized Negotiator who meets a candidate prior to approval of its engagement by IAI may not provide any written documents to the candidate. The Authorized Negotiation will inform the candidate that the sole purpose of such meeting is to obtain information and to discuss interest, with no commitment by IAI.

- b. The VP-Marketing may use his/her discretion in exceptional circumstances only to issue a letter of intent to appoint a candidate as Marketing Consulting in the form coordinated with IAI's Legal Department. Notwithstanding the foregoing, the VPMarketing shall not issue a letter of intent prior to completion of due diligence and

[p.22] receipt of the Compliance Officer's determination. No person may issue a letter of intent on behalf of IAI without the prior written approval of the VP-Marketing.

c. The Corporate Marketing Desk shall contact the head of the relevant Marketing Office and coordinate the meeting and the negotiations with the Marketing Consultants, with him/her.

if it turns out that in a certain country, there is an existing Marketing Consultant, the Marketing Consultant Department will inform the Authorized Negotiator of such fact and provide all the information existing about this Marketing Consultant and the terms of engagement with him/her, in order to assist the Authorized Negotiator with the decision of whether to contract with the candidate and under what terms.

d. The Authorized Negotiator will discuss with the candidate the following commercial issues regarding its engagement:

i. Obtaining the Marketing Consultant's agreement to the following particulars: A clear definition of the products to be promoted by the Marketing Consultant, the compensation it shall receive, the region of activity, the potential customers, the beginning and ending dates of the contract term and other unusual conditions, if any.

ii. The Authorized Negotiator will clarify that these terms are conditioned upon preparation of a written Consulting Agreement and that IAI has no obligation until such agreement is signed by IAI's authorized signatories and following completion of IAI's internal process as prescribed by this Compliance Program.

iii. The negotiations shall be conducted in strict compliance with this program and within the Commissions parameters directed by the CEO.

e. The negotiations will be conducted by the Authorized Negotiator; the guidelines for the rate of Commission will be set by VP-Marketing or Deputy Vice-President for Marketing as determined by the Vice President for Marketing from time to time for each individual deal.

f. The Authorized Negotiator will endeavor to minimize the compensation as much as possible.

g. The Commission rate will be submitted to the Compliance Officer for approval as part of the Marketing and Consulting form, as detailed herein.

h. The Authorized Signatory may not conclude negotiation on any issue in contravention of this Compliance Program without the prior authorization of the Compliance Officer and the Management Commissions Committee.

i. An additional IAI employee who is an Authorized Individual shall be present at all negotiations with the Marketing Consultant, whether in Israel or abroad (including telephonic negotiations). If the meeting occurs in a country that has a Marketing Office, then an IAI delegate of such Marketing Office shall be the additional participant, instead of the Authorized Individual as required above. Meetings other than negotiations shall be conducted in the presence of an Authorized Individual or Authorized Signatory.

[p.23] j. Any deviation from the foregoing requires prior written approval of the VPMarketing.

k. The Authorized Individual shall inform his/her superiors and the Corporate Marketing Desk of all matters that arose in any meeting with the candidate and file any related documents.

#### 4. Handling Application to Appoint Marketing Consultant

a. Following due diligence and the Compliance Officer's determination to approve per Section 2 and receipt of written notice from the VP-Marketing stating that the due diligence results allow for engaging the candidate, the Authorized Negotiator will complete the "Request to Approve Appointment of Marketing Consultant Form" set forth in Exhibit 9 (a "Request"), and shall indicate in such form:

i. In the case of multiple Marketing Consultants for a particular transaction – the names of the other Marketing Consultants and the Commission rate of each of them.

ii. Any other extraordinary terms regarding the appointment of the Marketing Consultants.

b. The Authorized Negotiator shall obtain the signature on said Request form of the Marketing Manager and General Manager of the applicable IAI division, and of the applicable Group General Manager, and convey same with all attachments to the Marketing Consultants Department.



c. The Legal Department will update the Compliance Officer and the Marketing Consultants Department with respect to the names of Marketing Consultants engaged in legal disputes with IAI. Written consent of IAI's General Counsel is required prior to engaging any Marketing Consultant involved in a legal dispute with IAI. d.

Upon receipt of the Request form, the Marketing Consultants Department will act as follows:

- i. Submit the signed form as detailed above, including the rate of Commission and the documents accompanying the signature and the final approval of The Compliance Officer.
- ii. Attach to the documents, the approval of the Company's Security Department, as required under the then current security procedures applicable in the Company, regarding Israeli and non-Israeli candidates.

e. In order to complete the approvals process, the Marketing Consultants Department will send to the Compliance Officer and to the VP Marketing each Request form that has been signed by the Corporate Marketing Desk.

#### 5. Approval of Management Commissions Committee

a. Every request to appoint a new Marketing Consultant, to increase Commissions, to add a line of products to an agreement with a Marketing Consultant or to expand its category of customers (commercial, military or para-military) shall be submitted for approval of the Management Commissions Committee following approval of

[p.24] the VP-Marketing and the Compliance Officer. Approval of the VP-Marketing constitutes a recommendation to the Management Commissions Committee.

b. Each approval by the Management Commissions Committee shall require renewal after 5 years have lapsed since the original approval. Such renewal shall take place after all steps have been taken to re-appoint the Marketing Consultant.

c. The Management Commissions Committee will consider all Requests that have been signed by the applicable Group General Manager. If the VP-Marketing objects to the Request, he/she shall present the basis for such objection to the committee and, in such case, the Group General Manager shall also be invited. If the matter is not resolved by the committee, it shall be brought to the CEO.

d. The VP-Marketing has the right, subject to the Compliance Officer's approval, to extend the engagement by an additional year (at a time) and up to five years in aggregate, from the date of the original approval of the Commission Committee, and based upon the circumstances, the VP- Marketing may extend the engagement for up to two years with the approval of the Compliance Officer, provided, however, that the cumulative extensions may not exceed in total a period of five consecutive years and provided there is no change in Commission (other than a reduction in the rate of the Commission). Furthermore, VP-Marketing has the right to expand the content of a contract with Marketing Consultants for the addition of a product from the same line (as included in the appendices of the contract) with a Marketing Consultant or in relation to another customer from the same country in relation to the products (included in the appendices to the contract). Such extension is subject to the signing of each of the Marketing Consultants on the Compliance Forms, and further subject to the advance approval of the Compliance Officer.

e. Subject to the stated in Section 5(d) above, any requested change with respect to a matter previously approved by the Management Commissions Committee shall be re-submitted.

f. Any request for the Management Commissions Committee to approve a Commission shall be made by the secretary thereof (chief of the Marketing Consultant Department) in a Commission Approval form.

g. In determining whether to approve a Commission, the Management Commissions Committee shall consider the following factors:

- i. The country to where the products/services will be exported and the standard range of Commissions there.
- ii. The type of equipment to be exported
- iii. The experience and contribution of the Marketing Consultant to the transaction
- iv. Extraordinary factors, such as financing or payment of a retainer fee.

h. In determining whether to approve a Commission for a particular transaction or a framework agreement, the Management Commissions Committee shall operate in accordance with the Board of Directors general framework guidelines, as set from time to time.

[p.25] i. Whenever the Management Commissions Committee approves an Extraordinary Commission, the decision will be submitted for the approval of the Board of Directors.

j. If the Management Commissions Committee is requested to approve payment of a Commission in a framework Consulting Agreement, the Management Commissions Committee shall ensure that the amount of Commissions conforms to the framework Consulting Agreement.

#### 6. Preparation of Consulting Agreement

a. Following approval of the Management Commissions Committee, the chief of the Marketing Consultant Department will issue a conforming Consulting Agreement to the Authorized Negotiator or the relevant marketing manager for comments.

b. The Consulting Agreement will note that IAI has no obligations to continue to engage the Marketing Consultant or other liability towards it following expiration of its term, unless otherwise expressly stated in the Consulting Agreement and subject to the approval of the Compliance Officer prior to the signing of the Consulting Agreement by the VP of Marketing and the CFO.

c. The Marketing Consultant Department, using its discretion and as required, shall approach the Legal Department to approve changes in the Consulting Agreement.

d. If the change pertains to compliance issues, the Marketing Consultant Director shall forward said draft to the Compliance Officer for his review of the pending engagement. Thereafter, the Marketing Consultant Director shall ensure signature of the Marketing Consultant on the Consulting Agreement. The Marketing Consultant Department will negotiate any needed issues with the Marketing Consultant pending its signature.

e. The negotiations with the Marketing Consultant will be predicated on the form Consulting Agreement established by the IAI General Counsel.

f. The Consulting Agreement will establish payment terms and Commission rates as well as, the place of payment. If it has been determined that no Commission will be paid in respect of any particular portion of customer payments, this shall be specifically defined in the Consulting Agreement. In exceptional circumstances, the Consulting Agreement will also include provisions relating to options/followon orders by customers.

g. The term of the engagement of a Marketing Consultant will be one year, unless, following analysis of risks in the relevant country, the Vice President-Marketing and Compliance Officer have agreed on a longer term not to exceed two years.

h. The agreement will also include provisions for early termination by one of the parties.

i. If the Commission rate declines if the amount of the customer transaction increases, that shall be specified in the Consulting Agreement.

j. Compliance Officer's advance approval is required for any change to the Consulting Agreement that has implications on or in connection to compliance.

