

RAFAEL 

ADVANCED DEFENSE SYSTEMS LTD.



ESG Report 2022-2023

Contents

Introduction

4-10

Message from The CEO	4
Key Milestones During The Reporting Period	6
Milestones In Corporate Responsibility	8
Impact Highlights 2023	9

Rafael: A Central and Innovative Pillar in National Security

12-49

About Rafael 14	Vision, Values, Goals	16
	Milestones in Rafael's Development	18
	Organizational Structure	20
	Rafael Divisions	21
	Local Deployment and Global Presence	22
Our Systems 26	Air Defense Division	28
	Land and Sea Systems Division	33
	Air Systems and Intelligence Division	36
	Innovation at Rafael	40
Rafael's Ongoing Contribution to National Security 42	Israel Defense Prize and the Independence Day Torch	43
	Business Continuity and Emergency Preparedness	44
	Rafael in the "Iron Swords" War	46



Rafael: A Leader in Excellence and Business Responsibility

50-101

Our Corporate Responsibility 52	Our Corporate Responsibility	53
	Membership in Organizations	55
	Dialogue with Stakeholders	56
	ESG – Material Topics for Reporting	58
	Sustainable Development Goals at Rafael	62
Proper Corporate Governance 65	Rafael Board of Directors	65
	Prevention of Conflict of Interest	67
	Risk Management	67
	Iron Swords and Risk Management	67
	The Code of Ethics	69
Ethics And Compliance 68	Managing the Ethics in the Company	71
	Compliance and Anti-Bribery and Corruption Programs	72
	Lobbying and Political Contributions	72
	Ethics and AI	73
	Sanctions	73
Quality Management 74	Internal Audit	73
	The Quality Policy	75
	The Organizational Structure of the Quality System at Rafael	76
	Standardization at Rafael	77
	Innovation in Quality and Mechanisms for Promoting Quality	78
Diversity And Inclusion 128	Safety of Manufactured Systems	79
	Preventing the Use of Counterfeit Components and Materials	79
	Information Asset Management	80
	Transparency of Information Provided by the Company	80
	Customer Service and Responsibility	81
	Iron Swords and Customer Support	81
	Human Resources Management	108
	Labor Relations	110
	Recruitment, Mobility, and Onboarding	111
	Service Package from Intake to Retirement	114
Prevention of Sexual Harassment and Abuse	118	
Welfare at the Individual Level	119	
Measuring the Organizational Pulse	121	
Employee Growth And Development 124	The Learning Center	125
	Leadership Development	126
	Reserve Programs	127
Health and Safety 136	Women at Rafael	131
	Recruitment of ultra-orthodox Individuals for Core Positions	132
	Employment of Persons with Special Needs	132
	Human Resources in the Context of the "Iron Swords" War	133
	Safety Management and Principal Steps	138
Commitment To Environmental Protection 82	Safety Risk Management	140
	A Culture of Safety	141
	Knowledge Sharing	143
	Metrics and Goals	143
	The Environmental Protection Management Unit	83
Environmental Risks	84	
Indicators and Monitoring	84	
Greenhouse Gas Emissions Management and Monitoring	85	
Air Pollution Emission Management	102	
Preserving Nature and Biodiversity	91	
Preventing Soil Pollution	91	
Water	92	
Consumption	95	
WasteRafael Thinks Green	98	
Learning and Specialization	100	
Iron Swords and Environmental Protection	101	

Rafael: A Leader in Social and Economic Change in Israel

102-165

Rafael's Human Resources 106	Human Resources Management	108
	Recruitment, Mobility, and Onboarding	111
	Service Package from Intake to Retirement	114
	Prevention of Sexual Harassment and Abuse	118
	Welfare at the Individual Level	119
Employee Growth And Development 124	Measuring the Organizational Pulse	121
	The Learning Center	125
	Leadership Development	126
	Reserve Programs	127
	Women at Rafael	131
Diversity And Inclusion 128	Recruitment of ultra-orthodox Individuals for Core Positions	132
	Employment of Persons with Special Needs	132
	Human Resources in the Context of the "Iron Swords" War	133
	Safety Management and Principal Steps	138
	Safety Risk Management	140
Health and Safety 136	A Culture of Safety	141
	Knowledge Sharing	143
	Metrics and Goals	143
	Safety Management and Principal Steps	138
	Safety Risk Management	140



Maintaining Employee Health 144	Maintaining Employee Health	144
	Responsible Procurement and Supply Chain 146	Domestic Procurement as a Lever for Economic Resilience 148
Promoting Society and Community 154	Procurement Management	149
	Ethics with Suppliers	150
	Supplier Relations	152
	Promotion of Technological Education	156
	Promoting and Strengthening At-Risk Populations	158
Iron Swords and Community Contribution	From the Holocaust to Rebirth	160
	Excellence in Industry	160
	Employee Donations	161
	Developing the Periphery in Israel and Promoting Economic Resilience in the Country	162
	Iron Swords and Community Contribution	164

Indexes

166-174

About the Report	166
GRI Index	168
SASB Index	173





Introduction



Over

8,500

Employees

37

Subsidiaries
in Israel and
worldwide

NIS 9B

Scope of
acquisitions
in 2023

NIS 2.5B

Dividend to the State
since its transition into a
commercial business entity

Rafael, a leader in defense technology both in Israel and globally, employs thousands of dedicated professionals. The Company significantly contributes to the national economy and is committed to enhancing national security. With a substantial number of subsidiaries and a wide-ranging scope of activities, Rafael continues to expand its operations and serves as a pillar of the nation's security and economy.



Message from the Chairman



Over the course of two nights of intensive assaults, numerous ballistic missiles, cruise missiles, and drones were deployed against the State of Israel from Iran and other directions. However, only a limited number successfully struck Israeli territory. The overwhelming majority were intercepted and neutralized through a range of defensive measures, spanning from near-ground to upper-atmosphere systems.

Such a remarkable display of capabilities has not been developed overnight. The advancements in our defense systems, including the David's Sling and Iron Dome interceptors, as well as the Python 4 and 5 air-to-air missiles integrated within fighter jets, are testaments to the combination of expertise, experience, boldness, and vision that characterizes the Rafael habitat.

Since October 2023, we have encountered an unprecedented series of events. Israel has entered into a multi-front conflict, encompassing no fewer than seven fronts, approximately six months following my appointment as Chairman of the Rafael Board of Directors. From the outset, I have been deeply impressed by our substantial achievements in the face of complex challenges, especially considering the strategic location of our facilities and the significant number of employees called to reserve duty. As the new chairman, I have witnessed firsthand the remarkable flexibility, commitment, and dedication demonstrated by each Rafael employee. Furthermore, the spirit of volunteerism and support for the community—including evacuees, farmers, and reserve forces—has permeated the organization. One notable example of this commitment is the collaboration led by Rafael engineers with the Restart Association in the Makers for Heroes initiative, which utilizes technology to assist IDF injured personnel.

The report presented here outlines Rafael's extensive activities in both the security and social-economic realms. In line with Rafael's tradition, corporate responsibility is a fundamental prerequisite for success. I take pride in leading an organization that values employee welfare and advancement, which alongside its numerous accolades, including about 60 Israel Defense Prizes—more than all other industries combined—is also leading in a series of organizational, environmental, and humane standards, demonstrating that these objectives are synergistic rather than conflicting.

However, significant work remains. Israel, whose security is our utmost priority, continues to face serious threats from both regional and distant adversaries. Maintaining military superiority is crucial for Israel's existence amid the rapidly evolving geopolitical landscape in the Middle East, and Rafael will persist in playing a pivotal role in enhancing military capabilities, defense, intelligence, serving as the largest employer in northern Israel, thereby driving the broader Israeli economy.

The contributions of Rafael's systems during the "Iron Swords" War will be permanently recorded in the annals of Rafael, the IDF, and military history. Yet, new challenges await us. We are committed to extracting maximum lessons from our experiences and upgrading our systems, which, through effective synergy, provide protection for Israeli citizens while strengthening our deterrence capabilities. We anticipate the introduction of a groundbreaking laser system from Rafael, which promises to transform the battlefield dynamics by intercepting threats at a significantly lower marginal cost than that of our rivals' missiles. The innovative "adaptive optics" technology behind the "Light Shield" system, developed by Rafael's engineers, is poised to revolutionize military engagements and merits international recognition.

On behalf of myself and the members of the board, I extend my gratitude to all the dedicated employees of Rafael and their families for their extraordinary commitment throughout this conflict and beyond. I would particularly like to acknowledge the management team and express my appreciation to the new CEO, Yoav Turgeman, who assumed leadership amid the war and has successfully steered the organization with exceptional skill.

Dr. Yuval Steinitz
Chairman of the Board of Directors, Rafael

Message from the CEO



Dear All,
Rafael Advanced Defense Systems Ltd.'s eighth corporate responsibility report has been compiled, written, and released during the most prolonged and complex multi-front conflict in Israel's history.

The conflict in which Rafael operates is pivotal to the nation's security and significantly contributes to the effectiveness of the defense system, both in offensive and defensive capabilities, extending deep within enemy territories as well as within our strategic home front. Advanced systems such as "Iron Dome," "David's Sling," and "Windbreaker" have proven instrumental in saving thousands of lives, enabling sustained military operations, and providing critical time for maneuvering forces. Additional systems, such as the "Magen Or" system (Iron Beam) for intercepting laser threats, is months from entering operational deployment.

"Rafael's contribution to the Israeli economy is substantial. Rafael's domestic procurement reached approximately USD 3.8 billion in 2023, and is a growth engine for the Israeli economy, particularly benefiting peripheral communities."

The outbreak of the "Iron Swords" War, initiated by the unexpected attack from the Gaza Strip and the tragic events of October 7, 2023, near the end of the period this report refers to, has been a central focus for the Company throughout 2024. The war has had profound implications for all of Rafael's operations, from production to travel and catering, from logistics to community engagement; From navigating challenges such as conducting frequent tests and managing the resultant environmental disturbances during this tense period, to ensuring the safety and security of employees in the remaining sites in the north of the country affected by conflict; The mobilization of reserve personnel, which included roughly 20% of our workforce during peak periods, coupled with the evacuation of numerous employees and their families from their residences, and the urgent demands on our operational continuity. This document addresses all of the above.

The prolonged campaign, encompassing numerous challenges and implications at both organizational and individual levels, coincided with Rafael facing record demands on a global scale, with an unprecedented backlog of orders amid the prolonged conflict in Ukraine and escalating security concerns in Europe and beyond. I am proud to acknowledge the extraordinary efforts of Rafael's employees, who have each exhibited remarkable commitment and answered the call during this complex period. As a result, we concluded 2023 with record sales totaling approximately NIS 14 billion, new orders totaling approximately NIS 30 billion, and a net profit of NIS 588 million.

Rafael's contribution to the Israeli economy is substantial, with a declared dividend to the state of NIS 238 million during the reporting period. Our domestic procurement reached

approximately NIS 7.5 billion in 2023, reinforcing our role as a key growth engine for the Israeli economy, particularly benefiting peripheral communities. Moreover, Rafael stands as the largest employer in northern Israel, directly employing over 8,500 individuals and indirectly supporting approximately 20,000 additional households. In 2023, we prioritized the recruitment of individuals from diverse populations characterized by underrepresentation in the labor market, including the Druze community and the ultra-orthodox sector. We take great pride in these efforts. In response to the growing demand, we have announced plans to recruit approximately 2,200 new employees in 2024, which will not only enable us to achieve our operational objectives but will also contribute to the rehabilitation of the North. Additionally, the Company is committed to advancing educational initiatives, with a focus on technological education and social contributions, including support for individuals with special needs.

This report reflects the significant aspects of Rafael's activities from 2022 to 2023 across various domains, with an emphasis on environmental, social, and corporate governance aspects. Rafael is recognized as a global leader, with corporate responsibility principles deeply embedded in our organizational culture and amongst all its systems and personnel. Even during this challenging period, these principles have guided our actions, earning us the Platinum Plus rating from the Maala organization once again in 2023.

On a more personal note, this is my first report as CEO of Rafael, a role I assumed with a profound sense of responsibility amid the ongoing war. From my initial day at the Company, I have been inspired by the professionalism, dedication, and commitment of our employees to the organization, its customers, and its ethical standards. On behalf of myself and the Chairman of the Board, Dr. Yuval Steinitz, and Rafael's board members, I extend my gratitude to each individual who has risen to meet these challenges and turned the notion of "nights like days" into reality. I also thank the families who continue to support our workforce, as well as our customers, partners, and all stakeholders for their understanding and patience during this sensitive time. We hope for the swift return of all hostages to their families, the safe return of residents to their homes, and peace for our borders and communities.

Colonel (Retired) Yoav Turgeman
CEO, Rafael



Key Milestones During the Reporting Period

Change of Chairman of the Board of Directors

In 2023, Dr. Yuval Steinitz succeeded Dr. Uzi Landau as Chairman of Rafael's Board of Directors, following the conclusion of Landau's six-year term.

Change of CEO

In 2024, Yoav Turgeman took over as CEO from Yoav Har-Even, who concluded an eight-year term.

The "Iron Swords" War

The "Iron Swords" War, which commenced on October 7, 2023, necessitated adjustments in operational scope, resulting in round-the-clock work, with approximately 20% of the workforce conscripted into reserve service.

Doubling Rafael's Built-Up Area

Rafael's built-up area doubled from 250,000 square meters to 500,000 square meters within three years.

The War in Ukraine

The ongoing war in Ukraine and other global developments have led to increased demand for defense and combat systems, significantly elevating defense budgets worldwide. Rafael's order backlog reached a record NIS 52 billion in 2023, with demand projected to remain high for at least the next five years. However, supply chain challenges and decisions regarding exports to Israel may impact production pace.

Expanding Global Activity

New offices were established in Rwanda, and significant engagements were conducted with Finland (involving sales of "David's Sling" and "Spike" missiles) in collaboration with the Ministry of Defense, Greece, and Australia (regarding "Spike" sales), while activities in the United Kingdom and Germany were expanded, and those in South America were reduced. In Arizona, Lockheed Martin successfully conducted a test launch of "Spike" missiles from Apache helicopters.

Increasing Investment

Rafael markedly increased its investment in joint activities with Raytheon focused on the development of the "Iron Dome" and "David's Sling." Additionally, the California-based PVP, specializing in electro-optical systems, and the British company Pearson Engineering were acquired, enhancing the contributions of subsidiaries to Rafael.

Strengthening the Localization Trend

There has been a notable strengthening in the localization trend among customers, necessitating the retention of personnel or hardware in target countries as part of contractual agreements. This requires extensive engagement in optimizing knowledge transfer and careful consideration regarding the nature of knowledge to be shared.

New Developments

In June 2023, the Company introduced the "Sky Sonic" interceptor missile, the first of its kind globally developed specifically to counter hypersonic missiles. Rafael also continued its advanced testing of systems and, in collaboration with the Wall (Homa) Directorate at the Directorate of Defense, Research, & Development (DDR&D or Maf'at), completed a series of advanced testing on the "David's Sling" system. Towards the end of the year, a complex testing of the new configuration of the Spider AiO system was conducted, and progress was made in the development of the "Magen Or" (Iron Beam) laser interceptor system.

Expansion of Production Facilities

As part of the initiative to expand production facilities, operations in Shlomi were realized, creating new job opportunities and enabling local hybrid employment.

Expansion and Establishment of Branches

To augment the pool of human capital, a decision was made to establish a new branch in Hadera, in a complex providing complementary services for employees. Additionally, existing branches will be expanded. By the end of the year, the new company building in Jerusalem is expected to commence operations as an additional development center.

Milestones in Corporate Responsibility

Enhanced Emphasis on ESG Areas

We have intensified our focus on Environmental, Social, and Governance (ESG) factors, particularly regarding our overseas operations. This initiative aligns with a broader trend of integrating ESG criteria into tender evaluations, with specific emphasis on the social values component in UK tenders.

Israeli Standard 10000 Certification

We remain certified under Israeli Standard 10000, underscoring our commitment to social responsibility across various operational areas.

Maala Rating

We continue to lead within the high-tech and security sectors, achieving a "Platinum Plus" rating.

SCD Subsidiary Development

We have supported our SCD subsidiary in its initial steps toward establishing a corporate responsibility management framework. In its inaugural year participating in the Maala Rating, the company achieved a "Platinum" rating.

Professional Forums

We have spearheaded professional forums within the Maala organization, engaging senior representatives from prominent economic entities, including discussions focused on safety management.

Ultra-Orthodox Personnel Training Course

In collaboration with the Nof HaGalil Municipality and various non-profit organizations, we launched a training course for the ultra-orthodox community in machining.

Collaborations Concerning Occupational Diversity

We have advanced partnerships aimed at fostering occupational diversity through mentoring and the inclusion of employees from diverse backgrounds.



Impact Highlights 2023



Environment

16%

Decline in scope of greenhouse gas emissions compared to 2020

20%

Decline in the consumption of water in the past 3 years

74%

Of greenhouse gas emissions stem from consumption of electricity ("Scope 2")

About 60%

Of waste generated is transferred to recycling or reuse

53%

Decline in use of refrigeration gas in three years

30.5%

Rate of green engine vehicles in 2023

Over NIS 8M

Investment in reducing energy use in the organization



Social

Over 8,500

Employees, of which about **25% women**

260

Types of positions in Rafael

24.4%

Women in management positions

59

Social-community projects in 14 different localities

200%

Expansion of the safety culture index

2,500

Employees volunteering

60%

Increase in "near miss" reports since 2020

29.5

Hours of training per employee on average

60%

Decline in employee turnover compared to 2021



Governance

NIS 238M

Dividend paid to the State in 2023-2023

NIS 588M

Net profit as of the end of 2023

Over NIS 900M

Self R&D

NIS 52B

Order backlog in 2023

83%

Scope of domestic procurement out of the total procurement

Over 70

Meetings of the Board of Directors in the reporting years





Rafael as a Central and Innovative Pillar in National Security



59

Israel Defense Prizes
2 of them during the reporting period

27

National knowledge and infrastructures hubs

NIS 900M

Self-research and development

Rafael develops and manufactures advanced systems across air, sea, land, space, and cyber domains, and offers a wide array of innovative solutions that are at the forefront of global technology, many of which have demonstrated operational effectiveness. Operating in both military and non-military security markets, Rafael serves a diverse customer base in Israel and internationally.

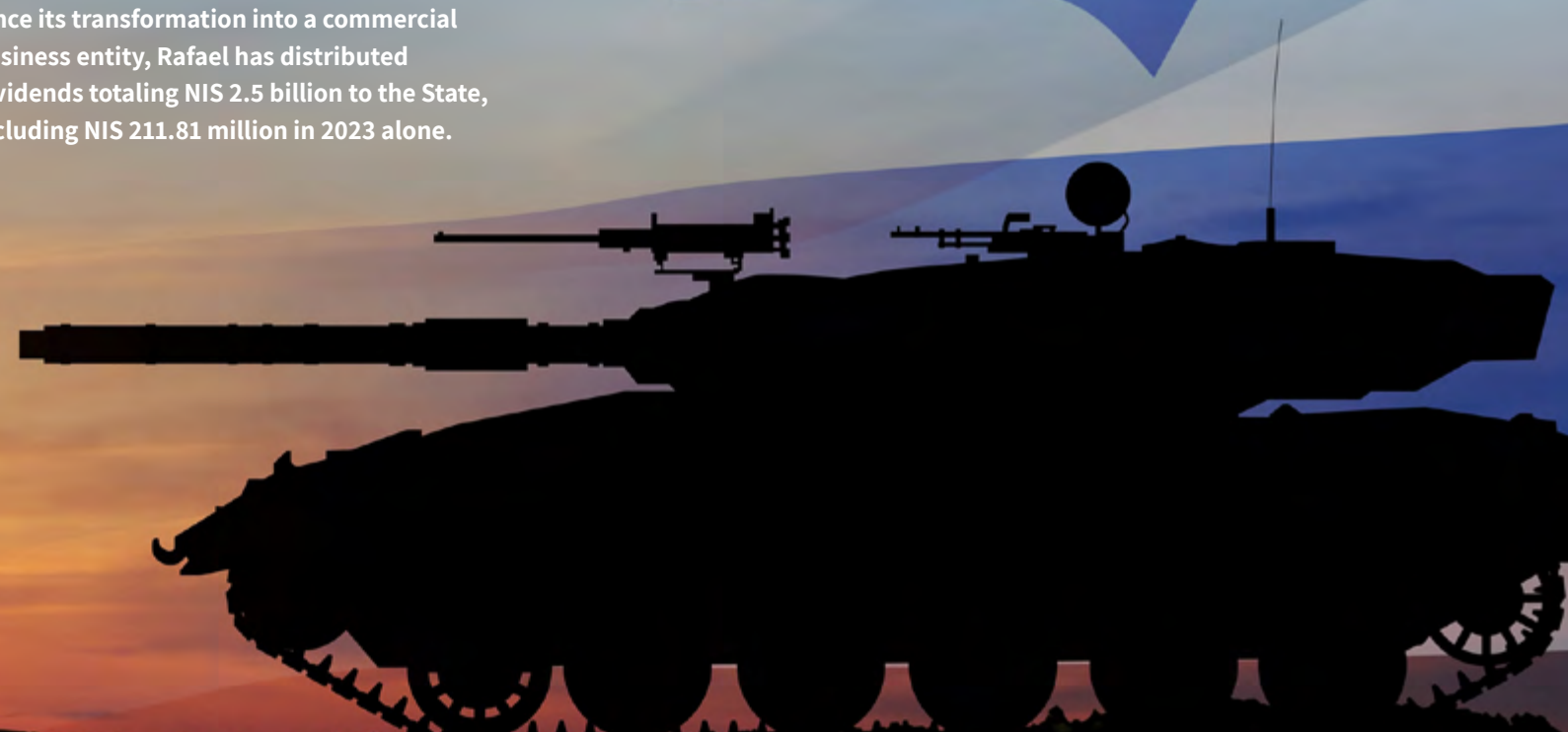


About Rafael

Rafael Advanced Combat Systems Ltd. develops and manufactures advanced weapons systems across air, sea, land, space, and cyber domains. These are at the forefront of global technology and the frequently changing operational needs. They are designed to serve armies and security agencies around the world, primarily the Israeli security establishment and the Israel Defense Forces (IDF).

Rafael's cutting-edge technology and innovations significantly contribute to enhancing the IDF and ensuring its military superiority and achievements in Israel's operations, including the "Iron Swords" War ongoing at the time of this document. To date, Rafael has been recognized with 59 Israel Defense Prizes and numerous international accolades. Founded in the year of Israel's establishment, it became a government-owned company in 2002 and

is currently the second largest defense company in Israel. This status makes it a vital engine for economic and defense growth. Employing approximately 8,500 individuals, Rafael is the largest employer in northern Israel and contributes 50% of its net profits to the state treasury. Since its transformation into a commercial business entity, Rafael has distributed dividends totaling NIS 2.5 billion to the State, including NIS 211.81 million in 2023 alone.



Our numbers for 2023:

 **NIS 588M**
Net profit in 2023

 **8,500**
male and female employees

 **37**
subsidiaries in Israel and worldwide

 **NIS 52B**
order backlog in 2023

 **NIS 9B**
scope of procurement in 2023

 **NIS 238M**
dividend to the State in the reporting years



Vision, Values, Goals

Vision



To serve as a pivotal element in the security of the State of Israel, as an innovative, expanding, and profitable global enterprise, dedicated to the development, manufacturing, and support of advanced defense systems that address both operational needs and technological advancements. ”

Goals

Rafael has identified **three primary goals**:



To excel in the development of advanced and pioneering systems within the security sector, both in Israel and internationally.



To maintain its position as a national hub for security research and development, reinforcing the deterrent, protective, and decisive capabilities of the State of Israel.



To be a prominent and motivating force in attracting exceptional talent across all areas of the Company's operations.

Values

The following **core values** guide the Company's operations in alignment with its goals:



Commitment to Israel's Security

Rafael is dedicated to the security of the State of Israel and views the IDF as a strategic partner. The Company strives to enhance Israel's military and security superiority in the region while bolstering the IDF's deterrence and decisiveness.



Commitment to Israel's Social and Economic Resilience

Rafael aims to contribute to the national economy by operating as a profitable enterprise that allocates a portion of its revenues to the state treasury and by collaborating with Israeli suppliers, many of whom are small businesses. The Company has established branches in Shlomi, Be'er Sheva, Tardion (Misgav Industrial Park), Tel Aviv, Sde Shdema (near Makhtesh Ramon), and Jerusalem (designated branch specifically for employing individuals from the ultra-orthodox community). Rafael will continue to focus its operations in northern Israel, maintaining its status as the largest employer in the region, while its alumni significantly contribute to the growth of Israel's high-tech industries. Additionally, Rafael supports over 50 programs, involving approximately 2,500 volunteers, aimed at promoting scientific and technological education, assisting disadvantaged groups, aiding individuals with special needs, and preserving the memory of the Holocaust.



People at the Center

We believe that Rafael's greatest asset is its people, who are the central power and reason for our success. We are committed to fostering a challenging and meaningful work environment that nurtures their capabilities, celebrates diversity, enhances their societal connections, and appreciates their achievements. We will equip our employees with the knowledge, tools, conditions, and leadership necessary to realize their full potential and succeed. Rafael strives to be a respectable organization that values and fosters its employees, serving as a professional home that instills pride



Customer First

We believe in our capacity to offer tangible value to our customers and are dedicated to fulfilling this promise. We will continue to lead in the development, production, and maintenance of systems, delivering solutions that empower our customers in Israel and abroad to achieve technological and operational superiority. To this end, we will cultivate ongoing, close relationships based on fairness, integrity, and professionalism, ensuring we understand their challenges, needs, and ambitions to fully support the Rafael systems in their possession while presenting future-oriented solutions.