#### [p.26] 7. Approval of Contract and Signature

a. Following signature of the Consulting Agreement by the Marketing Consultant, the Marketing Consultant Department will seek signature by IAI's authorized signatories as specified in Chapter 2 and in IAI's signature authority policies, 121.01.01, in the following sequence:

i. The VP-Finance will sign the Request and the Consulting Agreement

ii. The CEO will sign the Request and then the Consulting Agreement

iii. In a Consulting Agreement relating to an IAI subsidiary, the CEO and VPFinance of such subsidiary will first sign prior to signature IAI's authorized signatories.

b. Consulting Agreements, letters of appointment and other documents signed by the VP-Marketing may not be removed or transmitted outside of IAI (whether signed or not), without the prior written approval of the VP-Marketing.



c. Any request for change /update /addition in the Consulting Agreement shall be submitted to the Head of the Marketing Consultant Department. The application will be accompanied by a document explaining the reasons for the change / update / addition. The Marketing Consultant Department will forward the application to the Compliance Officer, who will examine the need to obtain the approval of other departments/organizations in the Company, including the Vice President of Marketing. If the Compliance Officer approval is granted, all documentation with the Marketing Consultant will be updated accordingly. In addition to the aforesaid, the Corporate Group Manager, Head of Corporate Marketing Desk, CFO and CEO shall also sign the application, in accordance with the provisions of this Compliance Manual.

c. If a Marketing Consultant, whose engagement has been checked and approved in accordance with the above procedures and his/her Consulting Agreement with IAI was executed, requests to receive a letter of appointment, the Marketing Consultant Department will refer to the VP-Marketing for his/her approval and signature.

d. Any request to approve/appoint/change contract terms/termination of Marketing Consultant shall be made to the VP-Marketing exclusively by the Marketing Consultant Department.

e. Any Consulting Agreement with a Marketing Consultant on behalf of a subsidiary, including IAI North America Inc. will be signed by the subsidiary's authorized signatories only after IAI's CEO has signed the applicable Request and after the Compliance Officer's advance approval for the engagement with the Marketing Consultant and upon receiving the approval of the Management Commissions Committee. If IAI will countersign the Consulting Agreement (as in the case of Elta Systems Ltd.), then after receiving the approval of the Management Commissions Committee, the subsidiary's authorized signatories will sign the Agreement before signature by IAI's CEO and CFO.

f. A request to extend a Consulting Agreement with a Marketing Consultant will be submitted for the approval of the VP-Marketing which may extend the Consulting Agreement subject to the Compliance Officer's approval for a one-year period each time, up to four consecutive extensions (altogether no more than five years of continuous engagement with the Marketing Consultant), and based upon the

[p.27] circumstances, the VP- Marketing may extend the engagement for up to two years with the approval of the Compliance Officer, provided, however, that the cumulative extensions may not exceed in total a period of five consecutive years. In the event that it is decided to extend a Consulting Agreement with a Marketing Consultant for more than five consecutive years, then prior to bringing the matter to the approval of the Fee Committee, the Compliance Officer will again perform a due diligence examination that includes the signing of the Marketing Consultant on all the required compliance forms.

g. In addition, the Marketing Consultant will be subject to repeat examinations at all times, including a due diligence examination at the discretion of the Compliance Officer, inter alia, in the case of information that came to the Company's attention.

## 8. Activation

a. The relevant Authorized Individual/unit Marketing Manager will direct the Marketing Consultant and provide assistance to it by means of the applicable marketing office or with its knowledge and also with the knowledge of the relevant regional marketing director.

b. If a Marketing Consultant's area of operation includes a Marketing Office, then the Consulting Agreement will contain provisions relating to their interaction in accordance with the following guidelines:

i. The Marketing Consultant will coordinate its activities with the Marketing Office and obtain its assistance with respect to marketing, proposals, professional information and customer service in coordination with the relevant personnel at IAI.

ii. The Marketing Office will monitor the customer's performance of its contracts, including payments to IAI, with the assistance of the Marketing Consultant.

iii. The Marketing Consultant and Marketing Office shall have no business relations of any kind, and the Marketing Office will not make any payments on behalf of the Marketing Consultant to any person or entity.

iv. The Marketing Consultant shall provide written activity reports upon the prior written request of the VP-Marketing.

v. The Authorized Individual will update the Marketing Consultant at regular intervals regarding marketing policies relating to the products included in the Marketing Consultant's domain and with respect to product demonstrations by IAI within the region.

Question
<b>7.1.2 Does the company conduct risk-based anti-bribery and corruption due diligence when engaging or re-engaging its agents and intermediaries?</b>
Score
<b>1</b>
Comments
<p>There is evidence that the company has formal procedures to conduct anti-bribery and corruption due diligence prior to engaging and re-engaging with agents and intermediaries. There is also evidence that due diligence is repeated at least every two years.</p> <p>However, based on publicly available information, there is no clear evidence that agents and the highest risk intermediaries are subject to enhanced due diligence.</p>
Evidence
<p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a></p> <p>[p.9] 1. The Compliance Officer has the following responsibilities:</p> <ul style="list-style-type: none"> <li>• To ensure that due diligence of Marketing Consultants has been performed and to determine, based on the results, the propriety/impropriety of engaging such Marketing Consultants.</li> <li>• To ensure the performance of renewed examinations including due diligence of Marketing Consultants, and the signing of the Marketing Consultants on all the required forms, should it be decided to extend the engagement with a Marketing Consultant for more than five consecutive years and / or for any other reason at the Compliance Officer's discretion, including in the case of information that came</li> </ul> <p>[p.20] CHAPTER 5. PROCESS FOR ENGAGING MARKETING CONSULTANT</p> <p>1. Evaluation of Need</p> <ol style="list-style-type: none"> <li>a. The determination of a need to engage a Marketing Consultant on a new matter requires prior written approval of the VP-Marketing.</li> <li>b. No contact, meeting or negotiation may occur with any Marketing Consultant candidate prior to receipt of such approval in the form attached as Exhibit 12.</li> <li>c. The decision of the VP-Marketing shall be implemented within the boundaries of his/her approval including maximum amount of Commission.</li> </ol> <p>2. Due Diligence</p> <ol style="list-style-type: none"> <li>a. The Authorized Individual who proposes engagement of a Marketing Consultant will check its suitability for IAI's purposes (after receipt of the VP-Marketing's authorization as set forth in section 1 above), as follows: <ol style="list-style-type: none"> <li>i. Business status and reputation in the applicable domain</li> <li>ii. Other companies represented by the candidate which may create conflicts of interest</li> <li>iii. As part of the examination process, the following forms will be filled: (1) By the Authorized Individual: Due Diligence form (Exhibit 5)</li> </ol> </li> </ol> <p>[p.21] (2) By the Marketing Consultant candidate: Consultant Application form including, Applicant's Questionnaire for Sales Representation (Exhibit 2) (3) Compliance Forms. (4) Request for Consultant Security Check form (Exhibit 6) The results of the due diligence investigation shall be conveyed to the chief of the Marketing Consultants Department and the Compliance Office. The Compliance Officer will evaluate the results and determine the propriety of engaging the candidate.</p> <p>Following the examination, the Compliance Officer may decide on one of the following actions:</p> <ul style="list-style-type: none"> <li>- Disqualification of the candidate - in such event the Company will cease all contact with the candidate.</li> <li>- Determination of conditions or restrictions for engagement with the candidate, including in the case of a Red Flag. In such event, the Company will ensure that all conditions and restrictions are met by the Marketing Consultant prior to continuing any negotiations.</li> </ul>

- Initial approval to continue negotiations with the candidate, in such event the Company will negotiate with the candidate to determine the Commission and the other financial terms as detailed herein.