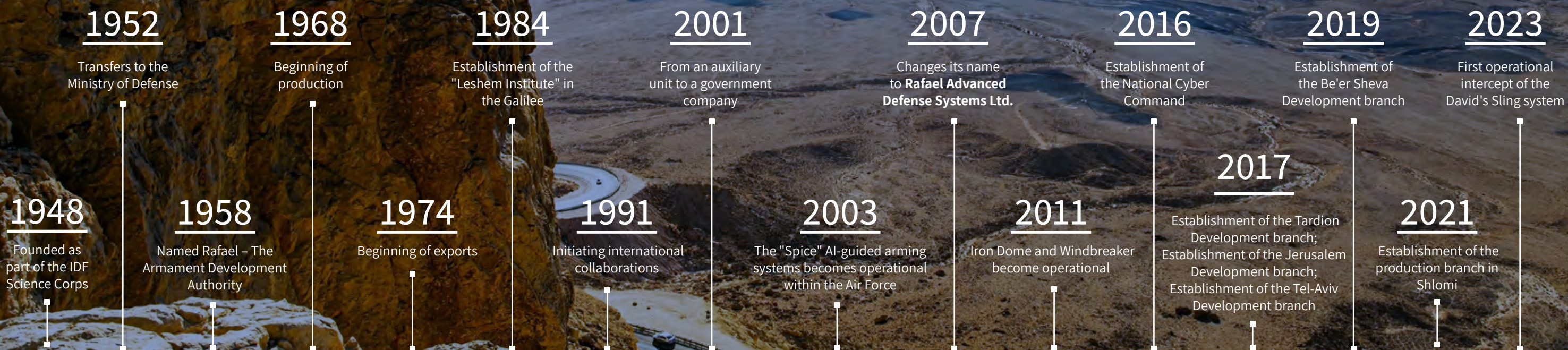
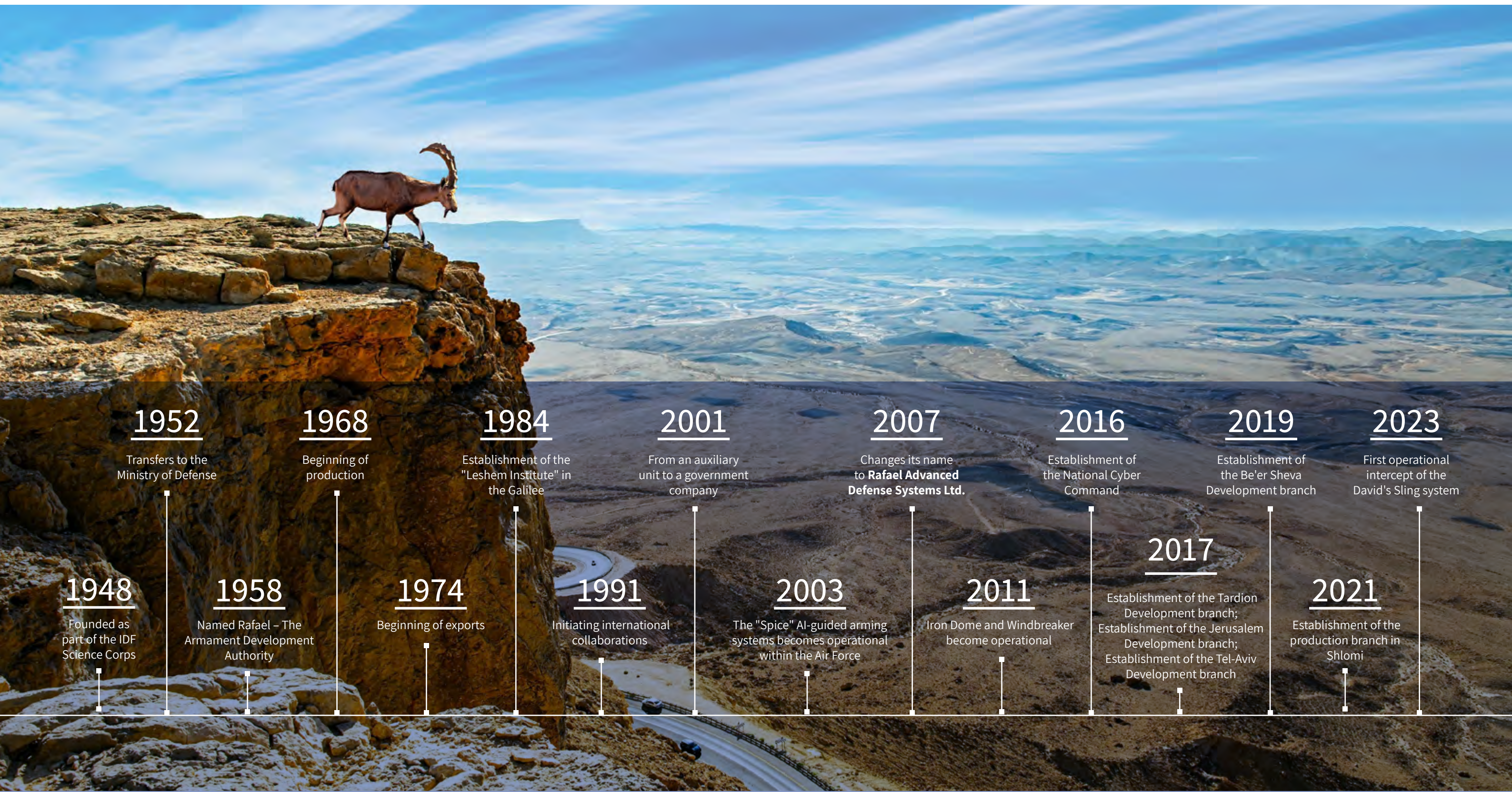


One Rafael

The various divisions within Rafael collaborate in a spirit of mutual enrichment to advance the Company's systems, interests, and objectives. The Rafael ethos embodies shared responsibility, teamwork, uncompromising quality, and professional ethics. This collaboration is facilitated through leadership that establishes common goals, reduces barriers, enhances transparency, and prioritizes projects that integrate capabilities and systems from diverse fields. The "One Rafael" principle, a key strategic initiative in recent years, asserts that ongoing synergy, often characterized by a matrix-style approach, serves as a force multiplier. Therefore, rather than reinforcing sector boundaries, it is paramount to maximize internal collaboration within the organization.



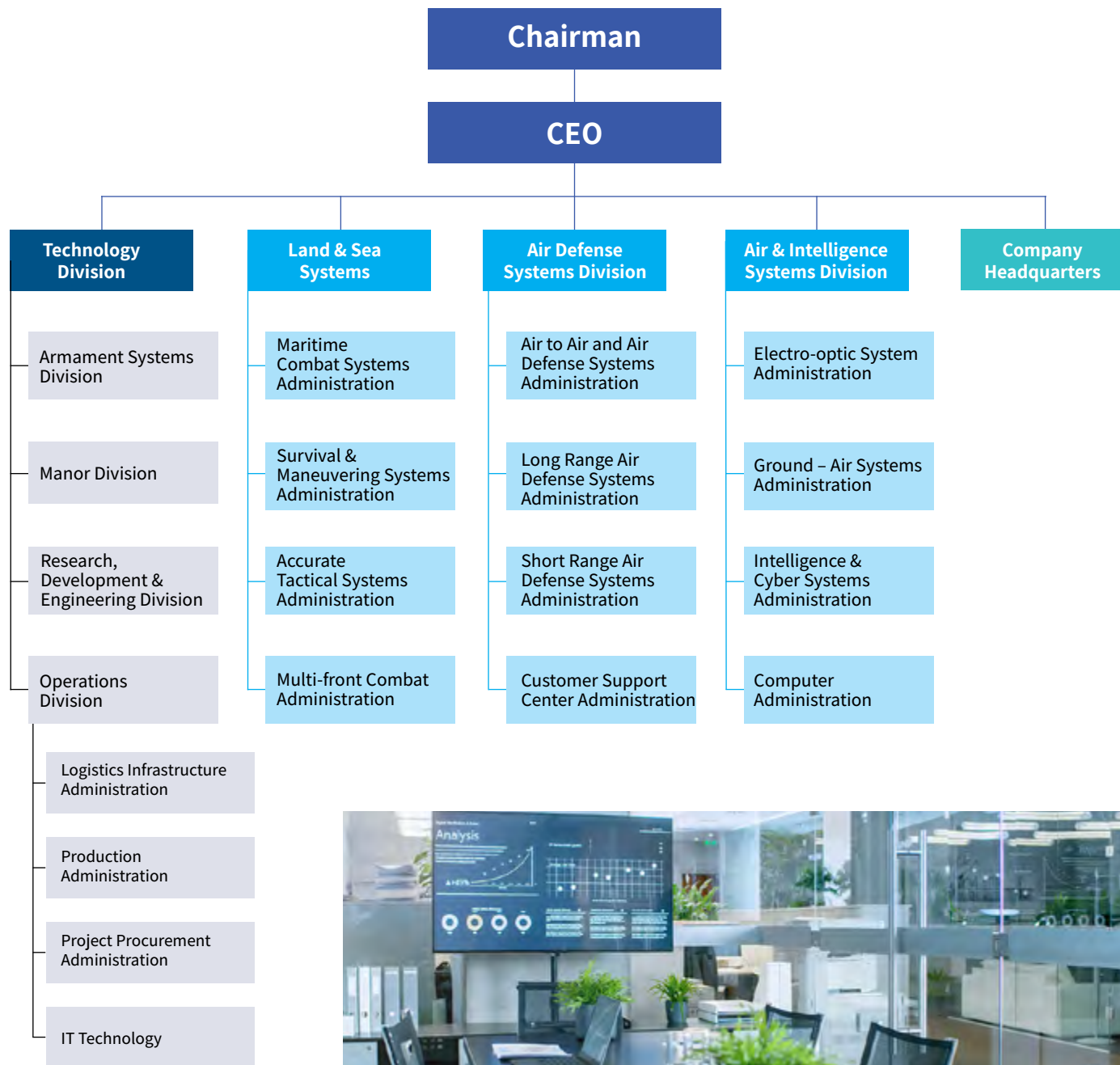
Milestones in Rafael's Development





Organizational Structure

Rafael's organizational structure comprises the Company headquarters, which functions with entities both internal and external to the organization; Three business divisions, including administrations; And four technology divisions. Rafael maintains subsidiaries, partnerships within and outside of Israel, and representative offices abroad.



Rafael Divisions

Air Defense Systems Division

Designs, develops, and manufactures advanced air defense systems and air-to-air missiles, integral to Israel's multi-layered defense strategy.

Land and Sea Systems Division

Designs, develops, and manufactures systems for land and sea applications, providing comprehensive solutions in precision attack, maneuver and network warfare, protection and survivability, energy warfare, and border security as well as land and off-shore facilities security.

Air and Intelligence Systems Division

Develops and manufactures a comprehensive array of air and intelligence systems for attack and closing fire circles, facilitating optimal synchronization between ground and air combat teams. This includes advanced air-to-surface systems, electro-optical systems, communications and information technologies, space capabilities, and advanced cyber response.

Technology Divisions

The Manor Systems and Technologies Division

Develops missile engines, propulsion systems, including those for space applications, warheads, pyrotechnics, and disposable naval decoys.

The Research, Development and Engineering Division

Conducts R&D activities with advanced capabilities in areas such as image processing, mechanics, combat intelligence, cyber, electronics, software, aeronautical engineering, and microelectronics. This division highlights the organization's core capabilities in research and development, facilitating the implementation of advanced systems and technologies.

The Operations Division

Manages the supply chain and oversees production and procurement resources. It institutionalizes project management and control processes while optimizing cross-organizational workflows. Additionally, it is responsible for all logistical and operational activities at Rafael's facilities.

The Armaments Division

Serves as a central hub for national systems and infrastructures, including the National Testing Directorate, the Center for Military Research, and the Center for Electronic Warfare Simulations.



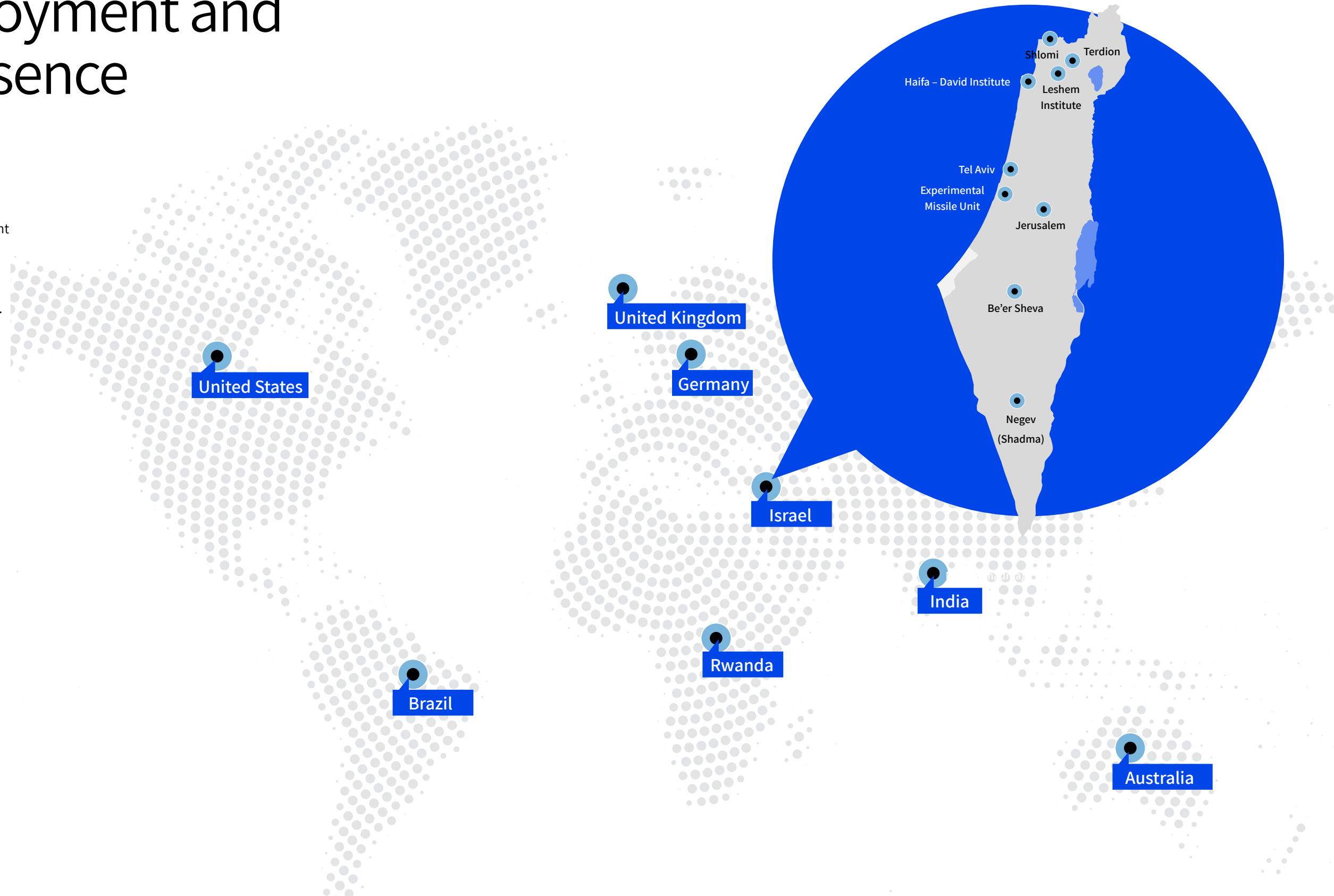
Local Deployment and Global Presence

Sites in Israel

The layout of campuses and branches reflects Rafael's significant geographic presence, contributing to quality employment opportunities. Development centers in urban areas compete with leading high-tech companies both in Israel and globally for top talent across various fields and technologies.

Representative Offices Worldwide

These offices focus on promoting and marketing Rafael systems, maintaining continuous engagement with customers, and addressing local security and defense requirements. Their strategic deployment reflects a dynamic approach, adapting to geopolitical analyses aimed at identifying global business opportunities and long-term marketing strategies.





Subsidiaries

The increasing contribution of subsidiaries, both in Israel and abroad, is integral to the organization's performance. Their establishment or acquisition represents a crucial aspect of the organizational strategy. These companies operate across various military and civilian sectors, including command and control systems, advanced navigation systems, observation balloons, electro-optical capabilities, and healthcare. Collaborations with

these entities facilitate the preservation and transfer of knowledge, optimize R&D potential, and foster synergy between civilian and military technologies. Additionally, joint marketing efforts leverage mutual strengths and comparative advantages, particularly in enhancing international competitiveness through a compelling value proposition in localization and knowledge transfer to target countries.

Israel	Far East	North America	Europe

Strategic Industrial Partnerships

Rafael actively fosters partnerships with governments and leading industrial enterprises globally as a core aspect of its corporate culture. These collaborations enhance and leverage technological expertise within a competitive landscape. Additionally, considerations such as the emphasis on local production (localization) and various security restrictions position Rafael's subsidiaries,

mergers and acquisitions, and global collaborations as significant enablers for accessing tenders and achieving cost efficiencies. This approach is particularly crucial, as securing contracts from foreign nations often necessitates substantial direct and indirect reciprocal procurement within those countries.



Our Systems

Rafael develops and manufactures systems across the air, sea, land, space, and cyber domains through its various divisions, offering a wide range of innovative solutions at the forefront of global technology, most of which have been operationally proven. The Company serves both military and non-military security sectors, catering to a diverse clientele in Israel and internationally.



Air Defense

Air and Space

Land

Sea

Intelligence and Cyber



Air Defense Division

Air Defense Systems

In response to a multi-sector campaign involving multiple launches targeting the Israeli home front, Rafael's air defense systems are effectively saving lives, facilitating emergency protocols on the home front, and providing decision-makers and combat forces in the field with essential leeway.

The primary systems, "David's Sling" (formerly "Magic Wand") and "Iron Dome" — which has been adapted for deployment from naval vessels to counter small UAVs — are transforming contemporary warfare and defense strategies. These systems offer a three-layered solution for the protection of the

home front, strategic infrastructures, and maneuvering forces. Designed with a modular architecture, they allow for seamless integration with other air defense systems, including individual components such as radars and command and control centers.

Iron Dome

The Iron Dome is an air defense system engineered to intercept short-range aerial threats, including rockets, drones, helicopters, mortars, and artillery shells. Developed within a remarkable timeframe of two and a half years, the system has since undergone several upgrades and refinements. It incorporates advanced radar technology for rapid detection, identification, and classification of threats, a command and control center that differentiates between imminent threats and benign targets, and an array of launchers. The Iron Dome is capable of engaging multiple threats concurrently and effectively, operating in all weather conditions, 24 hours a day. According to Air Force data, since its activation in April 2011, it has successfully intercepted over 9,000 rockets, achieving a success rate of approximately 95%.

The system received the Israel Defense Prize in 2012, was sold to the US Army in 2018, and earned recognition from Forbes magazine in 2019 as one of the most significant weapons systems of the decade.



David's Sling (formerly "Magic Wand")

An air defense system designed for the interception of ballistic missiles and various aerial threats. This system, developed in collaboration with Raytheon of the United States, incorporates a radar for threat detection and tracking, a command and control system for optimal mission planning, and launchers. The interceptor missile exhibits exceptional maneuverability and neutralizes threats through direct engagement. Its unique multi-stage engine, the only one of its kind globally, enables it to address advanced threats effectively. In 2017, the system received the Technological Innovation Award from the US Missile Defense Agency (MDA).

In May 2023, during Operation "Shield and Arrow" in the Gaza Strip, this system achieved its first operational interception. In 2024, following its performance during the "Iron Swords" War, it was awarded the Israel Defense Prize.



Drone Dome

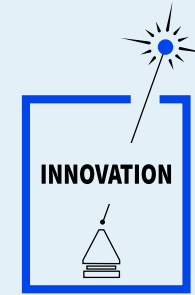
A system designed to safeguard against drones and small UAVs. It integrates radar, electro-optical technologies, jamming systems (including GPS and radio jamming), and laser interception capabilities. Leveraging advanced algorithms, the system effectively differentiates between theoretical threats and non-threatening entities in

airspace, thereby preventing false alarms. It operates continuously, under all weather conditions, and is modular and mobile, tailored to meet specific operational needs and requirements. This system is actively utilized by customers globally and has demonstrated operational effectiveness across various scenarios.



SPYDER

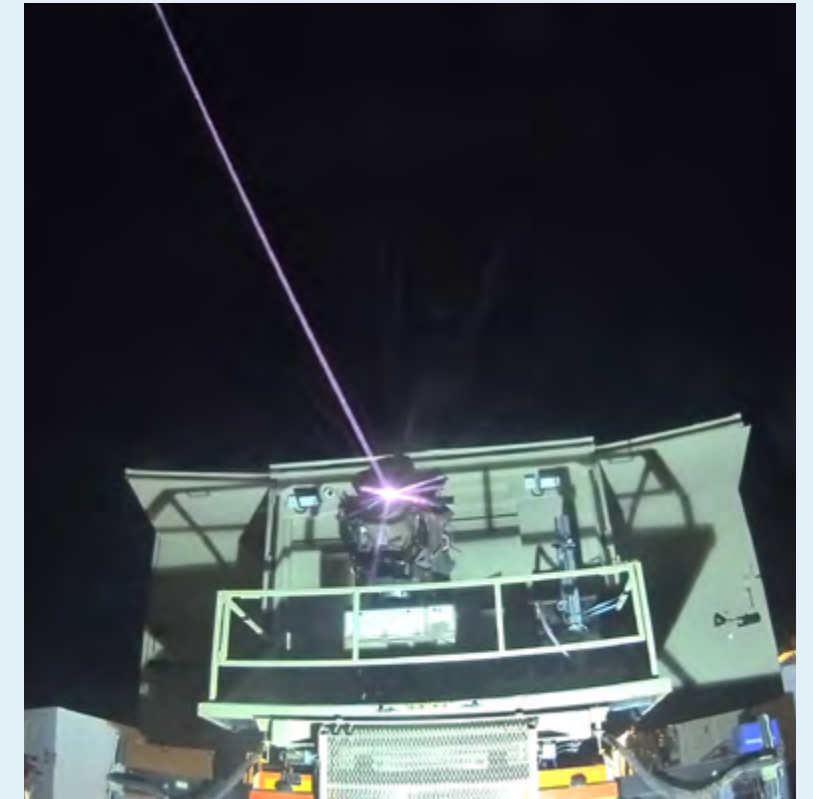
Advanced air defense systems offering comprehensive solutions across a broad range of distances and capable of countering diverse aerial threats, including drones, aircraft, helicopters, and tactical ballistic missiles (TBM). The threats are neutralized employing two interceptor families produced by Rafael: Python 5, a cutting-edge fifth-generation missile with the ability to fire backwards, and Derby, a lightweight missile that adapts to modern fighter jets and a range of light aircraft, featuring active radar integration. Rafael has also developed a ground-based variant of this missile, which operates under all weather conditions, eliminating the necessity for fighter jet deployment.



Magen Or (Iron Beam)

A highly effective laser system for ground-based air defense against various aerial threats. This system represents a significant breakthrough in the integration of laser technology within defense systems. In 2022, Rafael and DDR&D successfully completed a series of tests, intercepting rockets, anti-tank missiles, mortars, and drones in complex scenarios.

In December 2022, Rafael entered a partnership with Lockheed Martin to collaborate on the development, testing, and joint production of the system in Israel and the United States, aiming to deliver an operational version for the American and additional markets. **In May 2023, Rafael unveiled a naval variant of the system. In 2024, Rafael finalized a substantial acquisition agreement with the Ministry of Defense for the Magen Or (Iron Beam) laser system, advancing to the completion of its developmental phase.**



Sky Sonic

An interceptor developed by Rafael as a defensive measure against hypersonic threats – missiles traveling at speeds exceeding five times the speed of sound, characterized by their maneuverability and evasion capabilities. Recognizing the evolving nature of these threats, Rafael is dedicating significant resources and expertise to address this challenge, in conjunction with other active defense systems. **The Sky Sonic was officially presented at the Paris Air Show in June 2023.**





Guided Missiles for Air-to-Air Combat

This field encompasses two primary systems: Air-to-air missiles, Python-5 and Derby. These weapons are at the forefront of military technology and are recognized as some of the finest in their category worldwide. The air-to-air missile family was the inaugural missile series developed by Rafael and has received numerous Israel Defense prizes. In response to a declining operational demand for air-to-air missiles in the early 2000s, Rafael adapted these systems for dual use in air defense, resulting in the creation of the SPYDER system.



Customer Service and Support Systems

This field is dedicated to delivering service and support to Rafael's clientele in the air defense and anti-aircraft missile sectors. It encompasses customer training, instructional programs, simulation exercises, and options for live operational firing training at designated ranges. Given the critical nature of this domain within air defense, a specialized business administration was established to manage these services effectively.

Land and Sea Systems Division

Tactical and precise guided missiles for land warfare

This domain is a primary area for Rafael, with significant market access and sales order volumes. It has received multiple Israel Defense prizes over the years and includes a diverse array of missile systems designed for application by soldiers, vehicles, armored personnel carriers, helicopters, and ships. Branded under the SPIKE name, these include NLOS, ER-2, LR-2, SR, Fire-Fly and more.

The missiles feature advanced electro-optical guidance systems, distinguishing them from competitors and ensuring exceptional performance on the battlefield.

This design, alongside a variety of functionalities, enables successful execution of a broad spectrum of missions with enhanced interoperability and minimal training requirements.

Rafael serves over 40 customers worldwide, with 20 located in NATO member states. As of 2023, more than 38,000 missiles have been delivered or are under order, with over 7,000 missiles successfully deployed in combat and training exercises.





Survival and Maneuvering Systems

This field encompasses various activities that integrate multiple systems and synergies with Rafael's technologies. It includes the SAMSON family of remote-controlled weapon stations, the REA reactive defense system, and the TROPHY active defense system, also known as "Windbreaker." The SAMSON weapon stations are designed to enhance survivability and are adaptable for use on land and sea platforms, accommodating tanks, armored personnel carriers, trucks, and vessels.

The Windbreaker defense system for armored fighting vehicles (AFVs) has revolutionized ground maneuver operations. It is the sole system globally proven against anti-tank missiles, accurately detecting threats at 360

degrees, alerting the tank crew, and autonomously neutralizing them through advanced interception methods. Since its entry into operation, it has protected the lives of hundreds of combatants. In 2014, following Operation Protective Edge in the Gaza Strip, it received the Israel Defense Prize. In 2019, Forbes magazine recognized it as one of the 12 defense systems transforming the decade.

In addition to its integration into the Israeli Defense Forces, the system is used by American armored forces in Abrams tanks, German Leopard tanks, and British Challenger tanks. Additionally, this field is advancing the development of energy and laser warfare systems.



Naval Combat and Electronic Warfare Systems

Marine Systems

Rafael Systems offers comprehensive protection for vessels both at sea and on shore, safeguarding national assets located near the coast and within the exclusive economic zone, as well as the broader maritime environment. The response is multi-layered, comprehensive and integrative – a perimeter defense, surface defense, and underwater defense, addressing threats from drones, UAVs, high-speed ships, and submarines and surface vessels through torpedo defense. These solutions leverage Rafael's core systems and capabilities, customized for the maritime domain, integrating various technologies backed by extensive operational experience both in Israel and internationally. Rafael has established itself as a pioneer in controlled naval weapon stations and serves as a national unique knowledge hub in underwater acoustics.

Naval Dome

This system, a variant of the "Iron Dome," provides protection for ships at sea and along the coast against a range of threats. Its capabilities include simultaneously handling multiple missile threats, significantly enhancing the Navy's defense capabilities for strategic assets and economic waters, thereby reinforcing Israel's naval superiority in the region. **During the "Iron Swords" War, the system achieved successful operational interceptions for the first time.**





Air Systems and Intelligence Division

Precision-Guided Weapon Systems for Air-to-Surface Warfare

This domain encompasses various small and large tactical and strategic systems, enabling the Israel Defense Forces (IDF) and international customers to conduct precise air-to-surface strikes from substantial distances without relying on GPS, thereby maximizing operational independence. The most notable of these systems is the "Barad" (Hail) system family, which includes "Steel Hail", "Light Hail" and

"Small Hail" – an aerial weapon system empowered with autonomous AI technologies, utilizing advanced image comparison for precise target identification independent of GPS. These systems convert unguided bombs into precision munitions, allowing engagement from up to 100 km away with meter-level accuracy. Rafael has received the Israel Defense Prize twice for their development.



Electro-Optical Systems for Collecting Visual Intelligence

The visual (electro-optic) systems sector includes numerous observation and fire control systems for both aerial and ground applications. These intelligence systems facilitate photography, navigation, and electro-optical target and intelligence gathering, supported by ground stations for processing visual intelligence products. Designed for various missions involving fighter jets, transport aircraft, UAVs, helicopters, ships, and armored vehicles, key products in this arena include the Lightning and RecceLite pods. The Lightning pod is recognized as the best-selling model globally, with approximately 2,000 units sold since 1998.



ICT Systems and Cyber Warfare

This sector supports business development and sales of specialized communication systems that enhance connectivity and networking for clients, while also enabling Rafael to create diverse synergies among its systems, serving as a unique differentiator in cyber warfare with robust and secure connectivity during missions.

Rafael's communications capabilities are integrated within a broader scope of spectrum warfare and control. The BNet system stands out, providing a comprehensive range of solutions for aircraft, helicopters, vehicles, soldiers, UAVs, air defense systems, and naval and land systems.

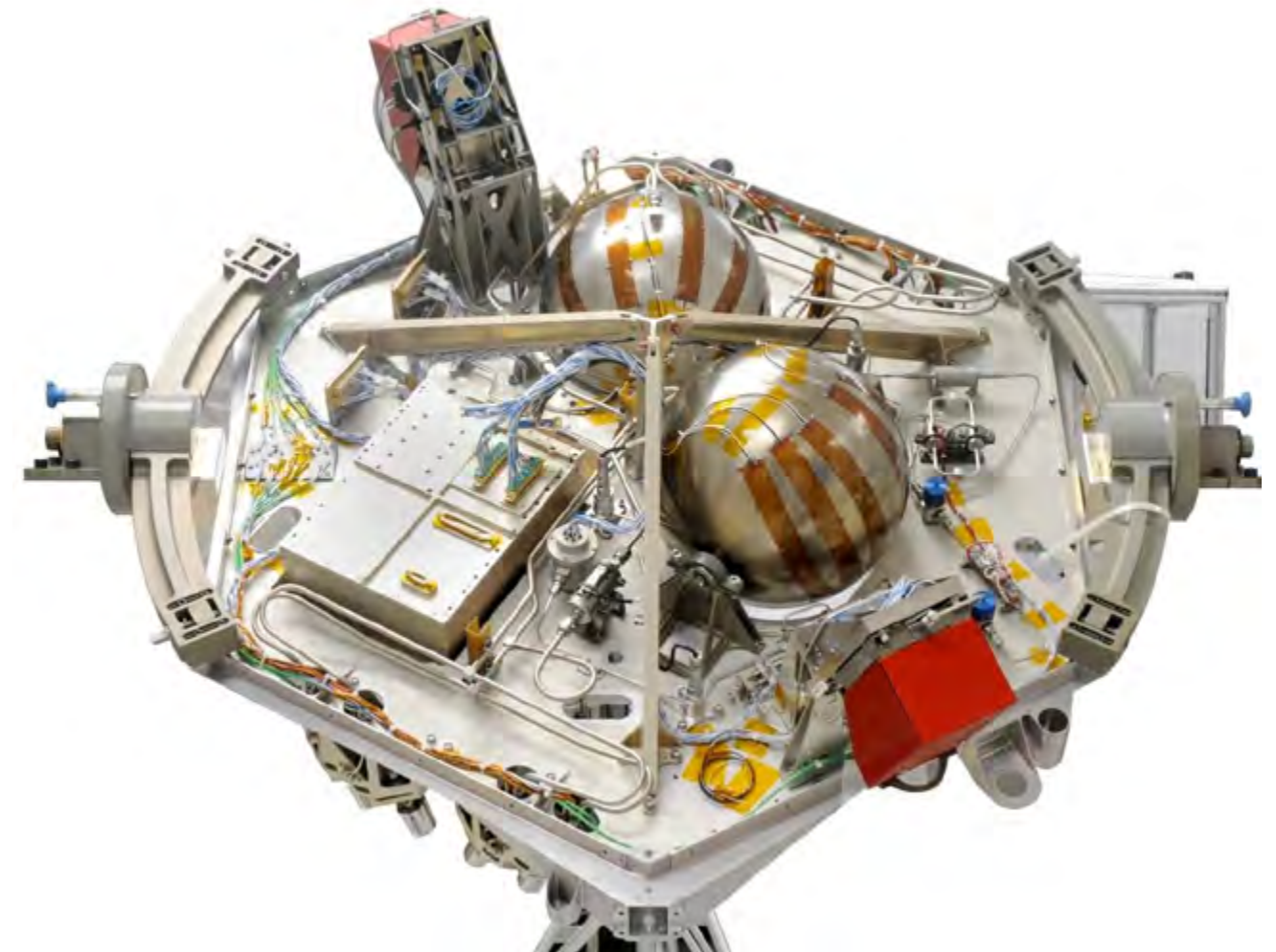


Intelligence, Cyber and Space Systems

This sector complements Rafael's other areas of activity focused on intelligence collection, extraction, and dissemination, including electro-optics, communications, multi-dimensional warfare and more. Rafael is a leader in employing artificial intelligence to enhance and expedite intelligence decoding processes across multiple disciplines, achieving recognition with two Israel Defense Prizes in recent years for its innovative

technological breakthroughs. The cyber segment at Rafael is dedicated to complex national defense systems, having secured significant successes in multiple national projects, exemplified by NSOC, and encompasses unique capabilities to protect Rafael's systems.

In 2019, Rafael established a space center aimed at facilitating the development of a new growth engine.



Innovation at Rafael

Rafael is a defense technology company that develops advanced defense and combat systems grounded in leading global technologies. Since its inception, the Company has consistently allocated substantial resources toward R&D, concentrating on advanced technological research capabilities. The organizational culture emphasizes substantial technological knowledge encompassing theoretical principles, practical applications, and engineering developments.

The Company leverages expertise from distinguished researchers in Israel and globally to cultivate unparalleled capabilities, leading to the creation and supply of pioneering systems like Iron Dome and Windbreaker, both recognized by Forbes Magazine as among the top twelve systems of the decade. Several of these systems have earned prestigious defense accolades domestically and internationally. The innovative components of Rafael's R&D framework are integrated into a multitude of projects, with each technological knowledge center maintaining an ongoing, multi-year development strategy responsive to technological advancements. This ensures that the centers remain at the forefront of knowledge. In addition to military technology development, the centers address advancements in areas such as artificial intelligence, analytics, computer vision, quantum technologies, autonomous systems, robotics, electro-optics, lasers, miniaturization, and advanced materials.

Twenty-five centers operate within national knowledge and infrastructure hubs for the State of Israel and the Ministry of Defense and are determined by it according to criteria of technological leadership. Additionally, the Gazit Institute, a strategic partnership between Rafael and the IDF Intelligence Directorate, engages in advanced applied intelligence research that includes sociological and other perspectives. The institute strives to extend the horizons of intelligence research while evaluating prospective future developments through data science and AI methodologies.

The R&D Division's role is to maintain technological leadership by staying at the cutting edge of knowledge within areas critical to operational demands, particularly in long-term studies identified as high-risk. Professionals within the division oversee synchronization among various knowledge centers, ensuring a multidisciplinary approach – essential in modern systems.



Corporate responsibility is defined as the intersection of a company's mission, whether value or financial, with its committed values regarding people and societal needs. We remain mindful of those utilizing our tools and technologies.



The Chief Scientist





Rafael's Ongoing Contribution to National Security

Since its inception in 1948, Rafael has played a pivotal role in preserving Israel's technological-security advantage and addressing evolving security threats. This contribution is reflected in a diverse array of defense and combat systems across maritime, aerial, land, and cyber domains, built upon a legacy of 76 years of groundbreaking technology, creativity, boldness and innovation. The Israeli defense establishment represents Rafael's largest clientele, with the systems developed by the Company safeguarding the lives of civilians and security personnel throughout Israel, both in routine operations and during conflict.

Israel Defense Prize and the Independence Day Torch

Rafael's continuous impact on national security is evidenced by the receipt of 59 Israel Defense Prizes, including recognition for the development of "Windbreaker", "Iron Dome" and, in 2024, "David's Sling".

During the reporting period, the Company received an additional award for the development of a classified system.

On the occasion of Israel's 76th Independence Day, Rafael, alongside two other defense entities, was acknowledged in the torch lighting ceremony for its significant contributions to countering the widespread attack from Iran during the "Night of the Drones" event on April 14.





Business Continuity and Emergency Preparedness

As a vital supplier to the IDF and security forces in Israel, Rafael's operational continuity during normal and emergency circumstances is critical to national security. The Company adheres to regulatory requirements on the matter, particularly those of the Ministry of Defense and the IDF, as well as SI 24001 for functional resilience management, being the only large company in the country to hold this certification, and adhering to the BCP concept (business continuity, which necessitates the development of a dedicated plan).

Rafael's policy on this subject is designed to effectively address various threats, including security incidents, earthquakes, tsunamis, climate-related disasters, and significant damage to infrastructure and energy systems. This policy outlines the protocols for warning, prevention, protection, response, functional continuity, and restoration. The emergency management system is tasked with ensuring the safety and security of the organization's employees, adapting infrastructure to different scenarios, establishing threshold requirements for maintenance, and setting objectives for continuous improvement. The policy is integrated among managers, employees, and all stakeholders through formal procedures, training exercises, content on the internal network, the website, and various publications. It is regularly reviewed, updated, and tailored to evolving circumstances.

SI 24001

Rafel is the only large company in the country to hold certification for functional resilience management

Emergency Operations and Business Continuity Organization

The Emergency Committee, comprising senior members from all company units, convenes multiple times annually. Its primary focus is to enhance preparedness and response processes related to civil defense, manage raw material inventories, identify essential personnel and suppliers, and develop business continuity plans that address redundancy and replacement for production lines. The Committee also oversees the appointment of personnel within divisions and ensures the supply and maintenance of products for the IDF. In conjunction with these efforts, the Company implements an annual work plan that encompasses updating procedures, conducting audits, organizing exercises, and making investments to improve infrastructure for emergency preparedness. This framework establishes comprehensive work procedures outlining the steps for prevention, transition to emergencies, response, return to normalcy, and rehabilitation.

Rafael operates a control center responsible for generating real-time updates on facilities and personnel during both routine and emergency situations. The center mobilizes the necessary resources, assesses the situation, and communicates findings from the field to management and external civil defense and security agencies.

The Rescue and Emergency Department is another critical entity within the organization, employing professional, diverse, and innovative methods to prevent harm to individuals, property, and the environment. This includes medical evacuation vehicles that deliver the same response capabilities as intensive care ambulances, an advanced medical simulator for the self-training of medical teams, resources for managing hazardous materials incidents, rescue equipment, communication systems, state-of-the-art personal protective equipment, and the "Leviathan" fire engine, the largest in the country, which frequently supports firefighting efforts in the Haifa region and beyond.

Emergency Preparedness Exercises

To bolster collaboration with external agencies, joint working meetings and exercises are conducted regularly. These exercises leverage Rafael's advanced capabilities, including a robot designed for handling explosive materials, clearing debris, scanning buildings, and operating cameras, thereby minimizing risk to human life. In 2023, Rafael conducted numerous exercises, including several surprise drills simulating firefighting scenarios, missile strikes, incidents involving explosive materials, and earthquakes.

In 2022, hundreds of the Company's employees underwent training in multiple cycles to prepare as rescuers in the event of an earthquake.



Assistance from the Leviathan fire engine in Acre



Blood donation drives



Fire drill - Windbreaker



Rafael in the "Iron Swords" War



On October 7, 2023, following the invasion of Israeli territory by Hamas terrorists from the Gaza Strip and the subsequent atrocities committed, the State of Israel commenced the most protracted and challenging campaign in its history. This multifaceted conflict persists at the time of this report's publication. As a pivotal entity in national security and a developer of advanced defense systems and offensive tools, Rafael, across all its divisions, encountered unprecedented challenges. Notably, a significant portion of its workforce (15-20 percent of employees) was called for reserve duty, while the backlog of orders for Israeli defense systems, as well as international entities amid the ongoing conflict in Ukraine, reached an all-time high.



The Most Urgent Primary Objective

The most urgent primary objective was to provide comprehensive support to the defense establishment and the IDF, while adjusting supply chains and significantly enhancing production capabilities, particularly for "Iron Dome" and "David's Sling" missiles, "Windbreaker" systems, various "Spike" missiles, and R&D for emerging challenges such as subterranean threats and drones. Concurrently, Rafael supported the war effort at IDF bases and

assembly areas through operational implementation, needs assessment, and the provision of immediate solutions. This included continuous system upgrades and the integration of new operational capabilities in real-time during fighting, all in synchronization with other missions and customer requirements, while maintaining adherence to rigorous quality and safety standards.



The Organization's Business Continuity Plan

The Business Continuity Plan (BCP) was activated across all levels beginning in October. To address operational and supply demands, critical systems transitioned to shift work around the clock, including weekends. This necessitated personnel reallocation between divisions, flexible remote work arrangements, and adjustments to transportation and catering services. To sustain 24/7 operations, production lines were supported by engineers from various divisions, alongside expedited recruitment efforts. Additionally, the urgency of civil defense and employee safety became paramount, given the locations of facilities in high-risk northern areas. As a result, a range of safety and precautionary measures were implemented. Throughout this period, Rafael diligently adapted its

operational plans to address immediate and long-term challenges, with a focus on accelerating supplies and tailoring systems to IDF requirements. Despite the intensity of the campaign in Israel, the Company maintained continuous engagement with international customers and persisted in expanding its overseas operations, ensuring uninterrupted procurement, logistics, and manpower management to sustain operational continuity during the war and in the years ahead. Alongside various challenges, including a shortage of personnel in the marketing sector due to reserve duties, opportunities emerged, notably demonstrating the operational effectiveness and success of Rafael systems, which may facilitate the opening of new markets.



Manpower

Regarding personnel, a substantial number of the Company's employees were drafted into reserve service under "Tzav 8" (IDF emergency recruitment order number 8), necessitating urgent support measures. Concurrently, Rafael employees demonstrated commendable mobilization for both the Company's and community's needs. Work procedures and tools were adapted to ensure operational continuity. Various emergency procedures were approved, and a prompt response was established to address employee needs, including support for conscripts, ongoing communication with family members, and solutions for children lacking care. Resilience meetings were conducted, internal organizational communications were refined, and management tools were implemented to facilitate routine operations alongside combat efforts. Further details on this topic and more can be found later in the report.

Financial Management

In relation to financing and financial considerations, Rafael's Board of Directors has directed management to enhance the Company's liquidity and maintain substantial cash balances, in order to ensure adequate funding for ongoing operations. Key measures implemented include a shekel issuance, diversification of credit sources, expansion of secured credit lines, and identification of largely unused approved credit lines, with favorable support from banks. Notably, the fourth quarter of 2023, coinciding with the outbreak of war, recorded exceptional activity at Rafael, with new orders totaling **NIS 14,514 million**, compared to NIS 5,737 million in the last quarter of 2022, **of which over 61% originated from abroad** due to the completion of significant export transactions. **Sales in the fourth quarter reached NIS 4,594 million, representing an approximate increase of 19%** compared to the same period in 2022.



More about the variety of aspects and implications of the unusual activity surrounding the "Iron Swords" War, see later on throughout the report.

Rafael: A Leader in Excellence and Business Responsibility



Platinum Plus

For the 11th time consecutively in the "Maala" rating

NIS 55M

Environmental investments over the last 3 years

15

Management systems who quality marks were complied with

Zero

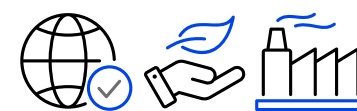
Ethic violations





Our Corporate Responsibility

Corporate responsibility is a fundamental component of Rafael's business strategy, rooted in the Company's mission, vision, and values. It encompasses ethics and compliance, corporate governance, environmental stewardship, safety, community investment, supply chain integrity, and work environment quality.



Corporate Responsibility Vision

Rafael is a key contributor to the security of the State of Israel and has developed a sustainable operational strategy aimed at ensuring security, social, economic, and environmental resilience. The Company is committed to fostering connections and dialogue with all stakeholders – employees, customers, partners, suppliers, authorities, and relevant organizations – to deliver significant value through professionalism and technological innovation, while upholding the highest global standards.



Rafael is recognized as a leader in the Israeli economy for its performance in corporate responsibility, serving as a source of expertise in areas such as responsible and transparent procurement management, safeguarding contractor rights, engaging stakeholders, protecting the environment, and enhancing the social and economic well-being of local communities.

Corporate responsibility is deeply embedded in the organizational ethos, forming a central narrative in the "Rafaeli story" and is increasingly reflected in ongoing activities and annual reports.

During the reporting period (2022-2023), in alignment with global regulatory changes, particularly in Europe, standards across various sectors have been enhanced, integrating ESG considerations more deeply into business practices. For instance, recent tenders in the UK include a "Social Values" section, which accounts for 10%-15% of the tender evaluation criteria, addressing themes such as economic inequality, climate change mitigation, equal opportunities, and overall well-being. Additionally, due diligence in the supply chain increasingly emphasizes ESG factors.

Corporate Responsibility Management System

The management framework for ESG initiatives, anchored in Israeli standards and the Company procedures, comprises processes and initiatives reflecting the Company's commitments to stakeholders – including employees, customers, suppliers, and communities – with a focus on security and environmental stewardship. Detailed activities are outlined throughout this report.

At the corporate headquarters, corporate responsibility is overseen by the **Senior Vice President of Regulation, Administration, and Communications**, who reports to Rafael management on these matters. The **Corporate Responsibility Manager** is responsible for approving the operating model, coordinating various initiatives, facilitating mutual learning activities, and providing information regarding the Company's performance in relevant areas.

Goals and objectives are articulated in the work plans of relevant managers. The corporate responsibility steering team equips managers with the necessary knowledge, resources, and authority to implement these initiatives. Annual presentations on corporate responsibility performance are made to the **board of directors and management**.

An **internal audit** of the corporate responsibility system is scheduled as part of the company's annual internal audit program for 2024.

In 2023, Rafael received the highest "Platinum Plus" rating for corporate responsibility from the "MaalA" organization for the 11th consecutive time, making it the first government company to join this prestigious ranking and maintain platinum status since its ranking began.



Platinum Plus

In 2023 Rafael won for the 11th time consecutively that maximum "Platinum Plus" rating for corporate responsibility from the "Maala" organization. Rafael is the first government company to join this prestigious ranking and has kept a continuous sequence of high achievements of Platinum status since it joined that ranking.



Membership in Organizations

Rafael actively promotes ESG principles through its membership in prominent organizations and institutions both in Israel and internationally including:



With success comes commitment, and if one achieves success, it is imperative to give back to society and the community. ”

Riki Maman, Corporate Responsibility Manager



“Maala” – the Association for the Advancement Corporate Responsibility in Israel



ACC – Association of Corporate Counsel
The World Organization of In-House Legal Counsel



Israel Standards Institute



The Security Safety in Israel - Senior Security and Emergency Management Organization



Manufacturers Association of Israel



IAQG – International Aerospace Quality Group



Quality Association of Israel



IItem - Association of users of advanced technologies in knowledge-intensive integrated systems



IFBEC – International Forum of Business Ethical Conduct
An organization that unites the world's leading security companies, which is engaged in setting international standards on relevant ethics and compliance issues



Transparency International



Transparency International Israel



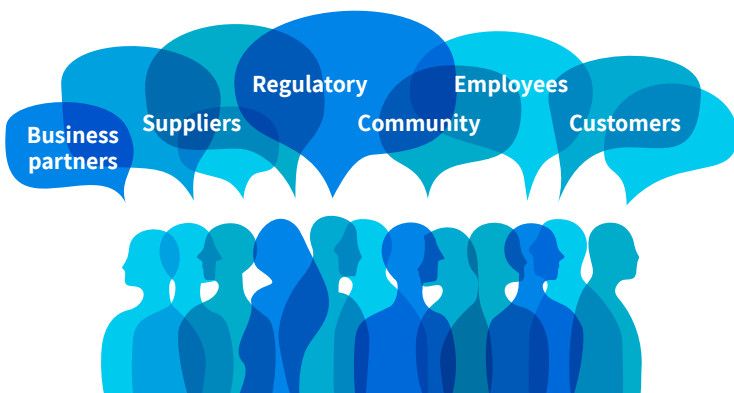
Dialogue with Stakeholders

Rafael publishes its corporate responsibility performance in unified form, employing an international reporting system as part of its corporate responsibility reports. Managers in relevant areas oversee ongoing dialogues with stakeholders to ensure comprehensive responses to inquiries.

This dialogue is conducted responsibly, with strict adherence to privacy and confidentiality policies, supported by procedures for handling violations and annual employee training. **No incidents of data leaks or breaches of customer privacy have been reported at Rafael.**

Key Stakeholders:

- **Customers** – Rafael prioritizes loyalty and commitment to its customers by providing optimal value in solutions, products, and services, while adhering to rules that safeguard the Company’s core assets and economic strength. The Company seeks to establish long-term relationships based on trust, integrity, and mutual respect, engaging in dialogue before, during, and after system delivery. Rafael addresses customer needs systematically, including feedback on ESG issues.
- **Community** – Rafael takes pride in its vital role in Israeli society, particularly in northern communities, and acts responsibly toward both the community and the environment. The Company promotes social engagement and contributions to the community at both the organizational and individual employee levels. Rafael undertakes various community projects, with annual plans developed in consultation with community partners from inception to implementation.
- **Employees** – Rafael maintains ongoing dialogue with its employees throughout their lifecycle in the organization, from recruitment to termination of employment. The Company operates under a principle of "employee first". Regular surveys, yielding high response rates, serve as tools for management to provide feedback and implement improvement plans.
- **Regulators** – Given the sensitive nature of its activities, Rafael complies with extensive regulations concerning safety, environmental issues, and procurement and sales practices. The Company diligently meets all regulatory requirements.
- **Suppliers** – Rafael views its suppliers as business partners essential to mutual success and maintains ongoing communication, including a dedicated portal for inquiries. Quality surveys conducted among suppliers initiate joint improvement processes and relevant training. Rafael often serves as a critical customer, recognizing the opportunity to enhance supplier quality, safety, and employment standards over time.
- **Partnerships** – In its commitment to Israel’s security, Rafael collaborates closely with the Ministry of Defense, the Ministry of Foreign Affairs, the Israel Lands Administration, and security agencies. These partnerships encompass security, operational, environmental, and community dimensions.



Spokespersons’ System

The system’s initiatives, aimed at enhancing stakeholder dialogue, are aligned with the Company’s vision and focus on four key areas:

Business Activity

Promoting the Company’s business operations, including international marketing endeavors and comprehensive publication of quarterly financial statements to position Rafael as a growing enterprise.

Technological Leadership and Development

Collaborating with technology divisions to highlight significant milestones and achievements, establishing Rafael as a global technological and innovative leader.

Social and Economic Leadership

Addressing community involvement, contributions to underrepresented populations, and initiatives benefiting peripheral areas, shared through various media and social networks.

Employer Branding

Sharing personal stories to create a positive organizational image, fostering interest among top talent and students for meaningful careers at Rafael.



Marketing Communications, Sponsorships, and Advertising

As a government defense entity, Rafael’s advertising initiatives are limited, targeted, and closely monitored. The focus is predominantly on campaigns and professional exhibitions. Marketing representatives ensure that all marketing materials adhere to local sensitivities and norms. All marketing consultants employed overseas undergo a due diligence process overseen by a committee headed by the Marketing Department, with contributions from the Legal Department and the Compliance Department, to ascertain their reputation and ensure there are no conflicts of interest. Marketing materials presented to clients must receive internal approvals from both the Marketing Department and the Security Unit, as well as approval from the Export Supervision

Department of the Ministry of Defense. Publications and advertisements in professional defense-related magazines require coordination with all relevant bodies across the organization and divisions, including security approval and, if necessary, the involvement of licensing and supervisory authorities. Sponsorship requests are submitted through a dedicated committee. The digital assets that are externally visible, including the global website and websites operated by selected representative offices, are overseen by the organizational security system and the Company’s cyber defense department, which ensures that all Rafael systems comply with information security standards.



ESG – Material Topics for Reporting

In 2023 and extending into 2024, Rafael undertook a comprehensive review and update of its corporate responsibility strategy, taking into account regulatory updates, customer requirements, and the organization's commitment to maintaining leadership in the sector.