Exhibit 13 of the Compliance Program lists the findings that constitute a "Red Flag". Insofar as the examination process reveals the existence of a Red Flag in relation to the candidate, the Company through which the candidate operates, or in relation to any of such Company's employees, managers or representatives, the Compliance Officer shall examine such findings carefully in the framework of the examination and the approval of such candidate.

[p.23] 4. Handling Application to Appoint Marketing Consultant

a. Following due diligence and the Compliance Officer's determination to approve per Section 2 and receipt of written notice from the VP-Marketing stating that the due diligence results allow for engaging the candidate, the Authorized Negotiator will complete the "Request to Approve Appointment of Marketing Consultant Form" set forth in Exhibit 9.

[p.27] circumstances, the VP- Marketing may extend the engagement for up to two years with the approval of the Compliance Officer, provided, however, that the cumulative extensions may not exceed in total a period of five consecutive years. In the event that it is decided to extend a Consulting Agreement with a Marketing Consultant for more than five consecutive years, then prior to bringing the matter to the approval of the Fee Committee, the Compliance Officer will again perform a due diligence examination that includes the signing of the Marketing Consultant on all the required compliance forms.

g. In addition, the Marketing Consultant will be subject to repeat examinations at all times, including a due diligence examination at the discretion of the Compliance Officer, inter alia, in the case of information that came to the Company's attention.

Question
<b>7.1.3 Does the company aim to establish the ultimate beneficial ownership of its agents and intermediaries?</b>
Score
<b>0</b>
Comments
Based on publicly available information, there is no evidence that the company aims to establish the ultimate beneficial ownership of its agents or intermediaries as part of its due diligence procedures.
Evidence
<p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a></p> <p>[p.9] 1. The Compliance Officer has the following responsibilities:</p> <ul style="list-style-type: none"> <li>• To ensure that due diligence of Marketing Consultants has been performed and to determine, based on the results, the propriety/impropriety of engaging such Marketing Consultants.</li> <li>• To ensure the performance of renewed examinations including due diligence of Marketing Consultants, and the signing of the Marketing Consultants on all the required forms, should it be decided to extend the engagement with a Marketing Consultant for more than five consecutive years and / or for any other reason at the Compliance Officer's discretion, including in the case of information that came</li> </ul> <p>[p.20] CHAPTER 5. PROCESS FOR ENGAGING MARKETING CONSULTANT</p> <p>1. Evaluation of Need</p> <ol style="list-style-type: none"> <li>a. The determination of a need to engage a Marketing Consultant on a new matter requires prior written approval of the VP-Marketing.</li> <li>b. No contact, meeting or negotiation may occur with any Marketing Consultant candidate prior to receipt of such approval in the form attached as Exhibit 12.</li> <li>c. The decision of the VP-Marketing shall be implemented within the boundaries of his/her approval including maximum amount of Commission.</li> </ol> <p>2. Due Diligence</p> <ol style="list-style-type: none"> <li>a. The Authorized Individual who proposes engagement of a Marketing Consultant will check its suitability for IAI's purposes (after receipt of the VP-Marketing's authorization as set forth in section 1 above), as follows: <ol style="list-style-type: none"> <li>i. Business status and reputation in the applicable domain</li> <li>ii. Other companies represented by the candidate which may create conflicts of interest</li> <li>iii. As part of the examination process, the following forms will be filled: (1) By the Authorized Individual: Due Diligence form (Exhibit 5)</li> </ol> </li> </ol> <p>[p.21] (2) By the Marketing Consultant candidate: Consultant Application form including, Applicant's Questionnaire for Sales Representation (Exhibit 2) (3) Compliance Forms. (4) Request for Consultant Security Check form (Exhibit 6) The results of the due diligence investigation shall be conveyed to the chief of the Marketing Consultants Department and the Compliance Office. The Compliance Officer will evaluate the results and determine the propriety of engaging the candidate.</p> <p>Following the examination, the Compliance Officer may decide on one of the following actions:</p> <ul style="list-style-type: none"> <li>- Disqualification of the candidate - in such event the Company will cease all contact with the candidate.</li> <li>- Determination of conditions or restrictions for engagement with the candidate, including in the case of a Red Flag. In such event, the Company will ensure that all conditions and restrictions are met by the Marketing Consultant prior to continuing any negotiations.</li> <li>- Initial approval to continue negotiations with the candidate, in such event the Company will negotiate with the candidate to determine the Commission and the other financial terms as detailed herein.</li> </ul>

Exhibit 13 of the Compliance Program lists the findings that constitute a "Red Flag". Insofar as the examination process reveals the existence of a Red Flag in relation to the candidate, the Company through which the candidate operates, or in relation to any of such Company's employees, managers or representatives, the Compliance Officer shall examine such findings carefully in the framework of the examination and the approval of such candidate.

[p.23] 4. Handling Application to Appoint Marketing Consultant

a. Following due diligence and the Compliance Officer's determination to approve per Section 2 and receipt of written notice from the VP-Marketing stating that the due diligence results allow for engaging the candidate, the Authorized Negotiator will complete the "Request to Approve Appointment of Marketing Consultant Form" set forth in Exhibit 9.

Question
<b>7.1.4 Does the company's anti-bribery and corruption policy apply to all agents and intermediaries acting for or on behalf of the company, and does it require anti-bribery and corruption clauses in its contracts with these entities?</b>
Score
<b>0</b>
Comments
There is evidence that the company includes anti-bribery and corruption clauses in its contracts with agents and intermediaries, which include termination rights. However, there is no evidence that the company includes audit rights in its contracts with these entities.
Evidence
<p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a></p> <p>[p.20] B. In agreements between IAI and third parties for the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporations, the Legal Department will include terms and conditions stating that IAI is meticulous in implementing the provisions of the law prohibiting bribery of foreign public employees and that third parties, i.e., IAI's counterparties under such agreements must ensure that their activities comply with the provisions of the applicable laws.</p> <p>9. The Legal Department will act to add a clause to the Company's Standard Terms and Conditions for Procurement, which stipulates the obligation of the supplier/ subcontractor to comply with the provisions of the law prohibiting bribery of foreign public officials.</p> <p>[p.25] 6. Preparation of Consulting Agreement</p> <p>a. Following approval of the Management Commissions Committee, the chief of the Marketing Consultant Department will issue a conforming Consulting Agreement to the Authorized Negotiator or the relevant marketing manager for comments.</p> <p>b. The Consulting Agreement will note that IAI has no obligations to continue to engage the Marketing Consultant or other liability towards it following expiration of its term, unless otherwise expressly stated in the Consulting Agreement and subject to the approval of the Compliance Officer prior to the signing of the Consulting Agreement by the VP of Marketing and the CFO.</p> <p>c. The Marketing Consultant Department, using its discretion and as required, shall approach the Legal Department to approve changes in the Consulting Agreement.</p> <p>d. If the change pertains to compliance issues, the Marketing Consultant Director shall forward said draft to the Compliance Officer for his review of the pending engagement. Thereafter, the Marketing Consultant Director shall ensure signature of the Marketing Consultant on the Consulting Agreement. The Marketing Consultant Department will negotiate any needed issues with the Marketing Consultant pending its signature.</p> <p>e. The negotiations with the Marketing Consultant will be predicated on the form Consulting Agreement established by the IAI General Counsel.</p> <p>f. The Consulting Agreement will establish payment terms and Commission rates as well as, the place of payment. If it has been determined that no Commission will be paid in respect of any particular portion of customer payments, this shall be specifically defined in the Consulting Agreement. In exceptional circumstances, the Consulting Agreement will also include provisions relating to options/follow on orders by customers.</p> <p>g. The term of the engagement of a Marketing Consultant will be one year, unless, following analysis of risks in the relevant country, the Vice President-Marketing and Compliance Officer have agreed on a longer term not to exceed two years.</p> <p>h. The agreement will also include provisions for early termination by one of the parties.</p>



i. If the Commission rate declines if the amount of the customer transaction increases, that shall be specified in the Consulting Agreement.

j. Compliance Officer's advance approval is required for any change to the Consulting Agreement that has implications on or in connection to compliance.