This process included an analysis of global trends, a thorough study leveraging insights from ESG rating agencies and international investors, detailed investigations with companies in Israel and abroad, engaged in related fields, and prioritization questionnaires distributed to stakeholders. The materiality analysis employed an international methodology based on GRI and SASB guidelines. This report addresses all disclosures identified by the organization as core disclosures – material issues related to the organizational strategy – and outlines additional indicators based on the results of the materiality analysis.



Materiality Map

Environment Social Governance



- | | |
|--|---|
| <ul style="list-style-type: none"> 1 Energy management 2 Reducing carbon and managing greenhouse gas emissions 3 Environmental management 4 Advanced and responsible environmental resource management 5 Water and sewage 6 Preserving biodiversity 7 Climate change – adaptation and mitigation, climate risks management 8 Circular economy and waste 9 Sustainable operations 10 Diversity and inclusion 11 Safety, health and employee welfare 12 Human rights | <ul style="list-style-type: none"> 13 Fair working conditions for employees 14 Connectedness and partnership with communities 15 Employee connectivity and retention 16 Responsible supply chain 17 Technological innovation and digitization 18 Information privacy and cyber protection 19 Business ethics 20 Prevention of bribery and corruption and compliance with the law 21 Product quality and safety management, accountability, and customer service 22 Corporate governance 23 Financial performance 24 Business continuity |
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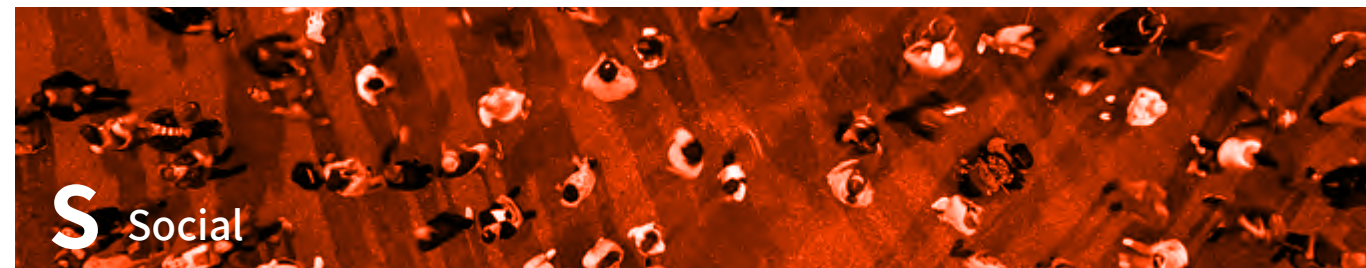


Sustainable Operations

Investment in initiatives that minimize environmental impact and prioritize resource preservation – water and sewage, efficient energy consumption, waste reduction, and fostering a circular economy.

Carbon Reduction and Emissions Management

Monitoring and measuring the Company's greenhouse gas emissions, both direct (scope 1) and those resulting from electricity consumption (scope 2), with the objective of reducing these emissions over time.



Maintaining Human Rights and Fair Working Conditions

Rafael upholds the rights of its employees and ensures equitable employment conditions throughout its supply chain, considering these factors critically in supplier engagements.

Connectedness and Partnership with Communities

Rafael recognizes the importance of positively impacting the communities in which it operates, believing that its success is intertwined with that of the surrounding community. Employees volunteer in areas where they can make a meaningful contribution, such as science, technology, engineering, and supporting technological education for vulnerable populations.

Employee Safety, Health, and Well-Being

The Company exceeds legal and regulatory safety requirements through comprehensive risk assessments, work plans, and support systems. The organizational culture views safety as a way of life for all employees, promoting transparency as a key element in achieving this goal. Employee health and well-being are viewed as fundamental to the organization's strength.

Employee Engagement and Retention of Human Capital

Rafael endeavors to cultivate a stimulating, equitable, and empowering work environment that nurtures employee capabilities and rewards high performance. The Company's achievements in technology and business are attributed to its skilled workforce, comprising expertise in diverse technologies, systems engineering, and large-scale project management. Rafael is dedicated to preserving, developing, and enhancing employee capabilities while attracting top talent from the labor market.

Diversity and Inclusion

Rafael places significant emphasis on integrating individuals from underrepresented populations, operating various programs to enhance diversity. The Company has adopted a holistic approach to occupational diversity and works towards meeting the Companies Authority's diversity objectives.



Business Ethics, Data Privacy, and Cybersecurity

Rafael is dedicated to ensuring compliance with legal standards and maintaining ethical conduct in all facets of its operations – among employees and managers, between employees and customers, suppliers, and partners, as well as in its obligations to employees and their responsibilities toward the organization. The Code of Ethics extensively addresses corruption and bribery prevention, regulating interactions with government officials and lobbyists, ensuring non-discrimination among employees, and fostering transparency, integrity, and trust. The Company prioritizes the privacy and confidentiality of sensitive personal and commercial information through stringent policies.

Technological Innovation and Digitization

Innovation is critical within Rafael's technology-intensive field. The pursuit of innovation and its successful implementation, including process digitization, is ingrained in the Company's ethos, with substantial resources allocated to R&D and fostering employee-driven innovation.

Responsible Supply Chain Management

Rafael emphasizes the importance of ethical conduct among its suppliers throughout the value chain, insisting on the protection of employees' rights and environmental stewardship.

Business Continuity

Rafael's ongoing operations, whether in routine or emergency situations, are critical to Israel's security. Consequently, business continuity, in alignment with the BCP outline, is a fundamental concern for the Company from both a business and ethical standpoint. Risk management plays a vital role in sustaining our business continuity.

Product Quality and Safety Management, Accountability, and Customer Service

Given the high-risk nature associated with its products, Rafael maintains stringent quality and safety standards. To uphold one of the highest levels of quality and safety globally, Rafael implements an independent system that governs quality management across development, production, and operations departments. The Company regards its customers as essential partners and endeavors to produce, supply, and maintain its products while delivering a comprehensive and precise response to customer needs.





Sustainable Development Goals at Rafael

Among the 17 UN Sustainable Development Goals, four are particularly pertinent to our operations:



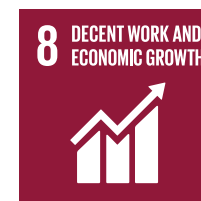
Gender Equality

Rafael is committed to integrating women into our workforce, which comprises over 25% of our human capital. We invest in professional and managerial development programs and promote technological education for high school girls.



Industry, Innovation and Infrastructure

Technological innovation is central to Rafael's mission. Our R&D department, renowned globally for its cutting-edge solutions to contemporary and emerging threats, has garnered 59 Israel Defense Prizes in recognition of its contributions to Israel's security over the decades.



Employment Fairness and Economic Growth

As the largest employer in northern Israel, and with an unprecedented order backlog, Rafael plays a crucial role in the Israeli economy. Over 80% of our suppliers are local businesses, including many small and medium-sized enterprises. We prioritize the continuous learning and development of our employees.



Responsible Consumption and Production

Rafael regards environmental protection as a core value and actively promotes it both internally and externally. We routinely assess our energy consumption and carbon footprint while investing substantial resources into waste reduction and fostering a culture of sustainability.



Corporate responsibility is fundamental to conducting business. Partners prefer to collaborate with a company is fully compliant, and they monitor us. Failure to operate by-the-book, along with transparent plans and procedures, can ultimately jeopardize the business. It is important to understand this is crucial and not merely nice to have. This approach protects management and enhances the overall enterprise. ”

Legal Advisor



Proper Corporate Governance

Rafael is a government-owned company, with 99.9% of its shares directly held by the Israeli government and the remainder held by various government entities, each possessing a fractional share. Concurrently, **Rafael functions as a competitive international business, striving to uphold the highest standards of corporate governance.**

The corporate governance framework at Rafael, ratified by the board of directors in 2011 and updated in 2019, is grounded in the Companies Law, the Government Companies Law, guidelines from the Government Companies Authority, and the Company's articles of incorporation and regulations. This framework delineates the composition and authority of board committees and governs the relationships among the board of directors, management, shareholders, and other stakeholders. It serves as a reference point, allowing the Company to establish mechanisms for defining its objectives, determining methods for achieving them, and ensuring oversight throughout the process.




The corporate governance principles guiding Rafael extend beyond compliance with statutory requirements and incorporate the recommendations of relevant authorities and organizations both in Israel and globally (best practices). They embody a commitment to integrity, ethical behavior, transparency, accountability, and organizational dedication. Accordingly, they align with the Company's values and vision while contributing to our pursuit of excellence across all areas, including environmental protection, sustainable development, safety, transparency, and ethical business practices.

Rafael Board of Directors

The Board of Directors is committed to realizing Rafael's vision of being a significant pillar in the security of the State of Israel. The Board aims to establish Rafael as a global, innovative, growing, and profitable company that develops, manufactures, and supports defense systems aligned with operational needs and advanced technologies.

(From Rafael's Corporate Governance Procedure)

Our numbers for 2023:

 72 Board meetings in 2023	 8 Directors, half of whom are women and all of them independent	 Zero Incidents pertaining to conflicts of interests
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Rafael's Board of Directors is responsible for defining the Company's vision and policies, ensuring their implementation, and overseeing the actions of the CEO and management. It holds ultimate accountability for the Company's operations, financial health, and long-term outlook, which includes directing strategy and establishing guidelines for implementation; Striving for effective control and supervision processes; Setting standards to promote excellence; Monitoring the adherence to directives (sometimes in real time); Approving wage and compensation standards and policies; Endorsing work plans; Conducting monitoring and audits; Approving the code of ethics, Compliance plans, and strategies for environmental protection and sustainable development; And authorizing investments, mergers, acquisitions, and financial reports. Additionally, the Board's approval is necessary for appointing directors to subsidiaries and for appointing heads of representative offices abroad. This governance is conducted in compliance with relevant laws and with a commitment to business considerations that generate profits while contributing to state security, alongside a consistent focus on employees, suppliers, customers, and the public good, in accordance with Section 11 of the Companies Law and Section 5 of the Basel II Guidelines, OECD Principles, and pertinent Government Companies Authority circulars.

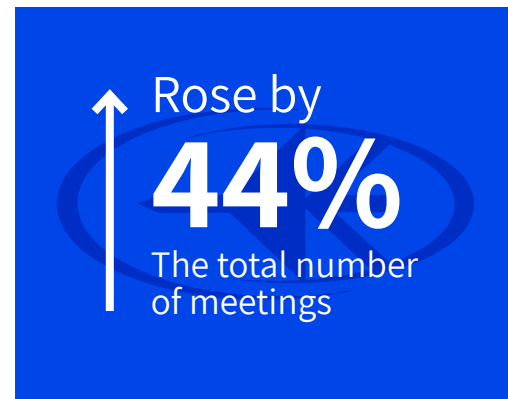


In regard to ESG considerations, the Board of Directors convenes annually to evaluate the Company's strategic direction in this domain, including associated risks and opportunities, the efficacy of past activities, and future initiatives, such as training and knowledge enhancement. The Board may delegate its authority over economic, social, and environmental issues to the Company's management and employees, barring powers specified in Section 32 of the Government Companies Law and those designated by the Government or ministers as non-delegable. The Government Companies Authority is tasked with appointing the Board of Directors, ensuring diversity within its composition, and guaranteeing the expertise and knowledge of its members. **As of December 31, 2023, the Board consists of eight directors, half of whom are women, all of whom are independent.**



8 Directors, half of whom are women and all of them independent

Board of Directors and Committee Meetings



Board meetings are convened as necessary, with a minimum frequency of once every two months. In 2022, a total of 23 meetings were held, followed by 35 meetings in 2023. As of the end of 2023, the Board's committees include the Finance and Investment Committee (7 meetings in 2022, 10 in 2023), the Strategy and Business Development Committee (4, 3), the Compliance Committee (5, 3), and a committee dedicated to auditing, corporate governance, and safety and health matters (11, 11). Overall, 27 committee meetings were conducted in 2022, increasing to 37 in 2023, which included 10 meetings of the CEO Search Committee. The total number of meetings, including both committee and plenary sessions of the Board of Directors, rose by 44% in 2023, from 50 to 72 compared to the previous year. The minimum attendance at meetings and the effectiveness of the Board's operations are assessed according to the guidelines established by Rafael.

Director Training

Newly appointed directors, following the vetting and selection process conducted by the Government Companies Authority, receive a structured onboarding package that outlines their training protocols. Throughout the year, all directors participate in seminars and knowledge-building sessions on relevant professional topics. The Rafael Secretary is tasked with developing and managing a program designed to enhance knowledge, providing directors with tools necessary for the fulfillment of their responsibilities, which includes site visits, introductory meetings with senior officials, and access to data, documents, and periodic reports regarding the Company's operations and applicable regulations.

Compensation of Directors and Senior Executives

Members of Rafael's Board of Directors receive compensation in accordance with the Government Companies Authority's established procedures. This system is based on an approved formula that determines compensation and bonuses for managers and senior staff based on the Company's quarterly and annual performance. Compensation is variable, influenced by factors such as the achievement of ESG objectives, including the employment diversity mandated by the Companies Authority.

Prevention of Conflict of Interest

A clear distinction is maintained between the Board of Directors and management. In line with the Goshen Committee Regulations (Appendix B, Section 1.3), the Chairman of the Board cannot simultaneously serve as CEO or hold any other position within Rafael, nor can he partake in the Company's day-to-day management. The Chairman and the CEO – who is responsible for managing the Company within the parameters set by the Board's policies – cannot be related (according to the definition of the term "relative" in the Companies Law). The Chairman is prohibited from holding other roles in corporations under his control or engaging in management roles, including participation in management meetings, although he may serve on the boards of subsidiaries or related companies.

Board members operate independently of the CEO, possessing a fiduciary duty to the Company. They are required to eschew any personal or professional engagements that may present a conflict of interest concerning their roles at Rafael, unless managed by a conflict-of-interest arrangement, or which may involve competition or exploitation of the Company's business opportunities. Directors are required to sign a declaration affirming these commitments upon their appointment.

Rafael employees or service providers, whether directly employed by it or through third parties, may encounter potential conflicts of interest in their roles. A reporting procedure is in place to address such concerns, supplemented by a process for investigating and resolving issues as necessary, facilitated by a Conflict-of-Interest Committee comprising the Senior Vice President for Human Resources and Organization, another Senior Vice President, the Company's legal advisor, and a management member appointed ad hoc by the CEO. **No incidents related to conflicts of interest were reported during the reporting period.**

Risk Management

Risk management at Rafael is a systematic and ongoing process integrated with management practices. Its objective is to ensure a reasonable degree of assurance against the materialization of risks by identifying, assessing, managing, and formulating mitigation plans for risks. It is essential to rank and prioritize risks to highlight those exceeding the Company's risk appetite in alignment with its goals and objectives.

Monitored risk issues as of 2023 include local and international regulations, war, natural disasters, operational and business continuity, safety, human resource management, financial risks, cyber risks, and environmental risks.

Risk management is conducted following best practices in accordance with the COSO model, incorporating benchmarking against other companies both nationally and internationally, and consulting with experts. Every four years, a comprehensive **risk survey** is conducted, which is regularly updated based on the procedures set by the Government Companies Authority. The Senior Vice President of Regulation, Administration, and Communications serves as the organizational risk manager and member of management responsible for activities in this domain, acting as the chairman of the Corporate Risk Management Committee while maintaining quarterly communication with various risk managers.

A designated **risk manager**, a senior officer, has been assigned to each identified risk to address and mitigate them.

The **Corporate Risk Management Committee** is responsible for comprehensive risk management oversight. The Corporate Risk Manager also holds the position of chairman of the committee, which comprises risk managers and various business and operational vice presidents. The committee convenes biannually to evaluate existing risks and assess the necessity for updates to the Company's risk management system. Once a year, at least, the risk management status is presented to the Board of Directors' Audit Committee for discussion, with the committee tasked with approving or amending the "risk appetite".



Iron Swords and Risk Management

The risk of war is routinely identified and necessitates specialized preparedness. Rafael's role in such scenarios is critical and particularly sensitive: providing support for systems utilized by the IDF, consistent with the Company's vision of "being a significant pillar in the security of the State of Israel". This responsibility is undertaken while managing the inherent risks to life and property associated with the facilities.

The response to the war risk is structured through the lens of functional continuity in emergencies, outlined in the organizational Business Continuity Plan (BCP). This plan is continuously updated and subject to frequent testing and practice.



Ethics and Compliance

We believe that an inspiring organizational culture that encourages professional and ethical behavior among managers and employees is integral to Rafael's success. The Company's strength derives not only from its business achievements and technological prowess but also from its reputation for integrity, business ethics, and the trust of its customers, employees, and business partners.

Accordingly, Rafael has committed to ethical and compliance standards that exceed applicable laws and regulations, adhering to strict international and local benchmarks. **For some years, the Company has maintained compliance with the ISO 37001 standard for a management system aimed at preventing bribery and corruption and actively participates in compliance and ethics organizations such as the International Forum on Business Ethical Conduct (IFBEC).**

Ethics and compliance considerations are central to Rafael's organizational culture, promoting excellence and a clear value identity. This commitment mandates that every manager and employee uphold high standards of integrity and reliability, thereby mitigating unreasonable and undesirable risks.

During the reporting period, Rafael and its officers faced no criminal or administrative proceedings related to bribery and corruption, nor were any fines imposed for ethical violations.

Ethics and compliance are at the basis of Rafael's organizational culture, supporting both excellence and a clear value identity.


The Code of Ethics

The Code of Ethics aligns with the values of the State of Israel and the international business sector in which the Company operates. For employees and managers, the Code serves as a framework for appropriate conduct at all levels, emphasizing a commitment to honesty and integrity while upholding principles of fairness, reliability, transparency, responsibility, quality, professionalism, and ethical conduct in internal affairs. This Code also encourages employees to identify with an organization that prioritizes values and leadership. The Code addresses the Company's commitment to its employees, emphasizing the protection of human dignity, life, and health, as well as the importance of its interactions with all stakeholders, including customers, suppliers, and competitors. Key topics include:

- Integrity and Trust
- Equal Opportunities
- Prevention of Discrimination and Harassment Based on Religion, Race, Gender, or Sexual Identity
- Guidelines Regarding Accepting Gifts and Benefits
- Protection of Stakeholder Privacy
- Prevention of Bribery and Corruption
- Use of Confidential and Inside Information
- Prevention of Conflict of Interest
- Transparency in Personal Relationships with Customers and Stakeholders
- Fair Competition, Including Information Gathering on Competitors
- Relations with Suppliers
- Relations with Shareholders and Debtors
- Government Relations
- Community Relations
- Fair Treatment of Employees
- Non-Abuse of Company Power
- Validity and Truthfulness in Company Reports
- Environmental Responsibility
- Health and Safety
- Quality of Life for Employees
- Customer Interest
- Personal Responsibility of Employees Regarding Supervisory Requirements, (Including Reporting Failures Despite Instructions)

Our numbers for 2023:

 **100%**
Of employees underwent training on the Code of Ethics

 **100%**
Of employees underwent training regarding prevention of bribery and corruption

 **Over 30**
Internal audit reports were carried out in 2023

 **Zero**
Ethics violations

In August 2023, following a process of employee engagement and the incorporation of occupational diversity, the Code of Ethics was validated by the Company's Board of Directors. To facilitate its application and support employees in navigating daily ethical challenges, Rafael is developing an annual implementation program. This program will include a mandatory course on the Code of Ethics, which every employee must successfully complete (participation rate as of 2023: 93%); A biennial course on preventing corruption, developed in collaboration with a legal team (updated in 2023 and implementation rate: 91%); A management system for preventing bribery and corruption certified under the ISO 37001 standard; As well as refresher training and resources addressing ethical dilemmas and specific events, communicated through periodic training sessions and CEO letters. Ethical considerations are also integrated into employee assessments and feedback processes, as well as prior to any appointment.



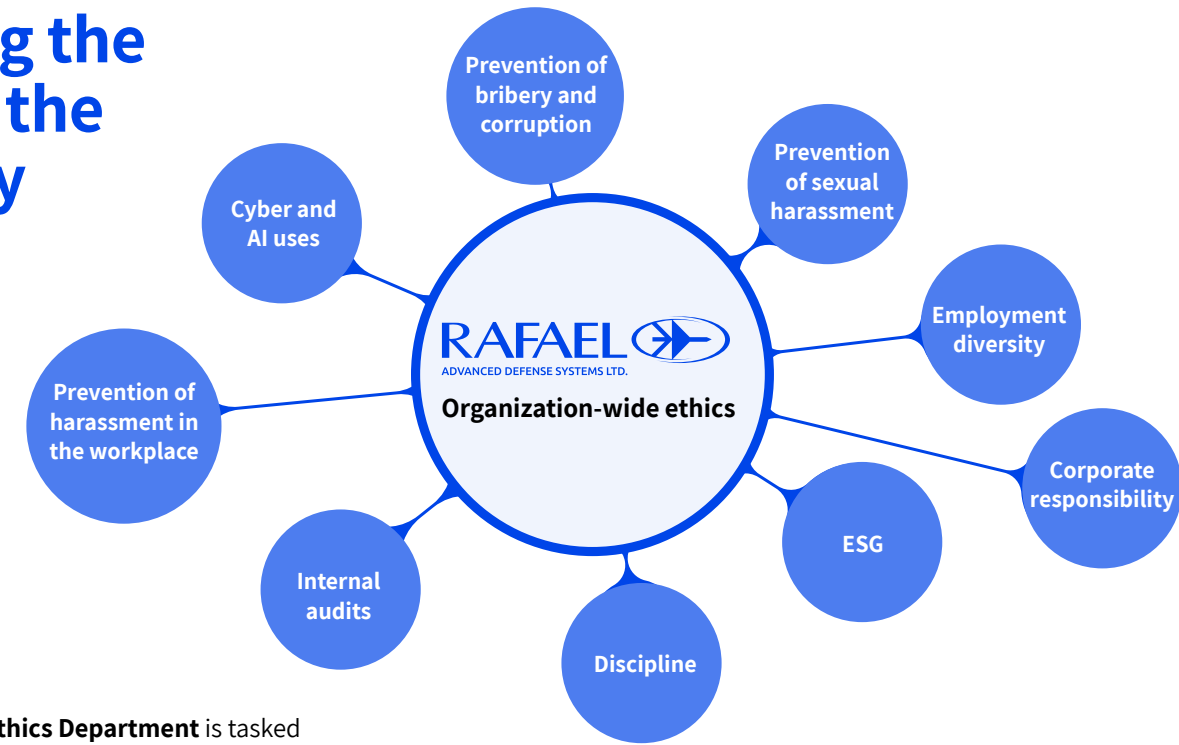
Corporate responsibility serves as a gatekeeper within an organization, representing a fundamental pillar of its resilience and capacity to manage risks effectively. At Rafael, significant emphasis is placed on corporate governance and its ongoing enhancement. ”

Amit Zimmer

Senior Vice President for Regulation, Administration and Communications



Managing the Ethics in the Company



The **Compliance and Ethics Department** is tasked with the implementation and management of the Code of Ethics at Rafael. Its responsibilities encompass the prevention of bribery and corruption, adherence to relevant regulations and international sanctions, supervision of procurement processes, and the oversight of ethical practices throughout the organization. The department is led by the **Vice President of Compliance and Ethics**, who, in collaboration with the Ethics Committee and the ethics community, is accountable for executing the implementation plan, providing annual reports to the Company's management and board of directors, conducting outreach and training for employees and managers, integrating ethics content into manager training, and disseminating the Code of Ethics. Complementing the VP of Compliance and Ethics, an **Ethics Committee** has been established by the Company's management. This committee comprises the VP of Compliance, the Legal Advisor, the VP of Human Resources, and the Internal Auditor. It convenes at least once annually to produce a report for the board of directors. The committee addresses the interpretation and periodic updating of the Code of Ethics, formulates ethics policies, establishes goals for the ethics program, discusses field implementation plans, reviews individual and annual plans, and monitors the effectiveness of the ethics initiatives and any incidents of violations, ensuring compliance with company procedures and privacy protection requirements. In 2022, an **Ethics Community** was introduced as a third layer of ethical oversight, complementing the roles of the VP of Compliance and the Ethics Committee. This community consists of experts from various disciplines and relevant stakeholders, convening quarterly to discuss general ethical issues and those

arising from operational activities. Participants include **ethics trustees** from different divisions, a reliability supervisor from the security unit, ESG stakeholders, and representatives from internal audit and legal counsel. Employees seeking consultation on ethical matters are encouraged to reach out to supervisors, ethics trustees, their Human Resources Manager, or the VP of Compliance and Ethics. **Reports** and complaints are managed with the highest level of discretion, ensuring that individuals are not subjected to harm or retaliation for their inquiries. In cases of suspected illegal activity or breaches of the Code of Ethics, an **investigation** is initiated by an appropriate entity. The handling process of complaints is documented in accordance with legal stipulations and Ministry of Defense guidelines, culminating in the provision of key recommendations to the complainant. If necessary, corrective actions, including disciplinary measures and public disclosure of case particulars, are implemented to prevent recurrence. **In 2023, three inquiries were submitted to the Ethics Commissioner, with no reports to the anonymous hotline.**

Occasionally, external experts are engaged to enhance knowledge concerning ethical issues. During the reporting period, representatives from the Investigations Division of the Director of Security of the Defense Establishment (Malmab), along with integrity experts, have provided lectures at Rafael. For 2024, the objective is for all **subsidiaries** to adopt Rafael's Code of Ethics, with necessary adjustments made to align with their specific contexts. Compliance officers have been appointed in each subsidiary, and a dedicated forum will report annually to each subsidiary's board of directors.



Compliance and Anti-Bribery and Corruption Programs

Rafael's general compliance program is grounded in a public policy document, periodic risk assessments based on established methodologies, voluntary internal guidelines, and comprehensive regulatory analysis. This analysis is conducted in alignment with the directives of the SEC and the US Department of Justice (DOJ) concerning the formulation of programs pertaining to the Foreign Corrupt Practices Act (FCPA). Rafael maintains ongoing communication with regulatory authorities and professional organizations globally, including the International Organization for Ethics and Compliance of Defense Companies (IFBEC).

The compliance program undergoes internal consultations and is reviewed by a prominent law firm specializing in the field. It receives approval from the CEO and the Board of Directors and is subject to oversight by the Internal Auditor. In 2023, the program was further updated. It is a dynamic initiative that is regularly refreshed, reflecting necessary adjustments in key appendices related to engagement with business partners. **To align with the highest and most current ethical standards**, Rafael ensures active involvement in international self-regulatory bodies such as IFBEC, ACC, TRACE, and others.

Rafael is recognized as a leader in compliance and actively engages in conferences in Israel and internationally aimed at enhancing compliance and ethical processes, including a legal advisors course, seminars with the Manufacturers Association, and courses at international financial institutions.

Regarding the **prevention of bribery and corruption**, the compliance program addresses the acceptance and provision of gifts and benefits, hospitality, cultural and

recreational events, customer business trips, donations and sponsorships, supplier background assessments, and guidance for third parties in international activities. Rafael adheres to anti-corruption legislation in Israel and all jurisdictions in which it operates, as well as the OECD Anti-Bribery Convention. These procedures apply to all directors, managers, employees, consultants, and business partners.

In terms of **supervision and reporting**, several key processes are established: annual reporting to the Board of Directors by the Compliance Committee; Approval of work plans by the management and the Board of Directors' Compliance Committee, presented by the VP of Compliance and Ethics; And an audit conducted by the internal auditor, which includes the compliance plans of the subsidiaries (as performed in 2023). Additionally, the compliance plans are voluntarily presented to external parties such as banks, as the Company is a trusted business client.

Lobbying and Political Contributions

As a government entity, Rafael is prohibited from making any political contributions, whether monetary or in cash equivalents, including the provision of its assets for utilization by third parties. In Israel, the Company utilizes marketing consultants, not lobbyists, as it defines needs and collaborates with customers to develop solutions. In the United States, lobbyists are occasionally engaged, as outlined in the relevant reports, all in accordance with applicable laws and reporting obligations. Collaboration with governmental entities is conducted within clear agreements and under strict compliance programs, with close scrutiny of all activities. During the reporting period, no fines or convictions related to compliance issues were recorded.

Ethics and AI

The Ministry of Justice and the Ministry of Innovation, Science and Technology in Israel have released a policy document regarding artificial intelligence, detailing a set of general principles and non-binding guidelines. Rafael has broadened its approach to encompass international standards. Through collaborative efforts involving the Compliance Department, R&D units, pertinent departments, and the Legal Department, guidelines have been established for integration into projects involving AI, applicable to design surveys and various development phases. A pilot project is planned for 2024 to implement these requirements, which includes showcasing the process in various forums and providing training for relevant personnel such as system engineers and quality managers. Rafael has shared its preparations in the field with multiple forums, including representatives from various departments within the Ministry of Defense.

Sanctions

Rafael is dedicated to adhering to all relevant sanction regimes. To ensure compliance with sanctions requirements and mitigate exposure to negative information regarding suppliers, the Company employs advanced software to conduct monthly reviews of the entire supply chain. In instances where "red flags" are identified, a supplier may be blocked. Any concerning cases are escalated to a sanctions committee that convenes quarterly or on an ad hoc basis, comprising the Vice Presidents of Finance, Compliance, and Operations, the Legal Advisor, procurement, and divisional representatives.



Internal Audit

The Audit Unit operates as a professional, innovative, objective, and independent entity that supports the Board of Directors and management in achieving the Company's objectives through ongoing evaluation of work processes and provision of actionable recommendations for improvement. The focus lies on issues central to the organization's operations, business, and risk management. The Audit Unit is overseen by Rafael's Internal Auditor, who serves a fixed term of seven years as mandated by the Companies Authority's decision.

In 2023, the internal audit policy for subsidiaries was revised; The audit scope was broadened to encompass development process management; A methodology for auditing technological and engineering projects was established; Enhanced focus and precision were applied in responses to the State Comptroller; An audit methodology related to compliance was implemented; Technological tools for data exploration were integrated; Audit findings were collaboratively adapted with auditees to add value; And **agile solutions were adopted to meet audit objectives amid the challenges posed by the war.**

Human Rights

This evolving area, which addresses issues including the protection of individual rights in the AI era, human trafficking, and more, is anticipated to be incorporated into Rafael's risk plan in 2024, contingent upon approvals. During the reporting period, a committee commenced operations within a relevant division to oversee export projects integrating cyber elements, ensuring compliance with legal and international standards. In 2024, Rafael plans to update additional relevant policy documents, including those pertaining to anti-slavery and human trafficking.





Quality Management

Quality in processes and systems serves as a strategic tool at Rafael. It is a cornerstone for creating customer value and for achieving the organization's vision, values, and business objectives. The quality system is embedded across all divisions and implemented throughout the project lifecycle and all organizational activities.

The Quality Concept

The quality concept is founded on several key principles:

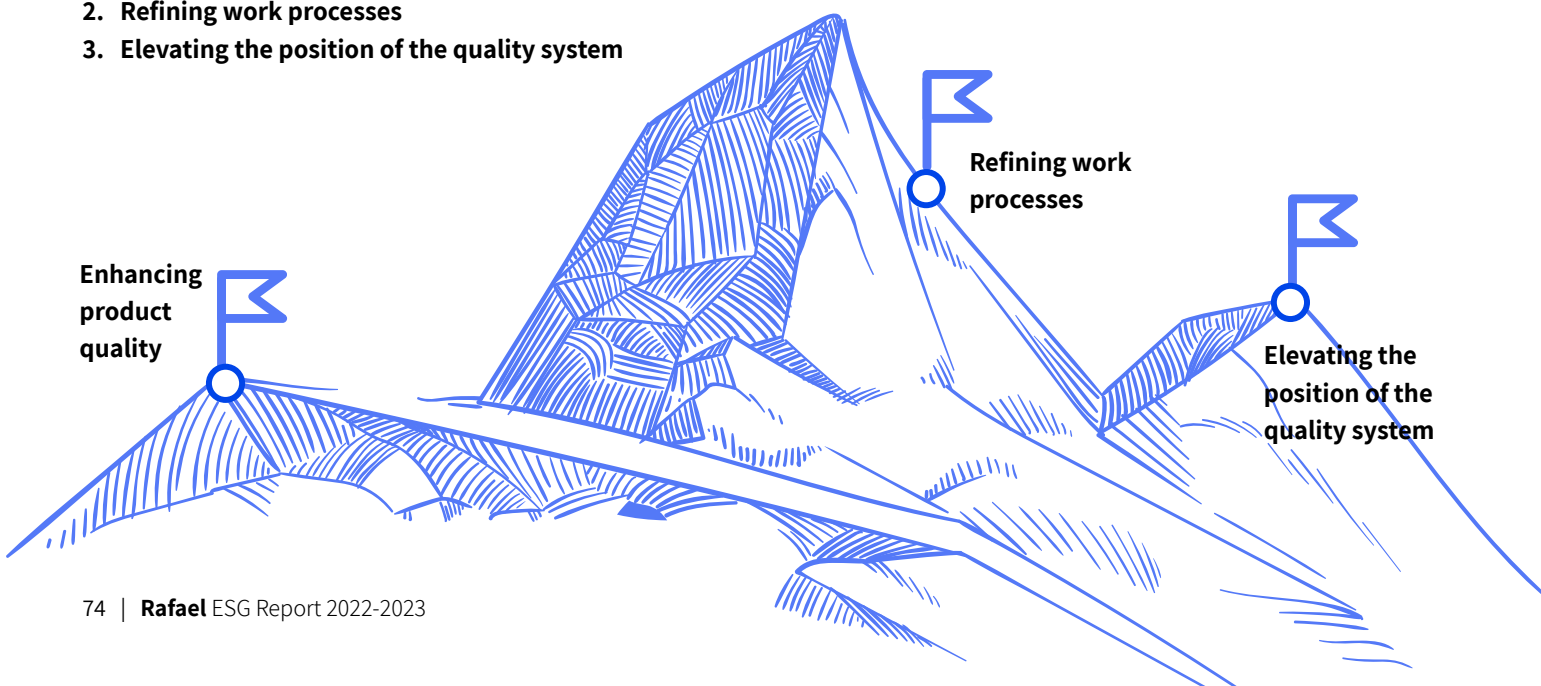
- Fostering a culture of quality
- Upholding and enhancing Rafael's reputation for excellence and reliability
- Attaining profitability and growth
- Ensuring operations comply with accepted norms in the global business and security markets
- Implementing uniform, systematic cross-organizational processes for product development, production, service, and support, while maintaining flexibility to address specific customer needs

These encompass **goals and objectives** such as streamlining work interfaces; Adapting work processes to align with project and product nature; Improving customer satisfaction while safeguarding Rafael's reputation; Strengthening customer relationships, including satisfaction management and oversight; Advancing the quality of products received from subcontractors; Deepening the quality system's impact and involvement in projects and products; Enhancing learning processes; Refining transition processes from development to production; And improving collaboration between divisions in managing customer requirements throughout the product lifecycle.

These goals were articulated from **various perspectives**: stakeholders who influence or are affected; Processes stemming from each goal; And the necessary infrastructure. **Work plans** are derived from these perspectives, with ongoing **monitoring** of activity status.

Three **primary goals** have been established in the quality domain:

1. **Enhancing product quality**
2. **Refining work processes**
3. **Elevating the position of the quality system**



During the reporting period, alongside business and operational-engineering considerations, there was a focus on enhancing organizational effectiveness and execution capabilities, including:

- Adapting processes for extensive projects and large-scale production
- Examining the product in relation to planning and vice versa – gaining insights from project management, assessing improvements, and analyzing exceptions
- Considering maintenance across the product lifecycle as a supportive role, even in the absence of a formal maintenance contract
- Influencing regulation as knowledge experts

Regarding regulatory influence, Rafael is actively engaged in aerospace & defense standardization and is a member of the International Aerospace Quality Group (IAQG), alongside global leaders in aviation. Furthermore, Rafael's quality manager serves as president of the Israeli Association of Systems Engineering (INCOSE_IL), a forum that facilitates knowledge sharing and the advancement of systems engineering methodologies and processes to enhance system quality.

The Quality Policy

The Company's quality policy is accessible to all employees, disseminated through internal communications, and executed through established quality procedures and annual improvement plans. The key objectives include:

- A commitment to organizational and personal quality that enhances the competitive value of products and services, ensuring customer satisfaction
- The implementation of an effective and efficient integrated management system grounded in defined processes, prevention, measurement, control, and personal accountability for quality assurance at the source
- A dedication to continuous improvement in processes by utilizing advanced methodologies, fostering employee engagement, promoting leadership in quality, and encouraging teamwork

Our numbers for 2023:



15

Management systems meeting their quality marks



Over 65

Inspection days of external regulators



The launching of the Quality Managers Forum

in the subsidiaries

- The establishment of a value system that nurtures human capital through professionalism, excellence, innovation, and ongoing learning throughout the organization
- The promotion of partnerships for quality, emphasizing mutual commitments with suppliers, subcontractors, business partners, and subsidiaries

The process approach employed by Rafael involves ongoing risk identification and assessment, enabling the recognition of factors that may impede planned outcomes and the implementation of preventive controls and activities. The quality system is engaged in projects from the proposal, contract, and customer requirements stages, through the definition of work points for design, development, and verification and validation processes, up to product release, support, and disposal. This includes ensuring compliance with requirements, adherence to all necessary specifications and documentation, the absence of damage and foreign objects, and proper marking and labeling. Additionally, the organizational approach fosters integrated management systems, encompassing the quality management system alongside environmental protection, occupational health and safety, transportation safety and quality, and social responsibility.



The Organizational Structure of the Quality System at Rafael

The quality system at Rafael operates as an independent and autonomous entity that reports directly to the CEO. The quality manager operates under the CEO, overseeing deputy quality managers within the divisions, as well as the manager of quality certifications and infrastructures, the manager of quality engineering processes and methods, and the manager of project management processes and system engineering. The infrastructure sector is professionally subordinate to the quality manager and is accountable for the reliability center, environmental engineering, configuration

management, calibration, and non-destructive testing (NDT). Additionally, the operational, production, and information systems quality departments, address quality requirements emerging from component engineering in procurement and the supply chain. Furthermore, quality managers are integrated throughout the organizational and operational hierarchy at Rafael to align the quality management system with customer and regulatory demands, oversee product and process quality across all units, and facilitate continuous improvement initiatives.

The quality system encompasses several professional bodies that function as service providers:

The Calibration Center

Establishes calibration regulations at Rafael and supervises their implementation.

Components and Materials Quality Engineering Center

Defines the policy on electronic and mechanical component and materials engineering, maintains the relevant professional infrastructure, and conducts evaluation, acceptance tests, and standardization for new components in procurement.

Reliability and Safety Center

Formulates, constructs, and maintains a comprehensive professional infrastructure addressing reliability, availability, safety, maintainability, and testability (RAMST).

Environmental Engineering Center

Operates the Company's environmental engineering laboratories and prepares the necessary infrastructure to support approval tests at various project stages.

Quality Departments

Located within production plants, divisions, and the supply chain, these departments manage quality infrastructure, quality engineering, testing, and auditing.



Standardization at Rafael

Rafael is a prominent company in the field of standards, proudly possessing the "Diamond Mark" from the Standards Institute of Israel for its adherence to the quality marks of 15 management systems. These standards are recognized by certification and accreditation bodies, as well as relevant clients, with Rafael adhering to both international and local standards, legal mandates, and contractual obligations, alongside the quality aspects outlined in each project's quality plan. The organization's quality management system satisfies the criteria of AS9100, a standard pertinent to the aviation, security, and space sectors, as well as ISO 14001 and ISO 9001. Furthermore, Rafael is compliant with ISO 45001 concerning occupational health and safety, and ISO 10000 regarding social responsibility management. The organization's

laboratories are aligned with the ISO 17025 standard, and its energy management practices comply with the ISO 50001 standard. In 2023, Rafael achieved certification for ISO 27701, addressing privacy and information security protection. **Throughout 2023, Rafael underwent over 65 audit days conducted by external regulatory bodies**, including the Standards Institute of Israel and the Israeli Air Force, while hosting senior officials from various international and local standards organizations, including ISO, CEN, IEC, and the Standards Institute. Additionally, product tree analysis was conducted to ensure compliance with green standards, and an assessment of customer requirements related to directives such as ROHS, which restricts hazardous substances, as well as Conflict Minerals pertaining to human rights, was performed.



Quality certification management



SI 1000

Social responsibility management system



ISO 50001

Energy management systems



About 65

Audit days of an external regulator



ISO 17025

Laboratory certification



ISO 27035

Guide for the management of information security incidents



AS 9100D

Quality in aerospace, space and defense companies' management system



IPC

Electronic production certification



ISO 27032

Cyber security



ISO 9001

Quality management system



ISO 27701

Privacy protection online, new in 2023



ISO 37001

Management of systems for the prevention of bribery and corruption



ISO 14001

Environmental quality management system



SI 9301

Safety and quality management systems Transport and traffic system



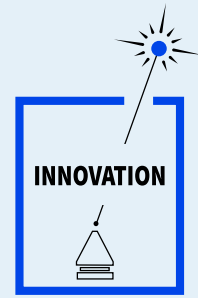
ISO/IEC 90003

Software engineering implementation



ISO 27001

Information security management



Innovation in Quality and Mechanisms for Promoting Quality

Rafael employs various approaches to the quality management process:

- **Continuous Improvement**

Annual quality improvement plans establish goals, objectives, and indicators focusing on essential issues such as customer centricity, project management, the design process, tools and infrastructure, procurement and logistics, and human resources. Divisional plans are derived from the annual plan and are subject to ongoing monitoring.

- **Comprehensive Quality**

Quality processes are embedded in all organizational activities and aspects of project management and system engineering, from the proposal phase through the system lifecycle, ensuring coordination with customers and regulators.

- **Dedicated Fund and Budget for Initiatives**

This initiative aims to foster innovation in quality, focusing on enhancing organizational and project processes.

- **Integration into Management Systems**

Quality, environmental protection, occupational safety and health, and the safety and quality of the transportation system are integrated within the management infrastructure, thereby increasing system efficiency, improving professional standards, and facilitating managerial and integrative focus across all processes.

- **Integrated Engineering**

This approach, implemented from the initial stages of a project, aims to reduce time to market (TTM), enhance production processes, and decrease costs.

- **Collaboration Among Subsidiaries**

In 2023, a forum for quality managers from Rafael's subsidiaries was established, convening at least once annually to communicate key messages, present research findings, and share conclusions.

- **Internal and External Audits**

These audits serve as a reflective feedback mechanism and a means for continuous improvement, with 417 internal audits and over 65 external audits conducted in 2023.

- **Automation and Digitization**

This strategy enhances accessibility to information and knowledge (such as target maps, supplier definitions, and management of customer requirements and expiration dates), improving procurement and product quality, and facilitating cross-functional operations. Automation enables data retrieval at the click of a button, ensuring consistent, repeatable, and transparent process management.



- **Management Surveys**

These surveys facilitate consultation, derive lessons, and formulate improvement strategies.

- **Training and Access for Employees Based on Specialization**

Training programs include Certified Quality Engineer (CQE), Certified Reliability Engineer (CRE), and Certified Quality Manager (CQM) courses, alongside seminars, videos, and online training.

- **Quality Awards as a Lever for Employee and Unit Self-Improvement**

Rafael's quality awards, which incorporate financial incentives, aim to promote excellence (mirroring it to customers and suppliers), enhance productivity, provide public recognition to outstanding performers, and stimulate self-improvement among employees and units. Competing for these awards additionally prepares candidates for external quality awards and reinforces the principle that quality is fundamentally about Rafael's employees.

Safety of Manufactured Systems

Rafael has established a procedure that delineates a systematic approach for incorporating safety as an intrinsic characteristic into all products and systems under the Company's purview – whether developed and supplied directly or through subcontractors under its auspices or in collaboration with other entities. This procedure is also designed to ensure an acceptable level of risk during the utilization of these products, encompassing activities related to logistics, storage, maintenance, training, transportation, operational use, and disposal.

Consideration of software-related safety aspects is conducted in collaboration with all project stakeholders, including customers, partners, subcontractors, potential users, other interfacing systems and projects, and any entities impacted by or influencing the project. In cases where systems interface with others (e.g., Systems of Systems), the project manager guarantees continuous testing and monitoring of the technical and managerial processes concerning safety aspects on both sides of the interface.

Preventing the Use of Counterfeit Components and Materials

Recognizing the serious potential ramifications, **this issue is regarded as critical in the Aerospace & Defense sector.** At Rafael, a procedure is implemented, adhering to the guidelines of the SAE AS5553 standard. This procedure outlines methods to manage risks and prevent the infiltration of non-original materials and components into the supply chain, including notifications to quality and engineering departments and disseminating information to suppliers regarding component rejection and destruction. It is imperative to emphasize that the introduction of such items into Rafael systems is strictly prohibited, therefore, they will be destroyed irrespective of their condition.



Information Asset Management

Rafael's knowledge asset management methodology is directly aligned with the organizational strategy, including its global approach. This strategy is informed by the individual strategies of each business division and the technological advancements that are critical for sustaining Rafael's competitive edge in development and production capacity in the years ahead. To establish Rafael as an innovator and safeguard its technological superiority over competitors, the Company systematically manages the documentation of knowledge and its comprehensive database of information, guided by a strategic outlook. The protection of technological advantage is articulated through two primary areas of focus: establishing a defensive core of information assets in strategic domains, supported by a comprehensive and diverse portfolio of patents. This encompasses development processes, innovation identification, alternative examination, and rigorous training in business development for product leaders, alongside territory-specific registrations. Additionally, it involves active opposition to competitors' patent applications that could hinder Rafael's development or pose other challenges. This complex process necessitates continual monitoring and analysis of extensive information regarding the market, potential customers, competitors, and technologies. Frequently, the legal opposition process culminates in a licensing agreement between the involved parties.

In all development partnerships, whether academic or otherwise, Rafael endeavors to safeguard its proprietary rights through appropriate legal agreements. Additionally, the Company has implemented a comprehensive mechanism for managing cyber risks, ensuring confidentiality and privacy. Rafael adheres to all relevant regulations and laws, including the Israeli Privacy and Information Security Law and the GDPR guidelines.

Transparency of Information Provided by the Company

The principles of information transparency and privacy protection serve as fundamental pillars of the Company, as expressed in the handling of its products and services. Rafael prioritizes a transparent and supportive approach toward its customers within its organizational culture. This commitment is essential for the successful maintenance of customer confidentiality and the development of tailored solutions. To safeguard the privacy of its business partners (approximately 65 in 2023) Rafael has established a dedicated unit known as "Business Partners". Only individuals with the appropriate permissions are authorized to manage communications with these partners, ensuring the confidentiality of both customer information and transaction details.

These measures not only preserve the privacy of business partners' information but also foster transparency and trust between Rafael and its partners, guaranteeing that all communications and transactions occur in a secure and regulated manner. Furthermore, Rafael's adherence to customer specifications, coupled with the preparation of comprehensive manuals for supplied systems, enhances its transparency. These manuals document extensive testing processes, including performance, quality, safety, calibration, and environmental assessments. Periodic surveys and meetings, conducted at both Rafael's facilities and customer sites, reinforce the principles of transparency and trust in operational procedures. Requests concerning freedom of information not directed at customers, such as inquiries from government entities, are evaluated on a case-by-case basis and responded to substantively, without revealing sensitive system information. Data eligible for disclosure regarding Rafael's systems is accessible on the Company's website, in various publications, and through media channels.

During the reporting period, there were no claims against the Company concerning information transparency or failures to provide essential information regarding its products or services.

Customer Service and Responsibility

Customer service, which includes support and maintenance for systems, falls under the purview of a customer support and retention unit reporting directly to the CEO (relationships with local business partners are managed by a separate unit at Rafael, which facilitates the establishment of a common interface). This unit is dedicated to securing long-term maintenance agreements. **During the reporting period, maintenance agreements with 20-year terms were successfully executed.** As stipulated in the agreements and service charter, the Company's obligations extend to items categorized as obsolete, meaning production of which has ceased. The maintenance plans are centralized in a system accessible to customers, contingent upon permissions granted from the POINT center.



Iron Swords and Customer Support

Rafael's direct support for the Israeli war effort, along with the allocation of resources for this initiative, necessitated adjustments in activities with the Company's customers, including legal arrangements. Among the issues addressed were loan arrangements for consumable equipment, order conversions, and the establishment of internal work procedures with the Ministry of Defense and customers. A letter was disseminated to the Company's customers in Israel and worldwide in three languages, which highlighted the emphasis on the war effort (including system upgrades and the accumulation of operational experience, combat proven) while also clarifying that other tasks and needs are being addressed to ensure functional continuity is maintained.



Commitment to Environmental Protection

Rafael prioritizes the protection of the natural environment, recognizing its importance to the Company and its stakeholders, particularly as a governmental entity serving the Israeli public. The Company continuously strives to minimize environmental impact and reduce the consumption of natural resources. Rafael is dedicated to adhering to all legal requirements, including laws, bylaws, and regulations, as well as the ISO 14001 standard and the principles of corporate-environmental responsibility. While this presents significant challenges for an industrial manufacturing organization, we take pride in our successful efforts and commitment to continuous improvement, leveraging our advanced capabilities and technologies.

Environmental considerations are integrated into every phase of our operations, from planning and development to production, storage, and transportation to the customer. Our environmental initiatives are guided by the policy established by the organization's management, which is periodically reviewed and updated. This policy is embedded within our procedures, publications, and stakeholder training programs.

Over the past three years, Rafael has invested approximately NIS 55 million in environmental management.

Activity focused on waste treatment and reduction, energy efficiency, minimizing air emissions from production processes, and enhancing our infrastructure through advanced planning with a proactive approach.



 **NIS 8M**

Investment in environmental management in the last three years

The Environmental Protection Management Unit

The Company's policy in this area is implemented by the **Environmental Protection Unit**, which focuses on efficient and proactive environmental management while ensuring compliance with legal requirements in alignment with legislative updates, and aims for continuous performance improvement.

The unit reports to the VP of Operations and the VP of Environmental Protection, as well as the Infrastructure and Logistics Administration VP. It comprises the Environmental Protection Headquarters, safety and environmental protection engineers, a toxics management unit, and production facility managers.


The environmental strategy is developed by the Environmental Protection Headquarters, the VP of Environmental Protection, and the Logistics Infrastructure Administration VP, receiving approval from the Board of Directors. This strategy outlines goals, timelines for achievement, and methods for monitoring and measurement.

The **Environmental Protection Headquarters** is responsible for drafting procedures and guidelines, analyzing environmental performance, leading the implementation of environmentally friendly technologies, providing response strategies during emergencies, and liaising with regulatory authorities. Furthermore, the headquarters manages advertising and reporting, including media announcements and public communications during environmental events, in collaboration with and with the approval of other senior officials within the organization, and provides consulting on environmental risk issues. **Safety and environmental protection engineers** coordinate and authorize work processes and risk assessments to ensure optimal environmental protection and compliance with relevant regulations and laws. **Environmental protection officers** function across various sectors. Depending on the complexity of the site and its permits, these activities are often integrated in a matrix format with safety, quality, construction, infrastructure, maintenance, development, and production systems, among others. Furthermore, **all employees** are engaged in environmental initiatives, receiving specialized training on environmental protection during onboarding. Those in roles with direct environmental impact, such as handling hazardous materials, receive targeted training from unit safety and environmental protection engineers, along with ongoing updates as necessary.


All Company organizations possess a valid business license, with adherence to environmental protection standards being a prerequisite for obtaining a business license and toxics permit from the Defense Plant Licensing Division of the Ministry of Interior, operating in cooperation with representatives from the Home Front Command and the Ministries of Health, Economy, and Environmental Protection.

Our numbers for 2023:

 **0**
Violations or fines pertaining to environmental protection

 A **16%** Decline
In the intensity of greenhouse gas emissions compared to 2023

 **30.5%**
Rate of green vehicles

 **NIS 8M**
Investments in activities to reduce energy consumption

 **20%** Decrease
Violations or fines pertaining to environmental protection

 About **60%**
Of all waste generated at Rafael sites is transferred for treatment and recycling/reuse and not landfilling



Environmental Risks

Rafael employs a structured process for assessing and managing risks associated with occupational safety, traffic, and environmental protection across all relevant activities, including R&D, infrastructure construction, production, testing and operation, maintenance and service, demonstration, training and use, knowledge transfer, upgrading, and scrapping. Each risk is assessed individually for its impact on personnel, equipment, and the environment, ensuring a comprehensive evaluation of environmental consequences. This process includes the adoption and implementation of advanced technologies to mitigate environmental impact, alongside consultations with experts and evaluation of professional literature prior to the utilization of any new materials.