[p.26] 7. Approval of Contract and Signature

a. Following signature of the Consulting Agreement by the Marketing Consultant, the Marketing Consultant Department will seek signature by IAI's authorized signatories as specified in Chapter 2 and in IAI's signature authority policies, 121.01.01, in the following sequence:

- i. The VP-Finance will sign the Request and the Consulting Agreement
- ii. The CEO will sign the Request and then the Consulting Agreement
- iii. In a Consulting Agreement relating to an IAI subsidiary, the CEO and VP-Finance of such subsidiary will first sign prior to signature IAI's authorized signatories.

b. Consulting Agreements, letters of appointment and other documents signed by the VP-Marketing may not be removed or transmitted outside of IAI (whether signed or not), without the prior written approval of the VP-Marketing.

c. Any request for change /update /addition in the Consulting Agreement shall be submitted to the Head of the Marketing Consultant Department. The application will be accompanied by a document explaining the reasons for the change / update / addition. The Marketing Consultant Department will forward the application to the Compliance Officer, who will examine the need to obtain the approval of other departments/organizations in the Company, including the Vice President of Marketing. If the Compliance Officer approval is granted, all documentation with the Marketing Consultant will be updated accordingly. In addition to the aforesaid, the Corporate Group Manager, Head of Corporate Marketing Desk, CFO and CEO shall also sign the application, in accordance with the provisions of this Compliance Manual.

c. If a Marketing Consultant, whose engagement has been checked and approved in accordance with the above procedures and his/her Consulting Agreement with IAI was executed, requests to receive a letter of appointment, the Marketing Consultant Department will refer to the VP-Marketing for his/her approval and signature.

d. Any request to approve/appoint/change contract terms/termination of Marketing Consultant shall be made to the VP-Marketing exclusively by the Marketing Consultant Department.

e. Any Consulting Agreement with a Marketing Consultant on behalf of a subsidiary, including IAI North America Inc. will be signed by the subsidiary's authorized signatories only after IAI's CEO has signed the applicable Request and after the Compliance Officer's advance approval for the engagement with the Marketing Consultant and upon receiving the approval of the Management Commissions Committee. If IAI will countersign the Consulting Agreement (as in the case of Elta Systems Ltd.), then after receiving the approval of the Management Commissions Committee, the subsidiary's authorized signatories will sign the Agreement before signature by IAI's CEO and CFO.

f. A request to extend a Consulting Agreement with a Marketing Consultant will be submitted for the approval of the VP-Marketing which may extend the Consulting Agreement subject to the Compliance Officer's approval for a one-year period each time, up to four consecutive extensions (altogether no more than five years of continuous engagement with the Marketing Consultant), and based upon the

[p.27] circumstances, the VP- Marketing may extend the engagement for up to two years with the approval of the Compliance Officer, provided, however, that the cumulative extensions may not exceed in total a period of five consecutive years. In the event that it is decided to extend a Consulting Agreement with a Marketing Consultant for more than five consecutive years, then prior to bringing the matter to the approval of the Fee Committee, the Compliance Officer will again perform a due diligence examination that includes the signing of the Marketing Consultant on all the required compliance forms.

g. In addition, the Marketing Consultant will be subject to repeat examinations at all times, including a due diligence examination at the discretion of the Compliance Officer, inter alia, in the case of information that came to the Company's attention.

8. Activation

- a. The relevant Authorized Individual/unit Marketing Manager will direct the Marketing Consultant and provide assistance to it by means of the applicable marketing office or with its knowledge and also with the knowledge of the relevant regional marketing director.
- b. If a Marketing Consultant's area of operation includes a Marketing Office, then the Consulting Agreement will contain provisions relating to their interaction in accordance with the following guidelines:
- i. The Marketing Consultant will coordinate its activities with the Marketing Office and obtain its assistance with respect to marketing, proposals, professional information and customer service in coordination with the relevant personnel at IAI.
  - ii. The Marketing Office will monitor the customer's performance of its contracts, including payments to IAI, with the assistance of the Marketing Consultant.
  - iii. The Marketing Consultant and Marketing Office shall have no business relations of any kind, and the Marketing Office will not make any payments on behalf of the Marketing Consultant to any person or entity.
  - iv. The Marketing Consultant shall provide written activity reports upon the prior written request of the VP-Marketing.
  - v. The Authorized Individual will update the Marketing Consultant at regular intervals regarding marketing policies relating to the products included in the Marketing Consultant's domain and with respect to product demonstrations by IAI within the region.



Question
<b>7.1.5 Does the company ensure that its incentive schemes for agents are designed in such a way that they promote ethical behaviour and discourage corrupt practices?</b>
Score
<b>1</b>
Comments
<p>In publicly available information the company highlights incentive structures for agents and intermediaries as a factor in bribery and corruption risk. The company publishes details of its financial control procedures for agent and intermediary payments and requires that remuneration is paid in stage payments.</p> <p>However, based on publicly available information, there is no evidence that the company imposes a threshold on the payment of sales commissions to agents and intermediaries, nor that it requires payments into local bank accounts.</p>
Evidence
<p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a>  [p.8] CHAPTER 1. DEFINITIONS</p> <p>3. Marketing Consultant – A person, company or entity (excluding a foreign public official as defined in Section 91a of the Penal Law) who supports IAI in marketing IAI's products and services to specified customers and who meets the following criteria:</p> <ol style="list-style-type: none"> <li>Generally present physically in the target territory;</li> <li>Acts as intermediary between IAI and the customer but is not authorized to act as IAI's agent;</li> <li>Does not purchase the product from IAI and receives compensation, usually a commission, relating to IAI's signing a contract with the customer.</li> <li>Receives payment, usually a commission derived from the value of the transaction or a fixed monthly payment or a combination of monthly payment and commission.</li> </ol> <p>[p.9] 1. The Compliance Officer has the following responsibilities:</p> <p>[p.10]</p> <ul style="list-style-type: none"> <li>To review and consider the rate of Commission and any other or additional consideration to be paid to the Marketing Consultants, as well as approve the bank(s) proposed by the Marketing Consultants, and review and approve any unusual terms included in the terms of agreement with Marketing Consultants, if such terms may have any ramifications in respect of compliance.</li> </ul> <p>[p.22] f. The Authorized Negotiator will endeavor to minimize the compensation as much as possible.</p> <p>g. The Commission rate will be submitted to the Compliance Officer for approval as part of the Marketing and Consulting form, as detailed herein.</p> <p>[p.24] f. Any request for the Management Commissions Committee to approve a Commission shall be made by the secretary thereof (chief of the Marketing Consultant Department) in a Commission Approval form.</p> <p>g. In determining whether to approve a Commission, the Management Commissions Committee shall consider the following factors:</p> <ol style="list-style-type: none"> <li>The country to where the products/services will be exported and the standard range of Commissions there.</li> <li>The type of equipment to be exported</li> <li>The experience and contribution of the Marketing Consultant to the transaction</li> <li>Extraordinary factors, such as financing or payment of a retainer fee.</li> </ol> <p>h. In determining whether to approve a Commission for a particular transaction or a framework agreement, the Management Commissions Committee shall operate in accordance with the Board of Directors general framework guidelines, as sett from time to time.</p>

[p.25] i. Whenever the Management Commissions Committee approves an Extraordinary Commission, the decision will be submitted for the approval of the Board of Directors.

j. If the Management Commissions Committee is requested to approve payment of a Commission in a framework Consulting Agreement, the Management Commissions Committee shall ensure that the amount of Commissions conforms to the framework Consulting Agreement.

[...]

f. The Consulting Agreement will establish payment terms and Commission rates as well as, the place of payment. If it has been determined that no Commission will be paid in respect of any particular portion of customer payments, this shall be specifically defined in the Consulting Agreement. In exceptional circumstances, the Consulting Agreement will also include provisions relating to options/followon orders by customers.

[...]

i. If the Commission rate declines if the amount of the customer transaction increases, that shall be specified in the Consulting Agreement.

j. Compliance Officer's advance approval is required for any change to the Consulting Agreement that has implications on or in connection to compliance.

#### [p.30] CHAPTER 8. REGISTRATION, OVERSIGHT AND PAYMENT

1. In the course of its regular activities, the Marketing Consultant Department will:

[...]

d. Maintain a current list of Marketing Consultants.

2. Reports shall be distributed within IAI to authorized recipients regarding payments to Marketing Consultants.

a. The relevant unit in Corporate Finance will produce (as required) reports regarding payments to Marketing Consultants.

b. The Finance Department in the relevant division will produce reports regarding customer contracts and the impact on Commissions due.

3. The payment reports shall be distributed to the CEO, the VP-Marketing, the VP-Finance, Group General Managers, Division General Managers, Group Finance Directors, Division Finance Directors, heads of the Corporate Marketing Desks, the Compliance Officer and the Marketing Consultant Department.