In response to the identification of an **emerging climate change**-related risk within the Company, and to prepare for potential future scenarios, a climate risk assessment was initiated in 2023. Acknowledging the significance of this issue and anticipating forthcoming regulatory changes, the Company collaborated with a consulting firm to conduct the survey. This assessment utilized models from the Meteorological Service and included site visits to company facilities. The summary of the survey, its presentation, and the development of action plans to address identified gaps are scheduled for completion in 2024.



Indicators and Monitoring

Rafael conducts comprehensive environmental monitoring, supported by measurements and quantitative, comparable data, pertaining to emissions, wastewater, effluent, groundwater, soil, energy consumption, raw material consumption, waste management – including hazardous waste – and noise pollution. The Company diligently adheres to the threshold requirements established by relevant laws and regulations. To achieve this, the efficiency of wastewater treatment facilities, production processes, volatilization, and air emissions treatment facilities is meticulously managed and monitored, alongside infrastructure that impacts the environment, including the transport of hazardous chemicals and storage tanks. As part of the environmental system management, the impacts on the environment are characterized and defined in alignment with stakeholder requirements and expectations. **Rafael ensures that all aspects related to its environmental impact, including biodiversity considerations, are reviewed at least annually or as necessary in a dedicated document.** This document outlines strategies to minimize impacts, as well as associated risks and opportunities.

The Logistics Infrastructure Administration VP, present the environmental goals and objectives, along with the status of actions taken to achieve these goals, to management and the board of directors annually. A similar procedure is implemented in each division as part of biannual management surveys, guiding the formulation of work plans accordingly. **Environmental considerations are integrated into the initial planning and program writing stages of systems and products (Design for the Environment, or "reduction at source"), in collaboration with the environmental protection team, safety engineers, and the quality manager.** The "Rafael Designer's Guide" serves as a resource for implementing the environmental protection policy in product development, including restrictions and prohibitions on specific materials and production processes, along with proposals for environmentally friendly technologies and materials.

In managing the lifecycle of products and services, considerations of social responsibility – including health, safety, and environmental protection – are integrated throughout, from planning to the end of the product's life. This commitment is also evident in the implementation of stricter standards for the planning and construction of new buildings, in the allocation of space, and in the assessment of transitioning to green construction or a closed system with zero emissions, as well as the evaluation of alternative

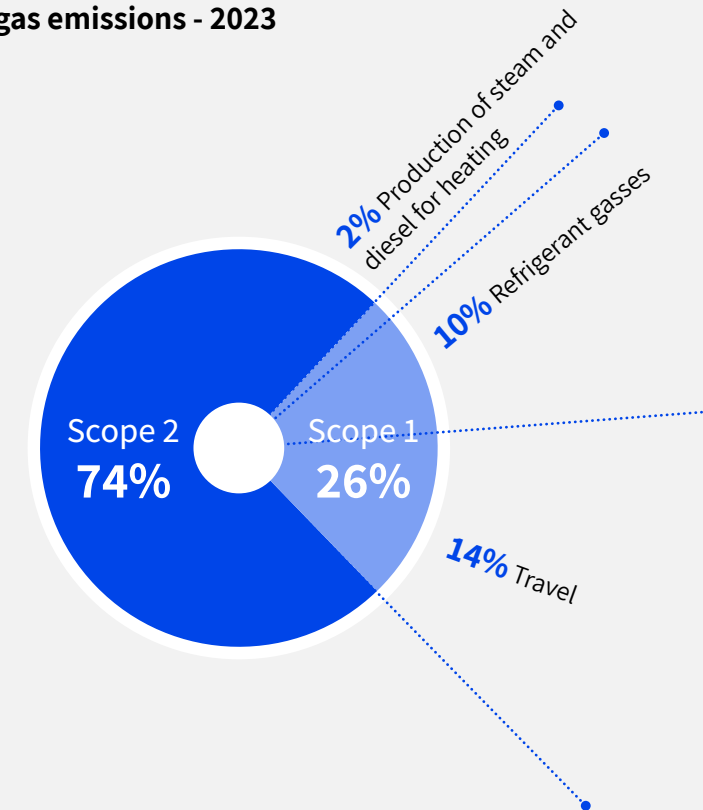
green materials. Environmental considerations are strictly enforced in procurement and throughout the supply chain, as evidenced by concrete requirements imposed on suppliers within contracts and environmental guidelines established for suppliers and contractors at Rafael. **During the reporting period, there have been no violations or fines recorded regarding environmental protection regulations.**

Greenhouse Gas Emissions Management and Monitoring

At Rafael, greenhouse gas emissions are managed through systematic and continuous monitoring, maintenance, and measurement activities. The primary emission sources include electricity consumption and fuels utilized for production and transportation. As of 2023, **74%** of our carbon footprint is attributed to electricity consumption ("Scope 2"), with the remaining emissions classified as direct emissions ("Scope 1") – specifically, transportation (14%), refrigerant gases (10%), and steam production

(2%). The electricity utilized at Rafael is sourced from a natural gas power plant, which provides a lower emissions intensity (tons of carbon dioxide equivalent per kWh net) **compared to the national electricity grid**, thereby reducing the organization's overall carbon footprint. **In 2024, the Company will also begin to address requirements associated with the Carbon Border Adjustment Mechanism (CBAM), a new carbon pricing initiative within the European Union.**

Mix of greenhouse gas emissions - 2023

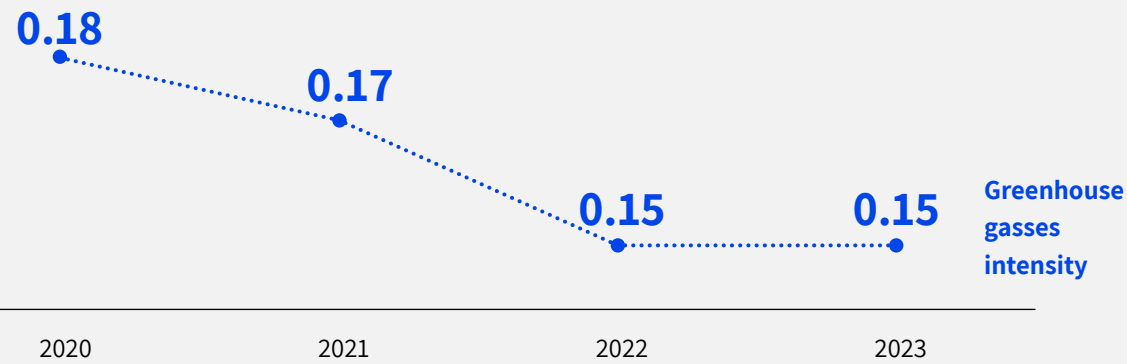




Since 2020, the emissions intensity index has **demonstrated a notable decrease of approximately 16% per built square meter owned by the Company**. This decline occurred **despite a 16% increase in production volumes** and energy consumption during the same period. The reduction is primarily attributed to a decreased use

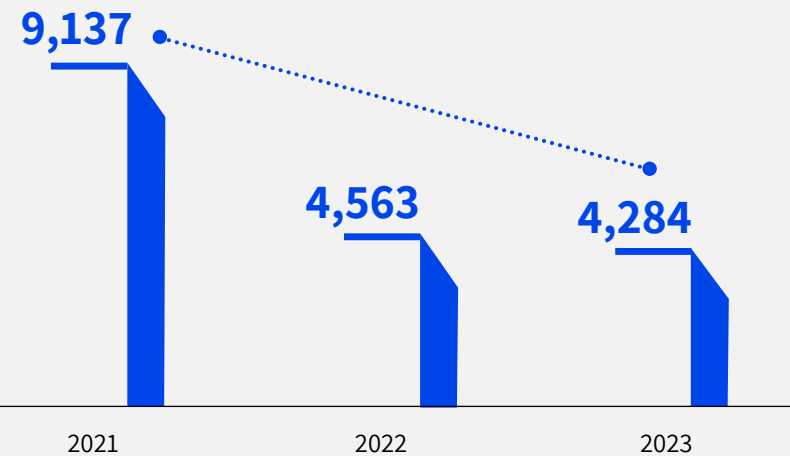
of refrigerant gases, the adoption of refrigerant gases with lower emission coefficients, and an increased reliance on green vehicles. Emissions data is reported annually on a voluntary basis to the "Maala" rating.

Greenhouse gas emissions in tons per tCO₂e units with respect to built sqm



Reducing emissions from refrigerant gases

Refrigerant gasses (kg)



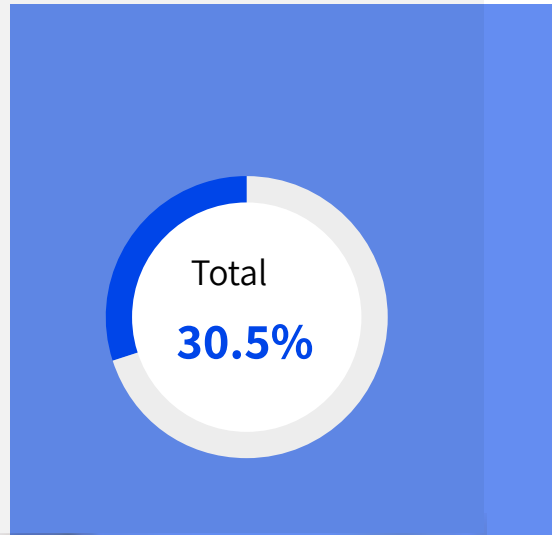
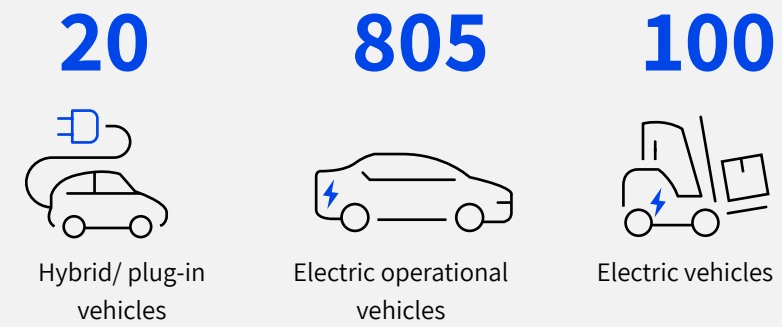
53%
Reduction in the use of refrigerant gasses within three years

Reducing Emissions from Travel

The vehicles procured for Rafael employees are designed with a low air pollution index, and those eligible for a company vehicle may opt for a hybrid model. In addition, a fleet of electric forklifts and vehicles has been introduced for internal use. **During the reporting period, NIS 4 million was allocated to enhancing electric charging infrastructure**, resulting in the deployment of **40 charging stations** across key locations (at the David Institute: 20 AC and 6 DC fast-charging stations; at the Leshem Institute: 10 AC and 4 DC stations). **The percentage of green vehicles reached 30.5% in 2023**, comprising 805 hybrid/plug-in vehicles, 100 electric operational vehicles, and 20 electric

vehicles, **an increase from 22% at the end of 2020**. The Company aims to replace a substantial portion of its vehicle fleet with electric or hybrid options to minimize greenhouse gas emissions and other pollutants. Rafael ensures the conduction of air quality tests on vehicle exhaust systems during each periodic maintenance. Furthermore, the Company actively promotes the use of its comprehensive transport network, which includes approximately 650 routes utilized by thousands of employees daily, thus contributing to the reduction of carbon emissions.

Rate of green vehicles in 2023





Energy Efficiency

Energy management is a critical focus for Rafael, it being an industrial and manufacturing company. The organization is committed to establishing and maintaining energy management systems aimed at enhancing performance quality while achieving savings in the use and efficient utilization of natural resources, all without compromising the ability to meet energy requirements.

Rafael has held certification to the ISO 50001 standard from the Standards Institute of Israel since 2015, which mandates a comprehensive energy survey every six years for all consumers and equipment at its sites. This survey aims to identify potential savings and formulate actionable recommendations. As part of this initiative, a multi-year investment plan for energy efficiency measures, amounting to approximately NIS 11 million, was approved in 2023. Implemented measures include the replacement

of less energy-efficient systems, installation of garden irrigation controllers, additional electricity meters, presence detectors, and a pilot project for window shading to reduce thermal load in buildings. The next survey is scheduled for 2025.

Energy consumption across all Rafael sites is under continuous monitoring, with the majority of consumption occurring at the David and Leshem institutes. In 2023, total energy consumption reached approximately 790,000 GJ, marking a 16% increase compared to 2020, attributed to a rise in activity and production levels. A comparative analysis between 2022 and 2023 indicates a stabilization trend in overall energy consumption, driven by a reduction in fuel usage due to energy efficiency initiatives (such as the adoption of electric vehicles and the conversion of boilers from fuel to electricity).

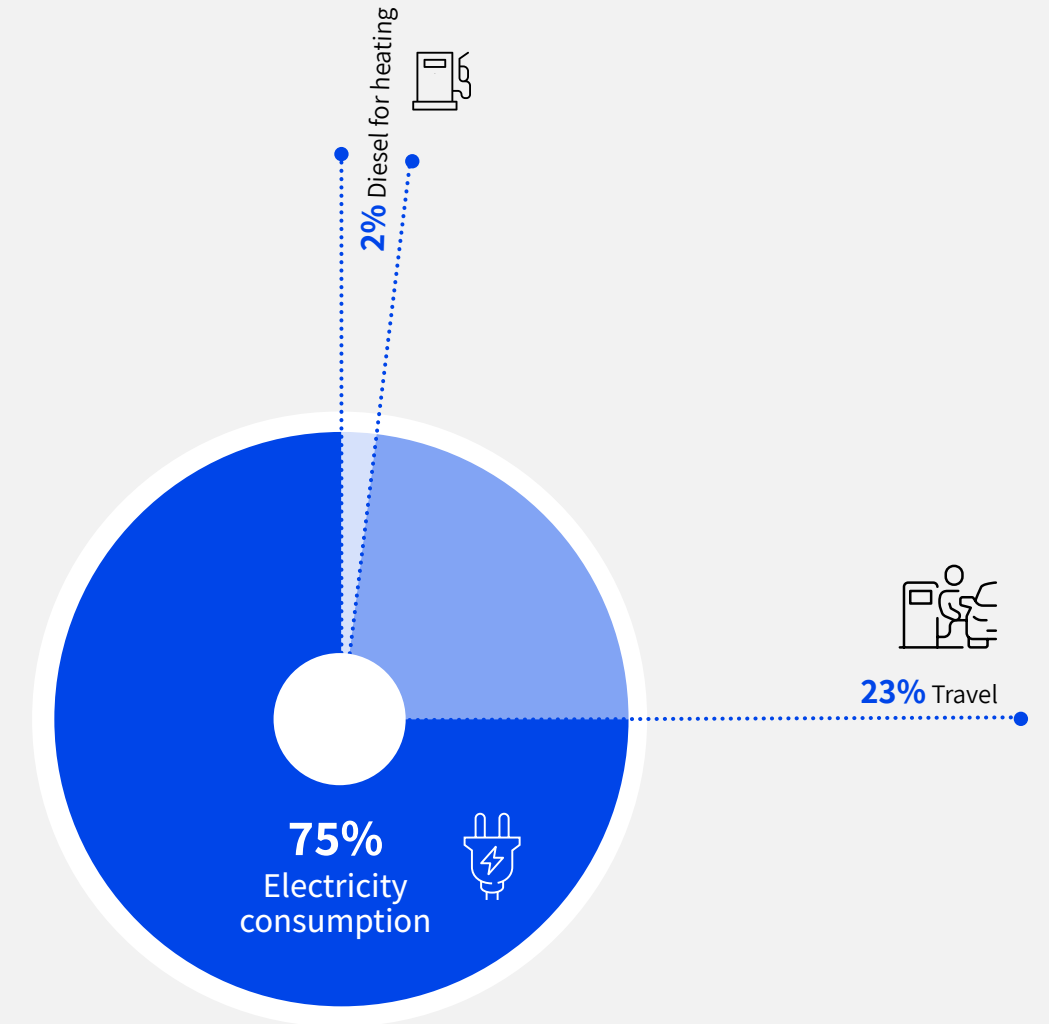
During the reporting period, over NIS 8 million was invested in initiatives aimed at reducing energy consumption within the organization, including:

Water meters	Electricity meters	Vehicles	Refrigeration systems	Purchase of equipment	Energy
A pilot program for the installation of remotely activated controllers using RF technology	Plan for the installation in buildings with more than 63 amps, in three cycles	Conversion of the vehicle fleet	Replacing the refrigeration systems (energy savings of about 7.8 million kWh in the reporting period)	Electric equipment with an energy rating lower than A shall not be purchased, when exceptions are approved by a committee	Mapping the heavy energy consumers in the organization






More than NIS 8M
Investment in actions for reducing energy consumption in the organization

Mix of energy consumption in 2023



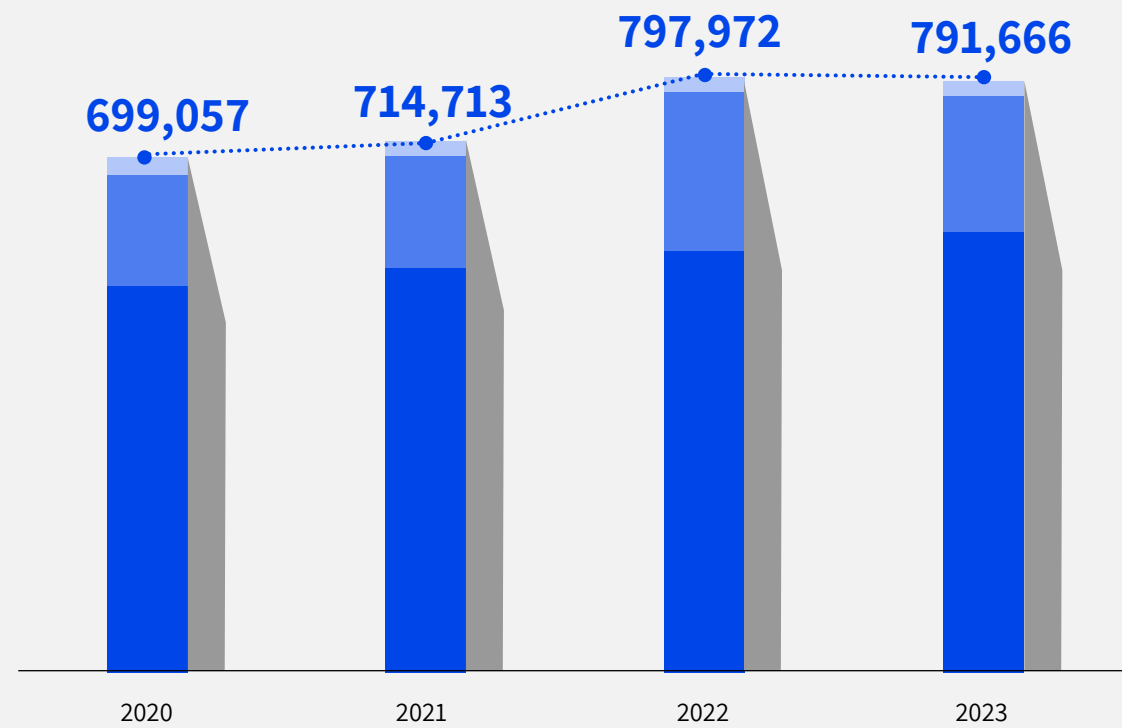
Energy consumption in the organization in 2020-2023 (GJ)

Source	2020	2021	2022	2023
 Diesel for heating	28,851	20,994	14,783	18,772
 Travel	155,307	157,176	221,083	182,663
 Electricity consumption	514,899	536,543	562,106	590,232
Total	699,057	714,713	797,972	791,666

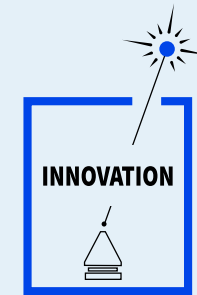


Mix of energy consumption in 2020-2023 (GJ)

■ Electricity consumption ■ Travel ■ Diesel for heating — Total



In 2023, Rafael initiated a strategy aimed at achieving energy independence through the development of a tender for the construction of a 15 MW natural gas-based power plant, alongside a 6 MW renewable energy (solar) system and associated storage. This initiative includes an assessment of potential sites for the installation of photovoltaic panels. The project will create substantial opportunities for enhancing energy efficiency, minimizing reliance on generators, and lowering the carbon footprint



Air Pollution Emission Management

As an industrial manufacturing entity, Rafael utilizes hazardous materials. To mitigate their impact, the Company is committed to continuously enhancing production and mechanization processes, updating work methodologies, and replacing materials when necessary. The implementation of scrubbers and facilities for treating acidic materials has enabled Rafael to reduce air emissions by a minimum of 98% through a catalytic chemical reaction.

In 2022, in response to updated regulatory requirements under the Clean Air Law, Rafael developed and established a specialized facility for pollutant treatment aimed at preventing air emissions, at an investment exceeding NIS 12 million. This facility effectively treats volatile organic compounds (VOCs) through a complete combustion process (thermal oxidation), achieving a remarkable efficiency of 99.9%.

Preserving Nature and Biodiversity

Rafael maintains two nature reserves on its premises – one adjacent to the beach near the David Institute and another comprising the winter pool at the Leshem Institute. The Company is dedicated to safeguarding these reserves, prohibiting construction and usage within their areas, and protecting the biodiversity they support. Efforts include conducting targeted academic studies to protect the natural pool and its unique ecological diversity, implementing a quarterly waste cleanup plan for the beach, and collaborating with the Sea and Coasts Division of the Ministry of Environmental Protection to care for sea turtle nesting areas, including the potential relocation of eggs, if necessary.

Preventing Soil Pollution

The Company has transitioned from steam boilers for water heating to electric boilers, significantly reducing fuel consumption and the need for fuel storage. To avert soil and groundwater contamination from abandoned underground tanks, Rafael proactively removed them from the David Institute, the Shdema Institute, and the Giva Institute. Additionally, Rafael adeptly manages surface runoff in its operational areas, including rainwater and leachate.

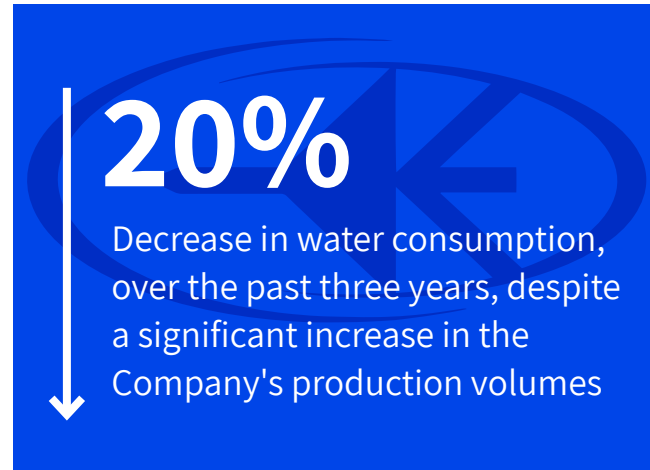
Through comprehensive mapping and characterization, the Company has enhanced the separation of drainage systems, effectively distinguishing leachate from operational areas, which is collected and treated in compliance with regulatory standards, from clean surface runoff. In line with regulatory requirements and best practices, Rafael is engaged in planning and establishing designated operational areas to adapt these infrastructures.





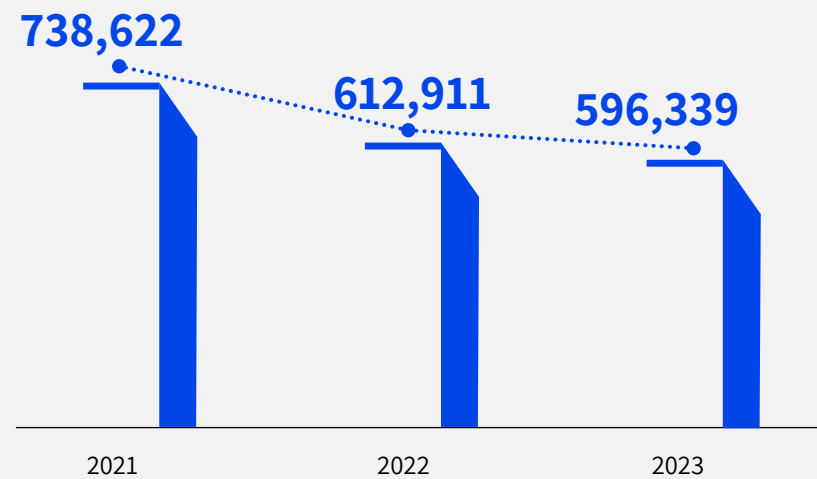
Water Consumption

Water at Rafael is sourced from local water corporations and is utilized for industrial, potable, irrigation, cooling, and sanitary purposes. **The organization aims to achieve a reduction in water consumption, setting a target of 2% per annum.** To facilitate this objective, on-site monitoring and measurement are conducted, mapping of the various consumers and potential vulnerabilities for water wastage is carried out, and tracking of facilities and processes that utilize substantial quantities of water is implemented. A work plan has been established to install meters for the analysis of water consumption in the different buildings. The reduction in water consumption is attributed to the remediation of a significant water leak that occurred in January and February 2021 (as reported in



Rafael's seventh Corporate Responsibility Report) and to enhanced management and oversight in the irrigation of gardens throughout Rafael.

Consumption of fresh water (in cubic meters)



Sanitary Wastewater Treatment

The Rafael Institutes operate two wastewater treatment plants (WWTPs) that adhere to the regulations established by the Ministry of Environmental Protection and the Ministry of Health, specifically for the treatment of sanitary wastewater.

The David Institute WWTP has a treatment capacity of approximately 600 cubic meters per day and is equipped with a primary collection pond, an emergency collection pond, filtration and disinfection systems, and a computerized control system. The wastewater undergoes purification to a tertiary level and is subsequently repurposed for agricultural irrigation through the regional wastewater reservoir located at Mate Asher.

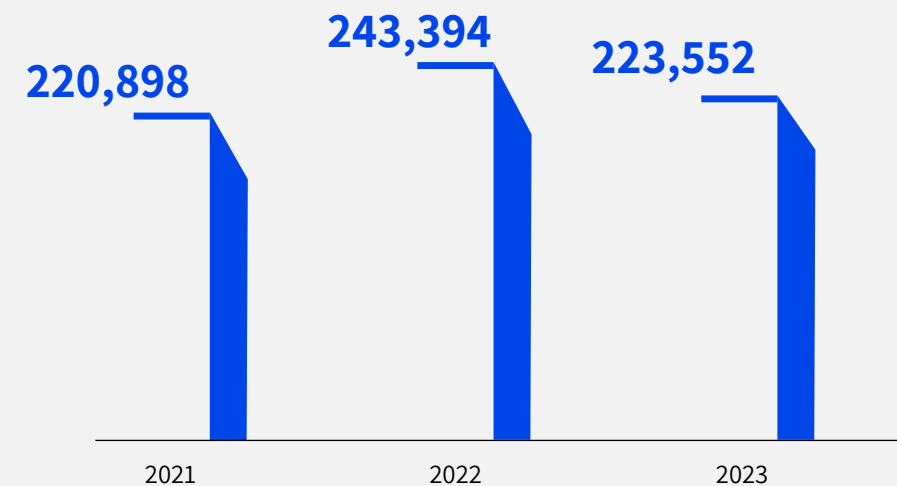
Conversely, **the Shdema Institute** WWTP processes approximately 24 cubic meters per day to a secondary level, with the treated wastewater designated for the irrigation of local vegetation within the Shdema

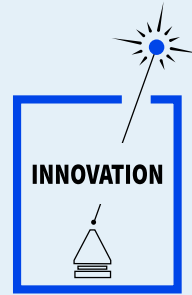


Institute area, as sanctioned by the Ministry of Health. Wastewater from the Leshem Institute and the Giva Institute in Givatayim is directed to regional collection systems, from which it is later utilized for irrigation purposes.



Scope of wastewater generated (cubic meter)





Innovation and Green Technologies in the Treatment of Hazardous Waste

Industrial wastewater generated at Rafael facilities presents a significant environmental challenge due to its complex properties. This wastewater is systematically collected, evacuated, and treated at licensed hazardous waste management sites. A distinct innovative process, currently undergoing pilot testing within the Company, facilitates the local treatment of a specific type of hazardous waste. Upon completion of the treatment, the resultant stream is reintegrated into the production process, thereby diminishing both the volume of hazardous waste discharged from Rafael's premises and the loss of water, with estimated savings of approximately 80 cubic meters per month.

Estimated savings

80

Cubic meters per month



Waste

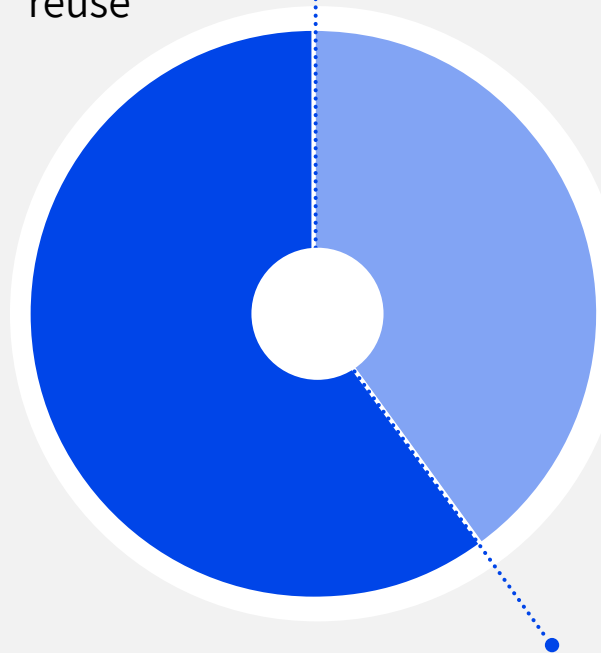
The objective of the waste management and treatment system is to maximize recycling and reuse. Waste types are categorized according to their respective treatment streams. **Approximately 60% of all waste generated at Rafael sites is directed toward treatment and recycling/reuse, in lieu of landfilling.** Non-recyclable waste is sent for necessary treatment at authorized facilities, adhering to the guidelines set by the Ministry of Environmental Protection. In 2022, a project was initiated to collect and treat construction waste at Rafael sites. This project involved centralized collection of construction waste, with a focus on transferring as much material as feasible to shredding and reuse processes within Rafael's facilities. Any residual waste that could not be processed internally was transferred for treatment at authorized locations. Additionally, shredded cutting is repurposed as fertilizer across Rafael.

In 2023, a milestone was achieved with the transfer of six tons of packaging for recycling, as part of an agreement with the Tamir Recycling Corporation, instead of sending it to a landfill. Recent trends indicate an increase in household waste volumes, attributed to the increased food provision for employees in the kitchens. The Company anticipates further increases in waste volume in 2024 due to employee mobilization for the war effort during the "Iron Swords" War. Rafael is constantly working to improve and refine the collection of waste data across various sites, while thoroughly analyzing trends to improve operational efficiency. To support these streamlining initiatives, 2022 saw a significant reform in monitoring the quantities of waste designated for treatment, reuse, recycling, or landfilling. Consequently, the data presented from this year forward is expected to be more precise.

Mix of solid waste treatment - 2023

60% recycling/reuse

40% landfilling



60%



Of all waste generated at Rafael facilities is transferred for treatment and recycling/reuse and not landfilling





Scope of non-hazardous waste (in tons) at the David and Leshem Institutes

Type of waste	2021	2022	2023
Home	1,614	1,901	2,319
(Construction (waste transferred to authorized sites	182	1,043	511
Mixed masses	1,017	471	975
Total waste for landfilling	2,813	3,415	3,805
Metals	4,781	720	520
(Construction (undergoing recycling on Rafael premises	-	3,048	4,085
Electronic	962	115	160
Wood	503	363	445
Cardboard	214	218	446
Paper	72	17	50
Cuttings	37	430	-
Plastic	11	14	12
Packages – new stream from 2023	-	-	6
Total waste for recycling/ reuse	6,580	4,926	5,724
Total solid waste	9,393	8,341	9,529

Hazardous Materials Waste

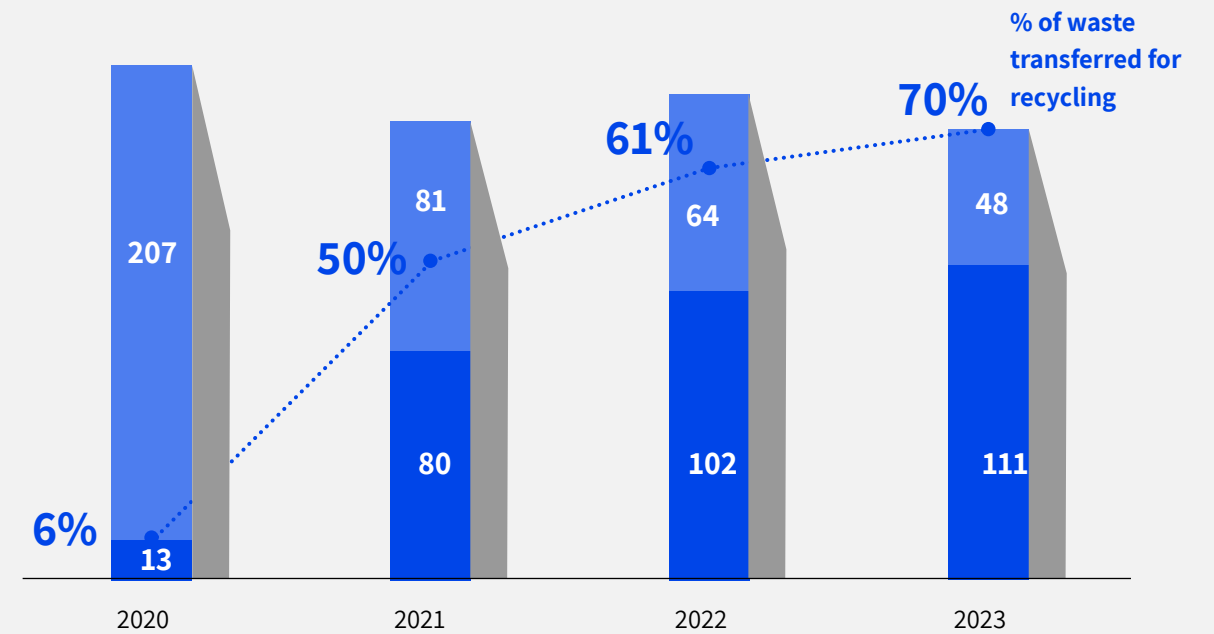
Hazardous materials waste is managed at Rafael by the "Infrastructure and Production Means" section and a hazardous waste supervisor who is responsible for toxic substances, in accordance with the Company's chemical permit and legal requirements. Storage is done at designated sites with separation according to risk groups, with strict adherence to standard signage, emergency equipment, and more. In 2022, the use of an innovative and safe interim site equipped with an electronic monitoring system began. The interim site allows for safe and orderly management of waste inventory until its

disposal. Concurrently, optimization of unique processes was carried out using smart and tailored systems, which enabled maximum extraction in production and thus also reduced the amount of hazardous waste generated in the process. In one instance, to replace a substance considered carcinogenic, the production method was changed while ensuring that product quality was not compromised. **In the last three years, there has been a leap in the percentage of hazardous waste sent for recycling, from 6% to 70%.**

Hazardous waste recycling and waste figures with respect to sales (NIS billion)

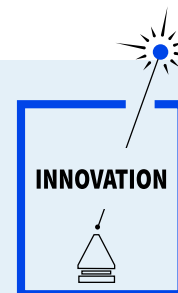
- Hazardous waste transferred for recycling or reuse with respect to sales in NIS billion
- Hazardous waste transferred for landfilling with respect to sales

↑ From **6%** to **70%**
Increase in percentage of hazardous waste transferred for recycling in the past three years



Hazardous waste at the David Institute (ton)

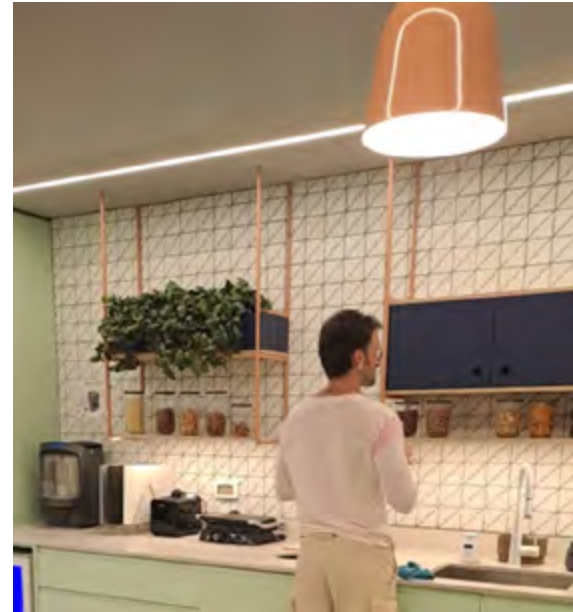
Type of waste	2021	2022	2023
Hazardous waste – landfilling	737	658	581
Hazardous waste – recycling	728	1042	1,326
Total hazardous waste	1,465	1,700	1,907



In addition to existing waste treatment processes, Rafael leads joint research with leading universities in the country to find solutions for biological treatment of hazardous waste types that pose treatment challenges.

Rafael Thinks Green

Alongside production efficiency, storage, and operations, reducing environmental impact also depends on the daily behavior of each employee. **The "Rafael Thinks Green" initiative aims to encourage initiative, thinking, and action for the environment at the Company's sites, and to provide tools that will enable impact reduction at the individual level.** As part of the initiative, Rafael increased exposure to the topic through dedicated signage, publications, internal communications, and video screenings. "Green Days" were also held to raise awareness among organization members on environmental protection issues at the individual level, waste separation, recycling encouragement, and reducing food waste. Around World Environment Day, comprehensive activities are planned for 2024 to promote and enhance environmental awareness.



Placed across the sites and near the entry to buildings



About **500**
recycling bins for bottles and cans



75
orange recycling bins



90
battery recycling stations



26
niches for recycling centers aimed at preserving order and cleanliness and help separate the waste streams



30
Waste bins for the busing of trays for recycling were placed near the dining halls and food areas outside the buildings

Additionally, paper waste has been reduced, and the volume of paper orders in 2023 compared to 2022 decreased by 22%. This reduction in waste was achieved, among other things, by changing the default setting on printers to double-sided printing and through the issuance of a digital pay slip – an alternative that, as of August 2023, 55% of employees chose. In order to prevent food waste, leftovers are donated by the catering supplier in collaboration with "Leket Israel".

Over
15,000
food containers which constitute about 100,000 meals were donated in 2023 in the initiative to reduce food waste

Emphasis is placed on minimizing the use of non-biodegradable disposable utensils within the catering system and coffee stations. The use of straws has been entirely eliminated. **Fourteen offices**, including the CEO's office at the Leshem Institute, have been transitioned to "green" status, featuring reusable utensils, waste separation bins, and dishwashers. **This initiative is particularly significant, as Rafael operates 27 catering facilities serving approximately 150,000 employees monthly, along with 350 kitchenettes for employee and guest services.**

During the reporting period, specific goals were established:

By the end of 2023 – a 90% reduction in the usage of plastic cups for cold drinks was fully achieved.

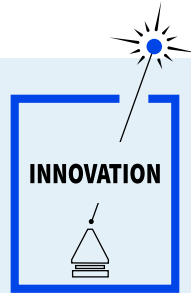
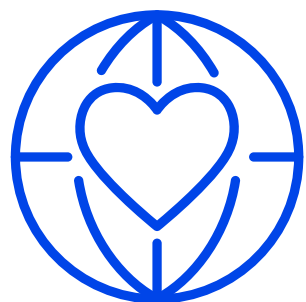
By the end of 2024 – a 20%-30% reduction in plastic cups for hot drinks, a 10%-45% reduction in the use of disposable utensils of all types, and a 40% recycling rate for household packaging and bottles.

Additionally, a process was implemented with cleaning service providers to integrate waste separation, ensuring that a properly colored bag is used for each type of waste. Within this framework, audits of daily bins were conducted to identify deficiencies in waste separation for the operating contractor.

Learning and Specialization

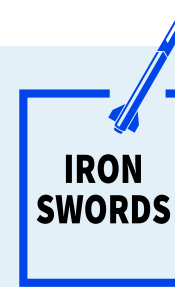
The responsibility for training on environmental protection issues lies with the Safety Training Center, which delivers a comprehensive program annually. This training encompasses all topics mandated by law and adheres to regulatory standards. It is pertinent to employees whose roles may significantly impact the environment or who have designated responsibilities within the environmental management system. Dedicated tutorials on various environmental protection topics are available on the internal computer network.

In 2024, a process is set to establish "**Environmental Ambassadors**", designated employees within the organization who will serve as knowledge centers and agents of change regarding environmental protection at the individual level across various divisions. They will also function as a communication channel for inquiries and issues from the field. This initiative was introduced at the Safety and Environmental Trustees Forum, leading to the identification and appointment of representatives from the designated divisions. As part of daily operations and related procedures, internal and external reporting mechanisms for hazards and deficiencies have been established. This includes reporting to the board of directors and management through the Logistics Infrastructure Administration VP, communication with divisional management via management surveys, ongoing updates on the internal computer network, and inquiries and suggestions directed to relevant parties. Public announcements through media channels and authorities are coordinated with the Rafael spokesperson from the Spokesperson Department and are detailed in a separate procedure.



Environmental Protection Managers Course

In 2022, Rafael conducted an Environmental Protection Managers Course attended by over 30 safety and environmental protection engineers from the organization. The objective of the course was to strengthen the connection between various environmental issues and specific actions and challenges. Topics covered included fundamental concepts in environmental quality, solid waste management, recycling and circular economy, air pollution, hazardous materials, wastewater, energy management, reduction of noise from testing, and the selection of materials with a green perspective. Additionally, the course outlined the multi-year program "Rafael Thinks Green". The curriculum featured lectures from leading experts in Israel as well as internal presentations from Rafael employees, establishing links between each professional topic and the work methods, production processes, operational modes, and implementation of environmental goals at Rafael.



Iron Swords and Environmental Protection

Following the outbreak of war, the immediate changes in the scope and patterns of activity posed environmental challenges. Despite the complex situation, it was determined that hasty actions should be avoided in order to assess environmental impacts and consider alternatives. A specific challenge arose from the increased noise associated with heightened testing activity. Ideally, weather conditions are evaluated prior to each test to minimize noise hazards; However, such assessments may not be feasible during emergencies. To mitigate public impact and alleviate unnecessary anxiety during this sensitive period, we intensified collaboration with local authorities, city associations, and the Home Front Command, providing residents with updates regarding upcoming tests.





8,515

Employees and **25% women** in management positions

59

Social-community projects

100%

Compliance with safety investigation goals

Over **3,000**

Suppliers

Rafael as a Leader in Social and Economic Change in Israel





Behind these achievements lie not natural resources, but human potential. Rafael exemplifies a wealth of human capital. How can we activate its capabilities? How can we empower it to take initiative? Without disregarding the IDF's needs, how can we ensure that it remains not solely a response to pressing demands? How can we combine the priorities dictated from above with the creative insights generated from within? ”

Shimon Peres

Ninth President of the State of Israel and its eighth Prime Minister

From "Rafael from Laboratory to Battle", by Dr. Ze'ev Bonen, Published by N.D.D. Media Ltd., August 2003



Our numbers for 2023:



59
Social – community projects



2,500
Employees volunteering in the community



100%
Compliance with safety investigation goals



24.4%
Women in management positions



56%
Of procurement is from periphery areas



Rafael's Human Resources

This is not a cliché: Rafael recognizes that its employees **are the organization's most valuable asset**, serving as the foundation of its ongoing success and market leadership. The Company adheres to a threefold mission: to operate with a commitment to excellence and profitability; To function as a national hub for research and development in defense technologies and a core contributor to the security of the State of Israel; And to act as a vital catalyst for the country's economic and social advancement. This mission instills a strong sense of purpose among its employees. In today's evolving work environment, Rafael is dedicated to retaining its talent through equitable employment practices, providing equal opportunities for diverse populations, and fostering personal and professional growth.

themselves as integral to the collective mission. This sense of ownership drives them to contribute more actively, innovate, and enhance the systems and services offered. The resulting commitment and motivation lead to superior performance and innovation, which are particularly crucial in the defense sector. Thus, the overall **employee experience** is fundamental to achieving organizational objectives. Additionally, prioritizing employee well-being aids in retaining a skilled workforce and attracting high-quality talent. Similarly, a balanced work-life dynamic mitigates stress and promotes overall employee health.

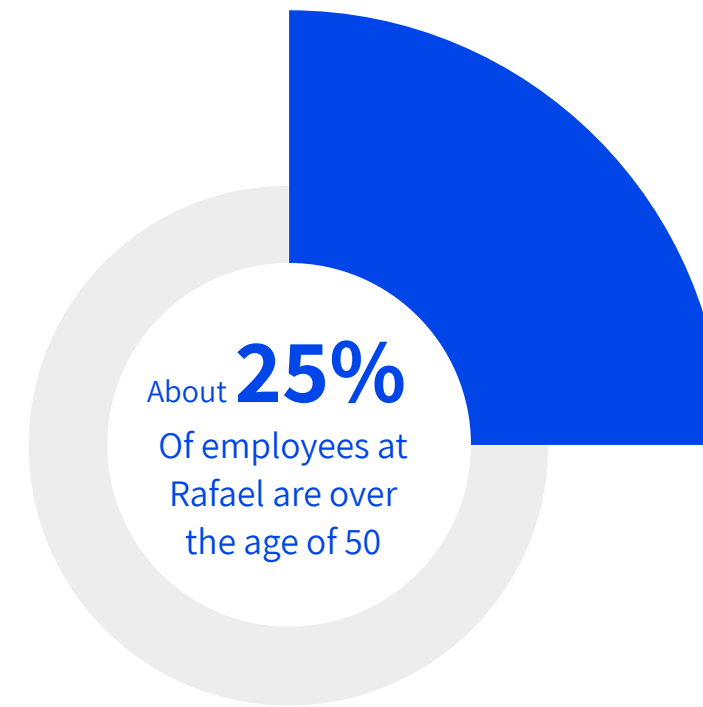
As of the end of 2023, Rafael employed **8,515 individuals** (excluding student roles), reflecting a 6% increase from the previous reporting period. The workforce included

25.7% women, with 99% of employees engaged in full-time positions. Age demographics indicated that approximately 70% of employees were between 30 and 50 years old, about 25% were over 50, and roughly 6% were younger than 30.



Gender and position characteristics (full time/ part time) breakdown

	2021			2022			2023		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Full time	1,930	5,972	7,902	2,028	6,066	8,094	2,149	6,277	8,426
Part time	42	75	117	62	110	172	43	46	89
Total (excluding students)	1,972	6,047	8,019	2,090	6,176	8,266	2,192	6,323	8,515



Breakdown according to age (percentages)

	2021	2022	2023
Over 50	24.8	27.4	25.2
30-50	69.3	68.2	68.7
Under 30	5.9	4.5	6.1



Our numbers for 2023:

- 24.4%** women in management positions
- 29.5 Hours** On average of training per employee
- 60%** Decline in employee turnover compared to 2021
- About **25%** Of employees are over 50 years old
- 98.9%** Of employees received annual feedback in 2023



Human Resources Management

The department is led by a **Senior Vice President for Human Resources, with five headquarters units** reporting to her: the Compensation, Benefits, and Labor Relations Unit; the Learning and Development Unit; the Recruitment and Mobility Unit; the HOTAM Unit (Employee Experience, Processes and Operations, Systems and Analytics); and the Talent and Core Population Management Unit. The headquarters also operates Centers of Excellence that implement a concept of excellence in service and execution. These centers cultivate knowledge and methodologies and develop the necessary infrastructures, tools, and work routines that promote excellence. During the reporting period, a comprehensive

vision formulation and renewed strategy led by the VP resulted in a refresh of the organizational structure, with each center of excellence receiving an updated focus.

The Rafael divisions have dedicated human resources teams responsible for addressing the needs and development of employees within their divisions. With the support of the Centers of Excellence and their professional guidance, these teams implement and adapt processes and solutions tailored to the division's needs. This collaborative effort aims to create optimal conditions in all aspects of human capital, from recruitment to retirement, facilitating the realization of the Rafael's mission.

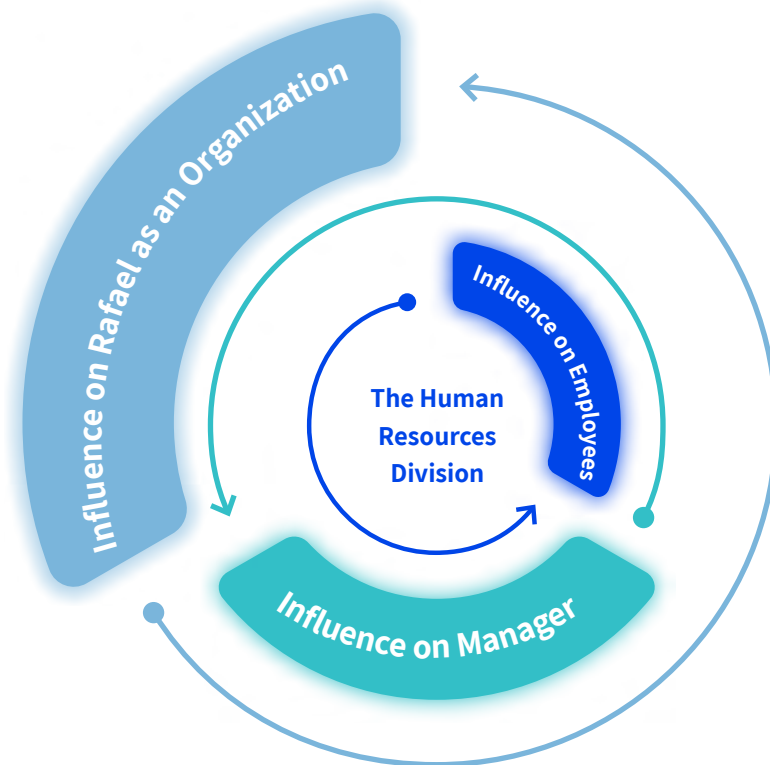
Circles of Influence

The Human Resources Division operates under a strategic framework characterized by **three distinct circles of influence**:

Influence on Employees – Through their development and addressing their needs throughout their tenure within the organization, guided by the principle of "the employee at the center".

Influence on Managers – Through support and development for managerial roles, while acknowledging their critical role within the organization.

Influence on Rafael as an Organization – By facilitating the implementation of organizational strategy regarding human capital and enacting organizational changes in response to the evolving environment.



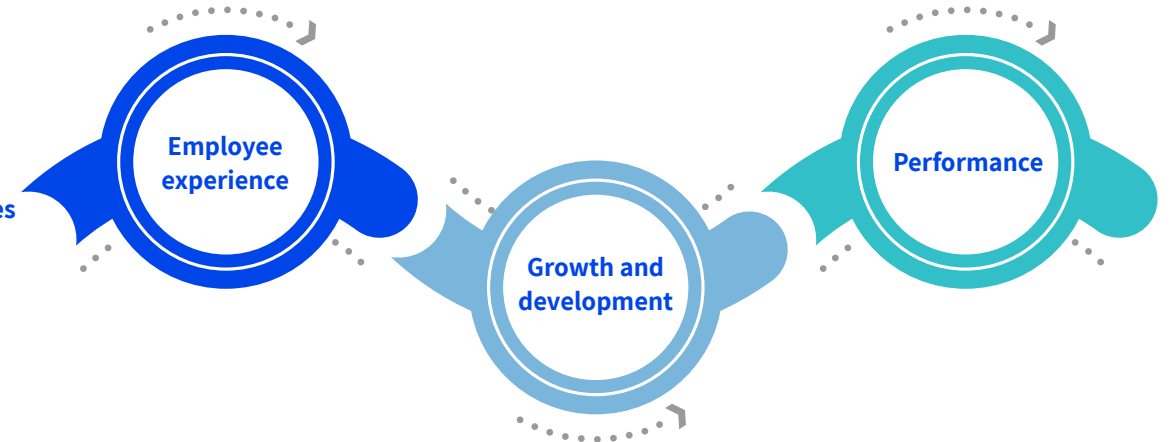
To attain these influences, three key action axes are prioritized:

Employee Experience – Aiming to cultivate a meaningful and satisfying work environment by ensuring optimal working conditions, providing clear and accessible information regarding employee benefits and social benefits, introducing transparency in information and processes, updating procedures, ensuring automated processes with oversight for both employees and managers, and fostering an advanced work setting tailored to employee needs.