4. Payment of Commissions shall be effected by bank transfer to an account of the Marketing Consultant, at the intervals, amounts and by the method specified in the applicable Consulting Agreement, upon receipt of invoice and subject to the requirements of this Chapter.

5. Commissions Payable Pro Rata against Customer Receipts

a. Department of Accounts Receivable and Accounts Payable will make the payment to the Marketing Consultants at each stage via the "Payment of Commissions to Marketing Consultants" system (hereinafter, the "System").

b. Approval of payment instructions will be done in the system in stages automatically and execution of each stage will be conditioned upon execution of the previous stage until reaching the status allowing for payment in fact.

c. Any early payment, other than in the circumstances specified in Section 6.e. below, requires the advance written approval of the Compliance Officer and Management Commissions Committee as well as a suitable revision of the relevant contract.

#### 6. General Provisions

a. Payment of Commissions will be made pro rata against customer receipts other than the payments specified in Chapter 8.

b. Payment of Commissions to a Marketing Consultant will be made in accordance with the signed contract in effect with the Marketing Consulting or in accordance with any revision of such contract prepared and signed in accordance with the rules of this Program.

c. If the Marketing Consultant participates in the financing in consideration for a special payment, then such payment shall be considered as an addition to the Marketing Consultant's Commission for the transaction. A contract requiring payment to a Marketing Consultant of special payment in connection with such a financing arrangement requires the advance approval of the Compliance Officer and Management Commissions Committee and the signatures of the CEO and VP Finance. If the Marketing Consultant's Commission, including the special payment in connection with such a financing arrangement, is an Extraordinary Commission, then approval as an Extraordinary Commission is required, in accordance with Section 5 of Chapter 5 above.

d. Payment of a Commission will be carried-out only after receipt of the customer receipts at the Company and following deduction of withholding tax as applicable under law. Transfer to benefit of the bank account in accordance with the written instructions of the Marketing Consultant will be considered payment. A Marketing Consultant receiving payment in New Israeli Shekels as a resident of the State of Israel is required to present an original tax invoice.

e. When a contract fixes that payment of a Commission must be made within a certain period of time following payment by customer to which the Commission is related, the Commission will be paid only toward the end of such period of time, unless the approval of the Deputy VP Finance – Financing and Treasury is obtained for an earlier payment after consultant with the relevant Division. In all cases such earlier payment would be subject to the Marketing Consultant's absolute right to the Commission for such customer receipts, and it would also be subject to the advance approval of the Compliance Officer.

f. Transfer to the benefit of a bank account as aforesaid will be done only where the beneficiary is the Marketing Consultant with which the contract was signed and where the name matches the name of the Marketing Consultant in the contract. In unique circumstances payment of a Commission may be made to a different account pursuant to the instructions of the Marketing Consultant provided that the instruction was verified by the Marketing Consultant Department and approved in writing by the Compliance Officer.

g. The VP-Finance shall set rules and regulations for supervision of the manner of execution of payments, including random checks.

h. The Marketing Consultants Department will take part in, such random tests to be conducted from time-to-time at the Company's divisions regarding payment of Commissions.

Question
<b>7.1.6 Does the company publish details of all agents currently contracted to act with and on behalf of the company?</b>
Score
<b>0</b>
Comments
The company does not publish any details of the agents or intermediaries currently contracted to act for and/or on behalf of the company.
Evidence
No evidence found.

Question
<b>7.1.7 Does the company publish high-level results from incident investigations and sanctions applied against agents?</b>
Score
<b>0</b>
Comments
The company does not publish any data on ethical or bribery and corruption related investigations, incidents or the associated disciplinary actions involving agents and intermediaries.
Evidence
No evidence found.

## 7.2 Joint Ventures

Question
<b>7.2.1 Does the company conduct risk-based anti-bribery and corruption due diligence when entering into and operating as part of joint ventures?</b>
Score
<b>1</b>
Comments
<p>There is evidence that the company has procedures to conduct due diligence on all its joint venture partnerships.</p> <p>However, based on publicly available information, there is no evidence that due diligence includes checks on the ultimate beneficial ownership of the partner company nor that due diligence is repeated at least every two years. There is also no evidence to suggest that joint ventures operating in high risk markets or with high risk partners, such as state-owned enterprises, are subject to enhanced due diligence.</p>
Evidence
<p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a>  [p.29] CHAPTER 7. JOINT VENTURES / ENTERPRISES, BROKERS, SUPPLIERS, LOBBYISTS, AND OTHER PARTNERS</p> <ol style="list-style-type: none"> <li>IAI has a declared policy regarding the prevention of corruption in general, and in international transactions, in particular, and a strict requirement to comply with the provisions of the law regarding the prohibition of bribery of foreign public officials. IAI's policy applies also in its engagements with third parties for the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporate vehicles as well as suppliers and subcontractors.</li> <li>Third parties with whom IAI engages in business must ensure and verify that their activities comply with the provisions of the applicable laws for their entire business activities, and not only to activities connected to the joint business activities of IAI and the third party.</li> <li>As part of the Due Diligence procedures that IAI conducts in examining the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporate vehicles, IAI will verify and ensure that the third parties with whom it intends to set up a joint venture/enterprises are acting in accordance with the laws applicable in Israel and in any other relevant country regarding the prohibition of bribery of foreign public officials.</li> <li>In agreements between IAI and third parties for the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporations, the Legal Department will include terms and conditions stating that IAI is meticulous in implementing the provisions of the law prohibiting bribery of foreign public employees and that third parties, i.e., IAI's counterparties under such agreements must ensure that their activities comply with the provisions of the applicable laws.</li> <li>An IAI employee that becomes aware of any suspicion or concern regarding any third party with whom the Company conducts business (including a Marketing Consultant, a Reseller, a partner in a joint venture/enterprise or a subcontractor) of not complying with the provisions of the law prohibiting bribery of foreign public officials shall immediately report such suspicion or concern to the Compliance Officer who will examine the facts of the matter and provide instructions, if necessary, of any steps required to be taken in the matter.</li> </ol>

Question
<b>7.2.2 Does the company commit to incorporating anti-bribery and corruption policies and procedures in all of its joint venture partnerships, and does it require anti-bribery and corruption clauses in its contracts with joint venture partners?</b>
Score
<b>1</b>
Comments
<p>There is evidence that the company's anti-corruption policies and procedures apply in joint ventures in which the company has a controlling interest. The company includes anti-corruption clauses in its contracts with all joint ventures.</p> <p>However, there is no evidence that the company takes steps to detect, control and prevent breaches through the inclusion of audit and termination rights in these contracts.</p>
Evidence
<p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a></p> <p>[p.5] IAI'S POLICIES – PREVENTING CORRUPTION</p> <p>IAI has a declared policy with regards to preventing corruption, generally, and particularly in respect of international transactions. IAI demands total compliance with applicable laws relating to the prohibition of bribing foreign public officials. IAI's policy applies to the members of IAI's Board of Directors, officers and employees, as well as Controlled Entities (defined herein).</p> <p>[p.9] Controlled Entity- Any entity in which IAI, directly or indirectly, has a greater than 50% interest, earns over 50% of the profits, or has the right to appoint more than 50% of the seats on the board or other governing body; or any entity in which IAI has any other type of controlling power.</p> <p>[p.29] CHAPTER 7. JOINT VENTURES / ENTERPRISES, BROKERS, SUPPLIERS, LOBBYISTS, AND OTHER PARTNERS</p> <p>1. IAI has a declared policy regarding the prevention of corruption in general, and in international transactions, in particular, and a strict requirement to comply with the provisions of the law regarding the prohibition of bribery of foreign public officials. IAI's policy applies also in its engagements with third parties for the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporate vehicles as well as suppliers and subcontractors.</p> <p>2. Third parties with whom IAI engages in business must ensure and verify that their activities comply with the provisions of the applicable laws for their entire business activities, and not only to activities connected to the joint business activities of IAI and the third party.</p> <p>3. As part of the Due Diligence procedures that IAI conducts in examining the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporate vehicles, IAI will verify and ensure that the third parties with whom it intends to set up a joint venture/enterprises are acting in accordance with the laws applicable in Israel and in any other relevant country regarding the prohibition of bribery of foreign public officials.</p> <p>4. In agreements between IAI and third parties for the establishment and/or investment in joint ventures/enterprises, including companies, partnerships and other corporations, the Legal Department will include terms and conditions stating that IAI is meticulous in implementing the provisions of the law prohibiting bribery of foreign public employees and that third parties, i.e., IAI's counterparties under such agreements must ensure that their activities comply with the provisions of the applicable laws.</p> <p>5. An IAI employee that becomes aware of any suspicion or concern regarding any third party with whom the Company conducts business (including a Marketing Consultant, a Reseller, a partner in a joint venture/enterprise or a subcontractor) of not complying with the provisions of the law prohibiting bribery of foreign public officials shall</p>

immediately report such suspicion or concern to the Compliance Officer who will examine the facts of the matter and provide instructions, if necessary, of any steps required to be taken in the matter.

**[6] President and CEO Letter (Document)**

Accessed 18/07/2019

<https://www.iai.co.il/drupal/sites/default/files/2019-06/IAI%27s%20President%20and%20CEO%20Letter.pdf>

[p.1] IAI's core values are compliance with laws and regulations, ethical conduct, avoidance of corruption and observance of fair and appropriate competition standards.

IAI has a declared policy to prevent corruption in our business, and we convey this message to our officers, managers and employees, as well to third parties with whom we engage in business.



Question
<b>7.2.3 Does the company commit to take an active role in preventing bribery and corruption in all of its joint ventures?</b>
Score
<b>0</b>
Comments
Based on publicly available information, there is no evidence that the company commits to take an active role in preventing bribery and corruption in all of its joint ventures.
Evidence
No evidence found.

## 8. Offsets

Question
<b>8.1 Does the company explicitly address the corruption risks associated with offset contracting, and is a dedicated body, department or team responsible for oversight of the company's offset activities?</b>
Score
<b>0</b>
Comments
<p>There is some evidence that the company recognises the corruption risks associated with offset brokers. However, there is no evidence that the company addresses the broader risks associated with offset contracting itself. There is also no evidence that the company has a dedicated body, department or team responsible for monitoring its offset activities.</p>
Evidence
<p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a>  [p.8] CHAPTER 1. DEFINITIONS</p> <p>3. Marketing Consultant – A person, company or entity (excluding a foreign public official as defined in Section 91a of the Penal Law) who supports IAI in marketing IAI's products and services to specified customers and who meets the following criteria:</p> <ul style="list-style-type: none"> <li>a. Generally present physically in the target territory;</li> <li>b. Acts as intermediary between IAI and the customer but is not authorized to act as IAI's agent;</li> <li>c. Does not purchase the product from IAI and receives compensation, usually a commission, relating to IAI's signing a contract with the customer.</li> <li>d. Receives payment, usually a commission derived from the value of the transaction or a fixed monthly payment or a combination of monthly payment and commission.</li> </ul> <p>In addition, the following will be included in the definition of Marketing Consultant:</p> <p>An offset consultant or broker, who arranges procurement on behalf of IAI by other companies from local companies in satisfaction of IAI's offset requirements and who assists IAI in obtaining related offset credits from the local authorities.</p> <p><b>[11] Industrial Cooperation (Webpage)</b>  Accessed 18/07/2019  <a href="https://www.iai.co.il/suppliers/how-become-iai-supplier/industrial-cooperation">https://www.iai.co.il/suppliers/how-become-iai-supplier/industrial-cooperation</a>  State of Israel regulations and subsequently Israel Aerospace Industries procedures mandate to require obligation of a foreign supplier (vendor or subcontractor) to enter upon business cooperation in accordance with these regulations. Business cooperation shall be by way of a local subcontract, investment, know-how transfer or acquisition of goods made in Israel or of work or services in Israel in a minimal defined values (based on the value of the contract), as detailed in the abstract of the regulations ("Mandatory Tenders Regulations"). The supplier shall be required to accept and sign the "Foreign Supplier's Undertaking" forms.</p> <p>In many cases, IAI undertakes to accomplish a foreign offset program with respect to works covered by IAI contracts to certain countries/customers. In those cases, the suppliers shall be required to cooperate with IAI in the fulfillment of any foreign offset program obligation that IAI may have accepted as a condition of any sale. The supplier shall be required to accept and sign the "Special Offset Provisions"</p>

Question
<b>8.2 Does the company conduct risk-based anti-bribery and corruption due diligence on all aspects of its offset obligations, which includes an assessment of the legitimate business rationale for the investment?</b>
Score
<b>1</b>
Comments
<p>There is evidence that the company has formal procedures to conduct due diligence on offset brokers. This includes checks on conflicts of interest and measures to evaluate the need for a broker. The company refreshes due diligence on its brokers every two years.</p> <p>However, the company does not specifically mention checks on the beneficial ownership of brokers. There is also no evidence that the company conducts due diligence on offset beneficiaries.</p>
Evidence
<p><b>[3] Translation Anti-Bribery and Compliance Manual (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-10/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%202019%20%28co2%29.pdf</a>  [p.8] CHAPTER 1. DEFINITIONS</p> <p>3. Marketing Consultant – A person, company or entity (excluding a foreign public official as defined in Section 91a of the Penal Law) who supports IAI in marketing IAI's products and services to specified customers and who meets the following criteria:</p> <ol style="list-style-type: none"> <li>Generally present physically in the target territory;</li> <li>Acts as intermediary between IAI and the customer but is not authorized to act as IAI's agent;</li> <li>Does not purchase the product from IAI and receives compensation, usually a commission, relating to IAI's signing a contract with the customer.</li> <li>Receives payment, usually a commission derived from the value of the transaction or a fixed monthly payment or a combination of monthly payment and commission.</li> </ol> <p>In addition, the following will be included in the definition of Marketing Consultant:</p> <p>An offset consultant or broker, who arranges procurement on behalf of IAI by other companies from local companies in satisfaction of IAI's offset requirements and who assists IAI in obtaining related offset credits from the local authorities.</p> <p>[p.9] 1. The Compliance Officer has the following responsibilities:</p> <ul style="list-style-type: none"> <li>• To ensure that due diligence of Marketing Consultants has been performed and to determine, based on the results, the propriety/impropriety of engaging such Marketing Consultants.</li> <li>• To ensure the performance of renewed examinations including due diligence of Marketing Consultants, and the signing of the Marketing Consultants on all the required forms, should it be decided to extend the engagement with a Marketing Consultant for more than five consecutive years and / or for any other reason at the Compliance Officer's discretion, including in the case of information that came</li> </ul> <p>[p.20] CHAPTER 5. PROCESS FOR ENGAGING MARKETING CONSULTANT</p> <p>1. Evaluation of Need</p> <ol style="list-style-type: none"> <li>The determination of a need to engage a Marketing Consultant on a new matter requires prior written approval of the VP-Marketing.</li> <li>No contact, meeting or negotiation may occur with any Marketing Consultant candidate prior to receipt of such approval in the form attached as Exhibit 12.</li> <li>The decision of the VP-Marketing shall be implemented within the boundaries of his/her approval including maximum amount of Commission.</li> </ol>

## 2. Due Diligence

a. The Authorized Individual who proposes engagement of a Marketing Consultant will check its suitability for IAI's purposes (after receipt of the VP-Marketing's authorization as set forth in section 1 above), as follows:

- i. Business status and reputation in the applicable domain
- ii. Other companies represented by the candidate which may create conflicts of interest
- iii. As part of the examination process, the following forms will be filled: (1) By the Authorized Individual: Due Diligence form (Exhibit 5)

[p.21] (2) By the Marketing Consultant candidate: Consultant Application form including, Applicant's Questionnaire for Sales Representation (Exhibit 2) (3) Compliance Forms. (4) Request for Consultant Security Check form (Exhibit 6) The results of the due diligence investigation shall be conveyed to the chief of the Marketing Consultants Department and the Compliance Office. The Compliance Officer will evaluate the results and determine the propriety of engaging the candidate.

Following the examination, the Compliance Officer may decide on one of the following actions:

- Disqualification of the candidate - in such event the Company will cease all contact with the candidate.
- Determination of conditions or restrictions for engagement with the candidate, including in the case of a Red Flag. In such event, the Company will ensure that all conditions and restrictions are met by the Marketing Consultant prior to continuing any negotiations.
- Initial approval to continue negotiations with the candidate, in such event the Company will negotiate with the candidate to determine the Commission and the other financial terms as detailed herein.

Exhibit 13 of the Compliance Program lists the findings that constitute a "Red Flag". Insofar as the examination process reveals the existence of a Red Flag in relation to the candidate, the Company through which the candidate operates, or in relation to any of such Company's employees, managers or representatives, the Compliance Officer shall examine such findings carefully in the framework of the examination and the approval of such candidate.

## [p.23] 4. Handling Application to Appoint Marketing Consultant

a. Following due diligence and the Compliance Officer's determination to approve per Section 2 and receipt of written notice from the VP-Marketing stating that the due diligence results allow for engaging the candidate, the Authorized Negotiator will complete the "Request to Approve Appointment of Marketing Consultant Form" set forth in Exhibit 9.

[p.27] circumstances, the VP- Marketing may extend the engagement for up to two years with the approval of the Compliance Officer, provided, however, that the cumulative extensions may not exceed in total a period of five consecutive years. In the event that it is decided to extend a Consulting Agreement with a Marketing Consultant for more than five consecutive years, then prior to bringing the matter to the approval of the Fee Committee, the Compliance Officer will again perform a due diligence examination that includes the signing of the Marketing Consultant on all the required compliance forms.

g. In addition, the Marketing Consultant will be subject to repeat examinations at all times, including a due diligence examination at the discretion of the Compliance Officer, inter alia, in the case of information that came to the Company's attention.

Question
<b>8.3 Does the company publish details of all offset agents and brokers currently contracted to act with and/or on behalf of the company?</b>
Score
<b>0</b>
Comments
The company does not publish any details of the offset agents, brokers or consultancy firms currently contracted to act with and on behalf of the company's offset programme.
Evidence
No evidence found.

Question
8.4 Does the company publish details about the beneficiaries of its indirect offset projects?
Score
0
Comments
The company does not publish any details of its offset obligations and/or contracts.
Evidence
No evidence found.

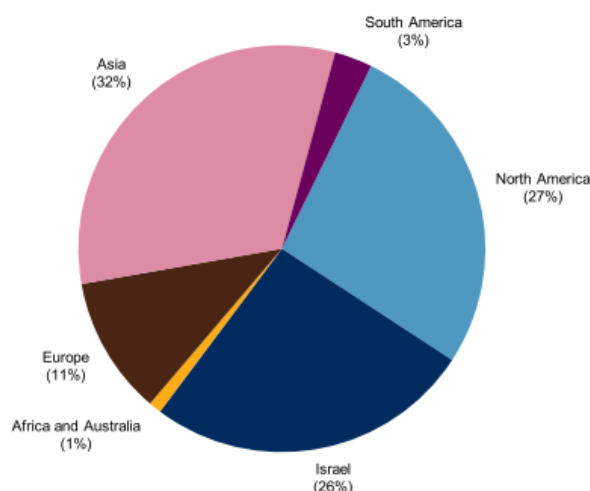
## 9. High Risk Markets

Question
<b>9.1 Does the company have enhanced risk management procedures in place for the supply of goods or services to markets or customers in countries identified as at a high risk of corruption?</b>
Score
<b>0</b>
Comments
Based on publicly available information, there is no evidence that the company acknowledges the corruption risks of operating in different markets, or that risk assessment procedures are used to inform the company's operations in high risk markets.
Evidence
No evidence found.

Question
<b>9.2 Does the company disclose details of all of its fully consolidated subsidiaries and non-fully consolidated holdings (associates, joint ventures and other related entities)?</b>
Score
<b>0</b>
Comments
The company does not publish a list of subsidiaries.
Evidence
No evidence found.



Question
<b>9.3 Does the company disclose its beneficial ownership and control structure?</b>
Score
<b>2</b>
Comments
The company discloses that it is wholly-owned by the State of Israel.
Evidence
<p><b>[2] Compliance (Webpage)</b>  Accessed 18/07/2019  <a href="https://www.iai.co.il/about/compliance">https://www.iai.co.il/about/compliance</a>  IAI is an Israeli government company that engages in commercial activities while complying with the laws of Israel and the laws of the countries in which IAI operates.</p> <p><b>[7] 2019 Sustainability Report (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf</a>  [p.28] Israel Aerospace Industries Ltd. ("IAI") is a private corporation wholly owned by the State of Israel, (i.e. A Government Company as defined in the Government Companies Law - 1975 (hereafter - "the Government Companies Law")).</p>

Question														
9.4 Does the company publish a percentage breakdown of its defence sales by customer?														
Score														
0														
Comments														
The company publishes the customers of less than 50% of its sales.														
Evidence														
<p><b>[19] Company Ratings – August 2019 (Document)</b> Accessed 30/05/2020 <a href="https://www.iai.co.il/drupal/sites/default/files/2019-09/Company%20Ratings%20Aug-2019%20%28EN%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-09/Company%20Ratings%20Aug-2019%20%28EN%29.pdf</a> [p.8]</p> <p><b>Chart 2</b> Israel Aerospace Industries Ltd.--Sales Breakdown By Geography, 2018</p>  <table><thead><tr><th>Geography</th><th>Percentage</th></tr></thead><tbody><tr><td>Asia</td><td>32%</td></tr><tr><td>North America</td><td>27%</td></tr><tr><td>Israel</td><td>26%</td></tr><tr><td>Europe</td><td>11%</td></tr><tr><td>South America</td><td>3%</td></tr><tr><td>Africa and Australia</td><td>1%</td></tr></tbody></table> <p>[...]</p> <p>IAI's revenues predominantly come from its military divisions (70%-75%) and the rest from the civilian divisions (25%-30%). About 75% of the revenues come from exports outside Israel.</p>	Geography	Percentage	Asia	32%	North America	27%	Israel	26%	Europe	11%	South America	3%	Africa and Australia	1%
Geography	Percentage													
Asia	32%													
North America	27%													
Israel	26%													
Europe	11%													
South America	3%													
Africa and Australia	1%													

## 10. State-Owned Enterprises (SOEs)

Question
10.1 Does the SOE publish a breakdown of its shareholder voting rights?
Score
2
Comments
In publicly available evidence, the SOE states that it is wholly-owned by the State of Israel. As the company has a single shareholder, there is no requirement to publish information about its shareholder voting rights.
Evidence
<p><b>[2] Compliance (Webpage)</b>  Accessed 18/07/2019  <a href="https://www.iai.co.il/about/compliance">https://www.iai.co.il/about/compliance</a>  IAI is an Israeli government company that engages in commercial activities while complying with the laws of Israel and the laws of the countries in which IAI operates.</p> <p><b>[7] 2019 Sustainability Report (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf</a>  [p.28] Israel Aerospace Industries Ltd. ("IAI") is a private corporation wholly owned by the State of Israel, (i.e. A Government Company as defined in the Government Companies Law - 1975 (hereafter - "the Government Companies Law")).</p>

Question
<b>10.2 Are the SOE's commercial and public policy objectives publicly available?</b>
Score
<b>1</b>
Comments
<p>The SOE publishes some information about its objectives.</p> <p>However, the information provided is not detailed and there is no publicly available evidence that the SOE updates its objectives on at least an annual basis.</p>
Evidence
<p><b>[15] Vision and Values (Webpage)</b>            Accessed 18/07/2019  <a href="https://www.iai.co.il/about/vision-and-values">https://www.iai.co.il/about/vision-and-values</a></p> <p><b>Vision</b></p> <p>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.</p> <p><b>Values</b></p> <p>We uphold the company's values in everything we do:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul>

Question
<b>10.3 Is the SOE open and transparent about the composition of its board and its nomination and appointment process?</b>
Score
<b>1</b>
Comments
<p>The SOE publishes some details about the nomination process to the board and the composition of its current board, and also publishes the names of all board members.</p> <p>However, based on publicly available evidence, it is not clear which company directors are independent directors or state representatives. The company also does not provide specific information on its criteria for director appointees other than stating that they must be professionally qualified.</p>
Evidence
<p><b>[24] Board of Directors (Webpage)</b>  Accessed 07/08/2020  <a href="https://www.iai.co.il/about/management/board-of-directors">https://www.iai.co.il/about/management/board-of-directors</a>  In addition to the Chairman Harel Locker, the following directors serve on the IAI board:</p> <p>Aminoh Reem  Avidor Aya  Dr. Ciechanover Itzhar Joseph  Kain Hillel  Langerman Eti Ester  Maha Ali  Pines Yair</p> <p>IAI is government-owned, and therefore, the Government Companies Law (1975) sets forth certain requirements in respect of the appointment of directors, including the chairman of the board. The education and experience of a candidate for the board are verified and it is determined whether the candidate has any potential conflicts of interest.</p> <p>Furthermore, as required under Israeli law, the board's audit committee is composed of a majority of independent directors.</p> <p><b>[7] 2019 Sustainability Report (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf</a>  [p.29] 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.</p> <p>[p.31]</p>

	2019	2018	2017
No. Women members of the board	3	6	5
No. Men members of the board	6	4	3
No. Independent directors	3	2	4
No. members representing a minority*	1	1	0
No. members in the sustainability committee	3	4	4

\* From the Druze community.

#### [20] Harel Locker – Chairman of the Board (Webpage)

Accessed 30/05/2020

<https://www.iai.co.il/about/management/harel-locker>

Attorney Harel Locker served as the Director General of the Prime Minister's Office from 2011 to 2015. In this role, he was responsible for the planning, implementation and execution of the government's economic policies and programs and approval of Israel's state budget, including the defense budget. Locker led many inter-country collaborations and strategic national programs, such as the relocation of central IDF bases to the Negev, establishment of the National Cyber Defense Authority, development of the Negev and Gaza envelope regions following Operation Protective Edge, privatization of IMI Systems (Israel Military Industries), the Digital Israel project and more. Locker was the arbitrator who ruled in disputes between various government ministries, and was involved in the resolution of labor disputes and the implementation of a wide range of reforms in different government ministries.

Since ending his tenure as Director General for the Prime Minister's Office, Locker has been involved in investment banking and business and legal consultancy. He serves on the board of directors of a number of public and privately-held technological and financial companies. During his nearly 20 years practicing law, Locker served as a senior partner in leading Israeli law firms (Shekel & Co., Shochat, Locker & Co., S. Friedman & Co.) and in a prominent law firm in Wall Street, NY (Frank - Fried). As part of his practice in these positions, he represented leading companies and investment funds in Israel and abroad.

Locker holds an LL.B. and B.A. in Accounting, both from Tel Aviv University, and a master's degree in Law (cum laude) from Georgetown University in the United States.

Question
<b>10.4 Is the SOE's audit committee composed of a majority of independent directors?</b>
Score
<b>1</b>
Comments
<p>The company states that, in accordance with Israeli law, its audit committee is composed of a majority of independent directors.</p> <p>However, the company receives a score of '1' because there is no further evidence to support this statement as the company does not disclose which directors sit on its audit committee.</p>
Evidence
<p><b>[24] Board of Directors (Webpage)</b>  Accessed 07/08/2020  <a href="https://www.iai.co.il/about/management/board-of-directors">https://www.iai.co.il/about/management/board-of-directors</a>  IAI is government-owned, and therefore, the Government Companies Law (1975) sets forth certain requirements in respect of the appointment of directors, including the chairman of the board. The education and experience of a candidate for the board are verified and it is determined whether the candidate has any potential conflicts of interest.</p> <p>Furthermore, as required under Israeli law, the board's audit committee is composed of a majority of independent directors.</p> <p><b>[7] 2019 Sustainability Report (Document)</b>  Accessed 29/05/2020  <a href="https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf</a>  [p.29] In 2019, 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.</p>

Question
<b>10.5 Does the SOE have a system in place to assure itself that asset transactions follow a transparent process to ensure they accord to market value?</b>
Score
<b>0</b>
Comments
The SOE does not publish any details about its management of asset transactions.
Evidence
No evidence found.



## List of Evidence &amp; Sources

No.	Type (Webpage or Document)	Name	Download Date	Link
01	Webpage	Code of ethics	18/07/2019	<a href="https://www.iai.co.il/about/code-of-ethics">https://www.iai.co.il/about/code-of-ethics</a>
02	Webpage	Compliance	18/07/2019	<a href="https://www.iai.co.il/about/compliance">https://www.iai.co.il/about/compliance</a>
03	Document	Translation anti-bribery and compliance manual	29/05/2020	<a href="https://www.iai.co.il/drupal/sites/default/files/2019-06/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%20.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-06/IAI%27s%20Anti-Bribery%20Compliance%20Program-%20Summary%20.pdf</a>
04	Document	Compliance certification	18/07/2019	<a href="https://www.iai.co.il/drupal/sites/default/files/2019-06/Compliance%20Certification%20and%20Representations.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-06/Compliance%20Certification%20and%20Representations.pdf</a>
05	Document	Compliance officer letter	18/07/2019	<a href="https://www.iai.co.il/drupal/sites/default/files/2019-06/IAI%27s%20Compliance%20Officer%20Letter.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-06/IAI%27s%20Compliance%20Officer%20Letter.pdf</a>
06	Document	President and CEO letter	18/07/2019	<a href="https://www.iai.co.il/drupal/sites/default/files/2019-06/IAI%27s%20President%20and%20CEO%20Letter.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-06/IAI%27s%20President%20and%20CEO%20Letter.pdf</a>
07	Document	2019 sustainability report	29/05/2019	<a href="https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-03/2019%20Sustainability%20Report.pdf</a>
08	Document	General purchase terms and conditions	18/07/2019	<a href="https://www.iai.co.il/drupal/sites/default/files/2019-05/General%20purchase%20terms%20and%20conditions.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-05/General%20purchase%20terms%20and%20conditions.pdf</a>
09	Webpage	Suppliers website	18/07/2019	<a href="https://www.iai.co.il/suppliers">https://www.iai.co.il/suppliers</a>
10	Webpage	Vision and targets of procurement and logistics	18/07/2019	<a href="https://www.iai.co.il/suppliers/vision-and-targets-iai-procurement-and-logistics">https://www.iai.co.il/suppliers/vision-and-targets-iai-procurement-and-logistics</a>
11	Webpage	Industrial cooperation	18/07/2019	<a href="https://www.iai.co.il/suppliers/how-become-iai-supplier/industrial-cooperation">https://www.iai.co.il/suppliers/how-become-iai-supplier/industrial-cooperation</a>
12	Webpage	Procurement and quality management	18/07/2019	<a href="https://www.iai.co.il/suppliers/procurement-and-quality-management">https://www.iai.co.il/suppliers/procurement-and-quality-management</a>
13	Webpage	Company profile	18/07/2019	<a href="https://www.iai.co.il/about/company-profile">https://www.iai.co.il/about/company-profile</a>
14	Webpage	Management	18/07/2019	<a href="https://www.iai.co.il/about/management">https://www.iai.co.il/about/management</a>
15	Webpage	Vision and values	18/07/2019	<a href="https://www.iai.co.il/about/vision-and-values">https://www.iai.co.il/about/vision-and-values</a>
16	Webpage	Groups	18/07/2019	<a href="https://www.iai.co.il/about/groups">https://www.iai.co.il/about/groups</a>
17	Webpage	IAI and the security of Israel	18/07/2019	<a href="https://www.iai.co.il/about/history">https://www.iai.co.il/about/history</a>
18	Webpage	Public requests and complaints	18/07/2019	<a href="https://iai-mashov.iai.co.il/prx_en.aspx">https://iai-mashov.iai.co.il/prx_en.aspx</a>
19	Document	Company Ratings – August 2019	30/05/2020	<a href="https://www.iai.co.il/drupal/sites/default/files/2019-09/Company%20Ratings%20Aug-2019%20%28EN%29.pdf">https://www.iai.co.il/drupal/sites/default/files/2019-09/Company%20Ratings%20Aug-2019%20%28EN%29.pdf</a>
20	Webpage	Harel Locker – Chairman of the Board	30/05/2020	<a href="https://www.iai.co.il/about/management/harel-locker">https://www.iai.co.il/about/management/harel-locker</a>
21	Document	Integrity And Complaints Concerning Unethical Conduct	04/08/2020	<a href="https://www.iai.co.il/drupal/sites/default/files/2020-07/integrity-and-complaints-concerning-unethical-conduct.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-07/integrity-and-complaints-concerning-unethical-conduct.pdf</a>

22	Document	Disclosure Regarding the Internal Auditor	04/08/2020	<a href="https://www.iai.co.il/drupal/sites/default/files/2020-07/disclosure-regarding-the-internal-auditor.pdf">https://www.iai.co.il/drupal/sites/default/files/2020-07/disclosure-regarding-the-internal-auditor.pdf</a>
23	Webpage	IAI Procurement Procedures	07/08/2020	<a href="https://www.iai.co.il/suppliers/procurement-procedures">https://www.iai.co.il/suppliers/procurement-procedures</a>
24	Webpage	Board of Directors	07/08/2020	<a href="https://www.iai.co.il/about/management/board-of-directors">https://www.iai.co.il/about/management/board-of-directors</a>