Growth and Development – Rafael is dedicated to creating meaningful, challenging, and engaging opportunities for its employees.

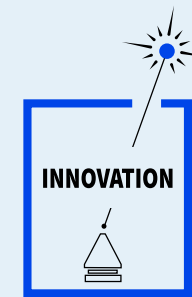
Performance – Individualized assessments of employees during evaluation and reward processes that promote excellence and organizational adaptability, while reinforcing a culture of collaboration.

Action axis for executing the Human Resources strategy



Recent advancements in digitization processes have significantly enhanced these areas of action. A crucial aspect of effective human resources management is the collection and accessibility of relevant data. As part of the data-driven human resources strategy, Rafael aims to obtain the most current and comprehensive insights to support informed decision-making. Three functions within human resources contribute to this objective: the payroll

unit, which analyzes employer costs and their impact on system pricing and the Company's competitiveness; the function responsible for characterizing, implementing, and making available various HR indicators, such as recruitment metrics, learning indicators, and budget management; and the function that conducts organizational surveys to provide managers with insights on employee engagement and satisfaction levels.



Innovation in Human Resources



The Human Resources department at Rafael promotes excellence and professionalism, having received numerous accolades for its achievements both within and outside the organization. In 2022, the **Rafael Award for Quality and Excellence was presented to the department, along with a commendation from the Israel Human Resources Association** for "successfully integrating business and HR needs to enhance employee connectedness, development, and retention". Additionally, the School for Buyers received a commendation, while the Real Data System project – an innovative tool designed for real-time data accessibility in the human resources domain – **secured first place for its innovative concept**. In 2023, the Association again commended the department, particularly for its **multidisciplinary reskilling processes**, career development initiatives, and **management development** programs.



Labor Relations

Labor relations at Rafael are characterized as unique and complex, with the majority of employees operating under collective agreements. The organization is represented by two main entities: the new General Labor Union and the Research Staff Organization, alongside approximately five different employee unions. Over 90% of employees are unionized within these frameworks, while the remaining are under personal contracts. Recognizing employees as stakeholders and essential pillars of its foundation, Rafael management allocates substantial resources to foster strong and positive working relationships with representatives of various employee

organizations. This is accomplished through ongoing negotiation processes and consultation procedures as needed, particularly when making significant decisions that impact the workforce.



In the past four years **no legal or administrative proceedings** were conducted against the Company concerning offenses against protection laws



Rafael's management views the organization's representatives as essential partners in achieving the organization's objectives, facilitating both the organization and its employees in meeting corporate goals. Strong labor relations provide a distinctive foundation that distinguishes Rafael as a government, business, competitive, and security entity. ”

Head of Labor Relations at Rafael

Recruitment, Mobility, and Onboarding

The Company supports its employees throughout their journey, from recruitment and onboarding to retirement and beyond. The **recruitment and career system** is responsible for identifying, attracting, and integrating top talent into Rafael, encompassing **employer branding** initiatives and featuring a **mobility and career counseling center**. This integrated approach delivers a comprehensive solution for departments in sourcing and staffing roles, both internally and externally. To enhance the process and address redundancies and inefficiencies, a Kaizen Week was conducted in 2022, yielding over 70 efficiency improvement suggestions, which have since been implemented, including the removal of medical clearance requirements for office personnel.

The year 2022 marked a **record for employee recruitment** at Rafael, with the **recruitment and training of 14 recruitment managers** facilitating substantial employee intake. This strategy proved effective, continuing into 2023, which saw significant recruitment in electronics, machinery, software, industrial, and management professions. Of the 2023 recruits, 37% held engineering degrees, and 25% possessed academic qualifications. Furthermore, 46% of new hires utilized the "refer-a-friend" recruitment method, reflecting deep employee

engagement and loyalty. In 2023, 13 recruitment workshops were conducted for approximately 400 managers, along with LinkedIn workshops and job fairs; Recruitment manager kits, including interview and salary offer tools, were developed, and a new mobility website was designed.

Rafael offers **student positions** across various fields. In 2022, 478 students were recruited, followed by 394 in 2023. The student population is viewed as a valuable resource for future professional recruitment upon graduation. In 2022, 86% of hired students were from technology-related fields, which decreased slightly to 78% in 2023. To empower and engage students, Rafael has established a **student community** that fosters connections around shared interests, enhances personal and professional development, and provides feedback. This community maintains regular communication with employed students to support their retention and future transition to full-time roles.

Rafael emphasizes **inclusive hiring** and targets female candidates from underrepresented groups, supported by the Equal Employment Opportunity Commission and "Zionism 2000." Oversight of this initiative falls under the VP of Human Resources, with a specialized function within the recruitment center. Rafael adheres to the diversity objectives set by the Government Companies Authority and successfully meets these standards. During the reporting period, female employees from the Druze community were integrated into the workforce, and the benefits of diversity – such as enhanced teamwork and diverse perspectives – were actively discussed in executive training recruitment workshops.




Rafael adheres to the diversity objectives set by the Government Companies Authority and successfully meets these standards



Accelerated Recruitment

The year 2024 commenced with a substantial backlog of orders, projected 4.5 years ahead, necessitating a strategic overhaul of the recruitment system to accommodate the onboarding of 2,000 employees. To address the recruitment challenges, it was imperative to enhance, modify, and adapt processes accordingly. For instance, to recruit numerous engineers, we established a dedicated assessment center and organizational infrastructure, successfully onboarding over 200 engineers throughout the year. Additionally, we re-engaged former employees, renewed contacts with candidates from the previous year, and promoted "refer-a-friend" initiatives. The onset of the "Iron Swords" war at the end of 2023 accelerated these efforts. In speed operations, individuals with and



without professional backgrounds were integrated into the organization, particularly within the production plants of the Manor Division, largely through word-of-mouth referrals. Concurrently, employees expressed a desire to transition to production systems to support the key effort and contribute to the national mission. Many former employees opted to temporarily leave their current roles and return to Rafael for a few months, with numerous individuals volunteering to assist wherever needed. For them this was akin to "Tzav 8".

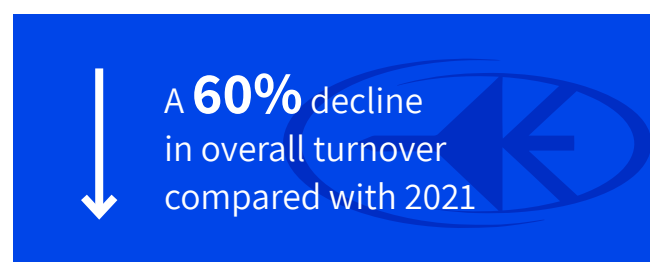
Employee Retention

A significant proportion of Rafael's projects are long-term in nature, requiring unique expertise gained through extensive learning processes. The necessity to remain at the forefront of technological advancements fosters ongoing competition for top talent. Consequently, employee retention presents a considerable challenge, with employee experience emerging as a strategic imperative for organizational resilience. During the reporting period, following a wave of departures, the turnover rate markedly decreased from 11.4% in 2021 to 4.5% in 2023, reflecting a 60% reduction. An examination of employee-initiated turnover rates during these years reveals a substantive improvement, **from 7.2% in 2022 to 1.9% in 2023**. The employee-initiated turnover rate was 3.36% in 2021; the increase in 2022 can be attributed, in part, to the global "great resignation" trend, which also impacted Rafael.

Throughout 2022, significant retention initiatives were implemented, with results evident in 2023, including investments in employee well-being, enhancement of the work environment, and increased engagement. To identify and address the root causes of employee departures, a questionnaire is distributed to each employee indicating

their intention to leave, soliciting detailed reasons for their decision. A select group of respondents is also invited for direct interviews. The analysis of these responses informs insights into overarching issues, often leading to specific interventions that prevent departures, such as transfers to other position.

Another crucial retention strategy involves work-life balance. Rafael facilitates hybrid work arrangements of up to two days per week from home, contingent upon job suitability and supervisor approval. During the reporting period, the array of roles eligible for this flexibility was expanded, along with the provision of office and IT resources. Looking ahead to 2024, the establishment of a new branch in Hadera will offer expanded employment opportunities closer to home, contributing to reduced commuting time and associated burdens.



Employee turnover in 2021-2023 (percentages)

	2021	2022	2023
Women up to the age of 30	0.81	0.40	0.1
Women 30-50 years old	3.09	1.85	0.6
Women 50 years old and up	0.56	0.50	0.3
Total women turnover	4.46	2.75	1.1
Men up to the age of 30	0.55	0.69	0.3
Men 30-50 years old	3.93	4.95	1.5
Men 50 years old and up	2.46	2.07	1.5
Total men turnover	6.93	7.71	3.4
Total up to the age of 30	1.36	1.09	0.4
Total 30-50 years old	7.02	6.80	2.2
Total 50 years old and up	3.02	2.56	1.8
Total turnover	11.40	10.45	4.5
Turnover initiated by the employee	3.36	7.2	1.9

From Origami to Rocket Building

To enhance employee retention, the recruitment center has integrated, as a pilot program, a career counselor into its system. She meets with employees at career crossroads whom the organization aims to retain. The counselor assists in assessing the employee's skills and future motivations, facilitating career opportunities and building connections within the organization. A notable case involved an engineer who felt fatigued in his position. Through discussions with the counselor, who expressed interest in his hobbies, it was revealed that he practiced origami in his free time. The counselor successfully facilitated a creative connection between the employee and the construction unit within the Manor and Technologies division. Her extensive knowledge of the organization's units and innovative thinking were the game changer in retaining a satisfied employee. Since August 2021, the career counselor has supported over 200 employees, with approximately half transitioning to new roles within the organization. In 2023, alone, 91 employees sought her guidance, contributing to a total of 320 internal transfers recorded that year.



Support in Retirement Processes

The retirement manager offers professional and empathetic support to employees navigating retirement or departure, serving as a consulting resource for managers and human resources teams. An annual retirement preparation workshop, conducted by the social service manager, equips retirees and their partners with emotional, financial, and behavioral tools for a fulfilling retirement. Several retirees continue to leverage their skills and experience for the organization in various capacities, either as volunteers or freelancers. In 2023, 64.4% of employees of retirement age opted to remain employed through alternative arrangements.



Service Package from Intake to Retirement

Recognizing human capital as the organization's most valuable asset, Rafael implements several initiatives to retain employees and foster motivation, mission alignment, and a sense of belonging. The Tamir Center, the employee service center within the Human Resources Division, continuously addresses employee needs by offering a comprehensive range of services. This includes solutions related to intake, welfare, workplace accidents, health insurance, rehabilitation, and retirement (inclusive of work capacity loss). Employees can access support via a digital service platform, chat with a representative, email,

and telephone. Additionally, numerous informational resources in digital assets empower employees to perform various actions independently. The Tamir Center collaborates with service centers related to mobile phones and leasing, ensuring that eligible employees receive vehicles on their start date. In terms of welfare, initiatives encompass all aspects of employee life, focusing on workspace care, promoting a healthy lifestyle (nutrition, vaccinations, sports facilities, and subsidized gym memberships), unit cohesion, and quality family leisure activities that enhance unit pride.



To me, corporate responsibility is treating our employees as our customers and creating a meaningful impact for them. ”

Manager of the Central Services Unit in the Infrastructure and Logistics Department



A Rare Glimpse into Family Members

In 2022, one of the hallmark initiatives was the organization of family visits, in response to a significant demand from employees, which is typically challenging in a defense organization. This endeavor required intricate procedures and cross-organizational collaboration, resulting in highly favorable feedback. Over the course of the year, approximately 35,000 employees and their family members participated in 19 sessions across six company locations, including the David and Leshem institutes and four branches. Participants were able to view numerous products, attend demonstrations, and gain firsthand insight into the daily responsibilities of their relatives, including mothers, fathers, daughters, and sons.





Operational Issues

Operational challenges are managed by the **Logistics Infrastructure Administration Service Center**, established during the COVID-19 pandemic. This center provides a single point of contact and uniform response for all service requests, ranging from light bulb replacements to shuttle delays and dining room issues. The Service Center is committed to enhancing the employee experience and work environment, serving as a conduit for understanding employees' needs, preferences, and sentiments. Among various communication channels, the most utilized is a smart system for inquiry submission and management. This system features a customer portfolio for each employee, a module for efficiency suggestions, feedback and "compliments", as well as advanced analysis capabilities for inquiries to extract insights into broader employee concerns. These measures aim to strengthen and maintain ongoing relationships with employees, who are critical stakeholders, while continuously improving the employee experience. In 2022, the Service Center processed **209,619** inquiries (monthly average of 17,468), and in 2023, it recorded **247,613** inquiries (monthly average of 20,634) with a target service level agreement (SLA) response time of **up to 30 seconds, achieving a compliance rate of 96%**. Employee satisfaction with the service was noted at 97%.

Transport System

The daily management of employee needs encompasses a comprehensive and adaptive **transport system** to Rafael sites, with a focus on the northern settlements. Rafael operates 650 round-trip transportation lines, facilitating a wide range of schedules to ensure flexibility and optimal responsiveness for employees. The lines and schedules are regularly updated by the Transportation Committee in collaboration with the Workers' Committee, and are adjusted to accommodate parental responsibilities (departing early in the morning towards Rafael, and returning early in the afternoon). In 2024, additional lines were introduced to Druze settlements in the north, including Beit Jan, Maghar, Daliyat al-Karmel, and Isfiya. **Following the onset of the war, the transportation system was modified to accommodate a significant increase** in operating hours, including second and third shifts in production.

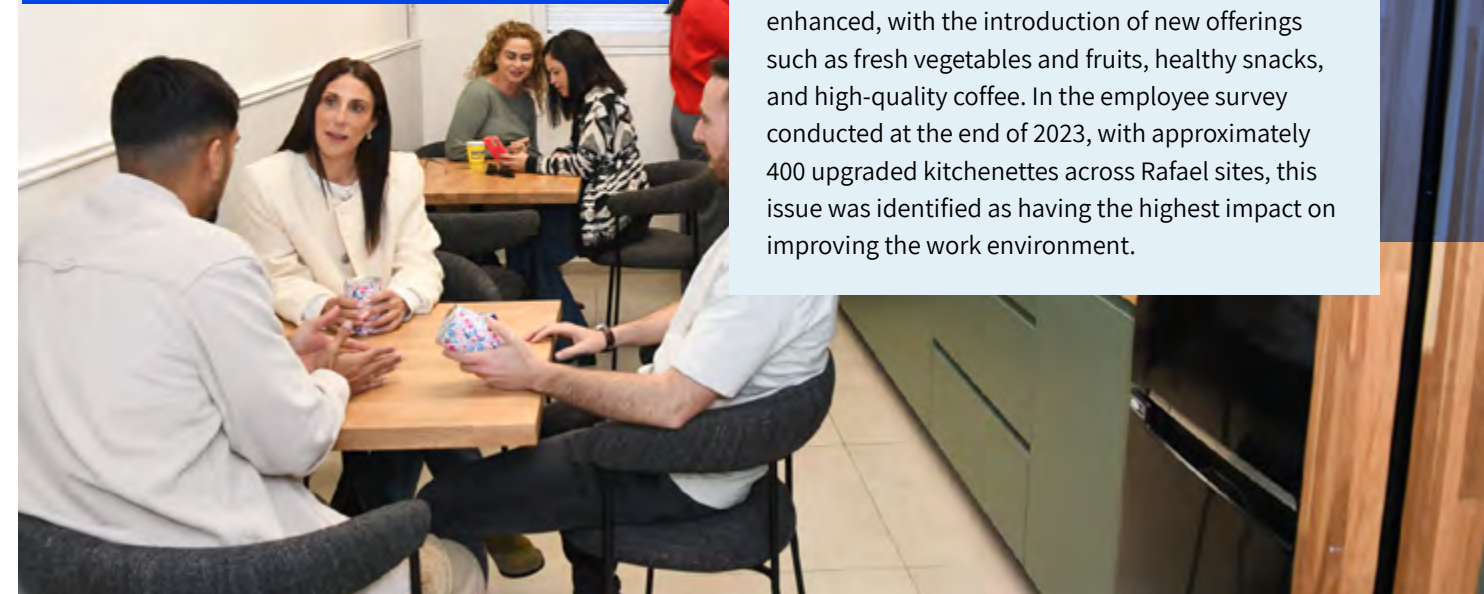
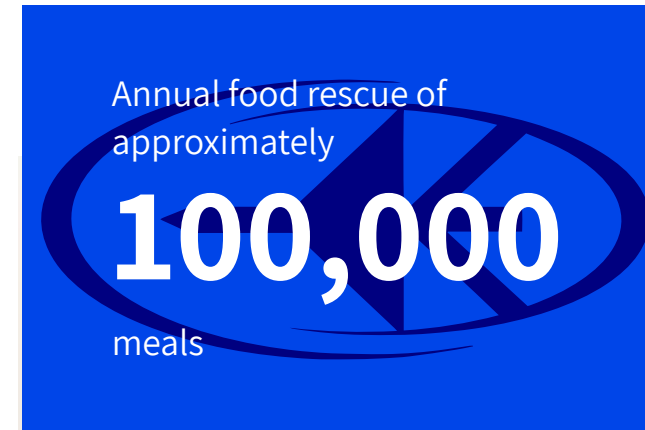
Catering Sector

The catering sector is managed by the Service Center, offering a healthy and diverse menu that adheres to strict quality control standards with the guidance of culinary consultants and a dietitian. Comprehensive provisions are made for allergens, as well as options for vegetarians and vegans. Edible, unconsumed food is donated to the community through "Leket Israel" via a supplier. In 2022, 12,753 meals were donated (8,117 from the David Institute and 4,636 from the Leshem Institute), and in 2023, 15,201 meals were donated (8,960 and 6,241 respectively). This initiative results in an **annual food rescue of approximately one hundred thousand meals**. The catering system also required significant adjustments during the war, including weekend operations and the delivery of refrigerated food to endpoints.



Much More Than a Kitchen

As part of the employee experience management initiative, a decision was made to invest in the enhancement and renovation of the work environment, a crucial aspect of the employees' daily experience. A prime example of organizational commitment to addressing employee needs and investing in the work atmosphere is the story of the kitchenettes. Concerns in this area were highlighted in the 2021 satisfaction survey, leading to the recognition that standards must improve, particularly in light of the competition for talent. The kitchenette serves not only as a space for consuming food and beverages near the office but also as a venue for relaxation and meetings. Following a comprehensive renovation, the look and feel of the kitchenettes were significantly enhanced, with the introduction of new offerings such as fresh vegetables and fruits, healthy snacks, and high-quality coffee. In the employee survey conducted at the end of 2023, with approximately 400 upgraded kitchenettes across Rafael sites, this issue was identified as having the highest impact on improving the work environment.





209,619

Inquiries to the Service Center in 2022



247,613

Inquiries to the Service Center in 2023



SLA

Up to 30 second, with 96% compliance rate



97%

Satisfaction from the service among employees





Prevention of Sexual Harassment and Abuse

Rafael maintains a strict **zero-tolerance policy regarding sexual harassment** in the workplace and actively seeks to prevent such occurrences. This includes implementing awareness campaigns across all communication channels with employees, offering a dedicated course (with 100% participation in 2023, including sign language translation), conducting orientation days, and delivering lectures and presentations to raise awareness among management across all divisions as part of an organization-wide campaign initially planned for October 2023 and subsequently postponed to 2024 due to the ongoing war. The Company fosters a safe working environment that encourages employees to report complaints without fear and ensures that each inquiry or complaint is handled appropriately. In both 2022 and 2023, 15 inquiries were received annually, with not all inquiries classified as cases of sexual harassment following careful examination.

The designated individual responsible for preventing sexual harassment within the organization has undergone specialized training, supported by appointed trustees throughout the Company. In 2024, the system was further enhanced by adding a supervisor dedicated to this issue in each division, resulting in a total of six female supervisors who function as a cohesive team. The referral

mechanism and care chain for each case have been established, with the policy stipulating that all individuals on Rafael's premises bear responsibility for prevention and the handling of incidents involving external workers or contractors.

Rafael upholds a zero-tolerance stance on all forms of **abuse**, committing to ensure a fair and safe working environment for all employees. The procedure for addressing complaints is regularly published and presented to all employees, with the Vice President of Human Resources serving as the authority who issues a decision document to both the complainant and the accused at the conclusion of the process.

During the reporting period, no incidents of abuse were recorded.

In situations where employees are dissatisfied with the treatment they receive, they have the option to contact, even anonymously, Rafael's internal auditor, who acts as the **ombudsman for employee complaints**. Each year, the internal auditor provides a comprehensive report to management and the Audit Committee of the Board of Directors, analyzing the complaints submitted, their nature, outcomes, and whether they prompted any recommendations or corrective actions.



Welfare at the Individual Level

The social system

It supports employees and workers within the organization in matters concerning their personal and family situations and provides assistance during times of crisis. This support includes resources for managers and human resources representatives. In cases of loss of working capacity, assistance encompasses treatment coordination with the insurance company and the National Insurance Institute. Available assistance tools for social workers include subsidized loans and assistance funds:

Assistance Fund

The Assistance Fund aids members in reimbursing costs for medical, psychological, nutritional counseling, and other treatments that are not otherwise covered. Membership requires an annual fee, with half paid by the member and the other half covered by Rafael. In summer 2023, due to increased claims on entitlements leading to a low fund balance, the regulations were amended to incorporate socioeconomic considerations into eligibility. In both 2022 and 2023, Rafael contributed approximately NIS 600,000 annually to the fund. In response to heightened needs in 2024, the decision was made to raise membership fees, resulting in Rafael management's investment increasing to approximately NIS 1 million.

Mutual Aid Fund

The Mutual Aid Fund, fully funded by Rafael, allocates NIS 200,000 to NIS 300,000 annually to assist employees experiencing financial distress, based on committee decisions involving management and committee representatives. The fund provides support through grants or interest-free loans, which are subsequently deducted from employees' salaries.

Sick Day Fund

The Sick Day Fund offers up to 90 additional sick days to employees who have exhausted their accumulated sick days and are required to be absent for an extended duration. Acknowledging the necessity for flexibility in response to personal circumstances, Rafael has established arrangements that allow parents of children up to the age of 8, or those with two or more children up to the age of 12, to leave the workplace 30 minutes before the formal end of the workday without salary impact (an arrangement that also applies to remote work). The Company reports a high rate of employee return after maternity leave, with individuals maintaining their positions thereafter.

	2022	2023
Male and female employees going on maternity leave	179	185
Male and female employees who returned upon the end of maternity leave	8	10
Remaining at work 12 months at least following the end of maternity leave	172	8

Assistance at pivotal life moments is manifested through **specialized courses** in a "peer-to-peer" format. These include training programs for employees who are parents of children with disabilities and workshops for those who have experienced divorce. The aim is to provide support, empathy, and resources to employees facing similar challenges.





Employee Benefits

Most benefits are uniformly provided and are grounded in collective agreements. These include collective health insurance (Rafael insurance, where the organization substantially finances the extended tier, covering children up to age 30 and offering half-cost coverage for spouses – optional for company retirees), preferential pension arrangements from the first day of employment, and a study fund of the employee's choice with reduced management fees. Employees also have access to car leasing arrangements with favorable loan terms, an attractive mobile phone package, and a consumer club offering significant discounts on various attractions and products in collaboration with the "Hi-Tech Zone" club for high-tech employees in Israel. Additional benefits include fairs of Israeli supplier products in preparation for holidays, gifts for significant life events such as weddings and birthdays, short holiday trips, and reimbursement for travel, meals, and other expenses.

Moreover, supplemental benefits and rewards are available **based on performance**, focusing on **equity while encouraging excellence and innovation**. At "Iron Swords," a **decision was made to allocate incentive funds to the hundreds of reservists** and broaden the benefits policy (including funding travel on Highway 6, even on Saturdays). A **perseverance bonus** is offered as a mechanism for long-term employee retention, alongside a **signing bonus** to attract talent with specialized skills. The Salary, Benefits, and Labor Relations Unit regularly analyzes market trends across various segments (divisions, fields of activity, and employment types) and implements necessary adjustments. This includes conducting salary surveys and participating in "Zviran's" comprehensive salary and benefits survey.



Our responsibility includes maintaining competitiveness and fairness, promoting job security in Israel, particularly in the northern regions, and fostering employee retention while encouraging excellence. We achieve this by emphasizing differential mechanisms influenced by the Company's business outcomes and promoting growth. It is crucial to align with the Company's objectives, including financial targets, and contribute to the nation's economic stability. 🗨️

Human Resources Team

Measuring the Organizational Pulse

To facilitate ongoing enhancement in employee treatment, we regularly conduct surveys and gather feedback. The department's headquarters houses a dedicated unit focused on organizational research and analysis, aimed at addressing managerial challenges and achieving growth objectives. We routinely implement **recruitment and onboarding surveys** for new hires, both upon their integration and approximately six months later. Additionally, **Pulse surveys** are executed to assess various emerging needs, including one conducted roughly one month after the onset of the war to better understand deficiencies and support requests for employees and their families, particularly those in reserve duty. **Topic-specific surveys**, such as those addressing hybrid work arrangements, are also administered. A key initiative includes the periodic **connectivity survey**. At the end of 2021, this survey, titled "Implementing Connectivity and Resilience - From Measurement to Action," engaged 67% of Rafael employees. The findings informed the development of a "People First" plan. To evaluate the perceived impact



of these initiatives, a follow-up survey was conducted in December 2022, revealing that **75% of respondents noted a positive change**. The 2024 Connectivity Survey further explored the "routine of war" and organizational diversity, achieving a **participation rate of 74%**.





Surveys represent only a part of the story.

Additionally, annual **feedback and evaluation discussions** are conducted for all employees who have been with the Company for four months or longer, including students. These discussions take place with direct supervisors and aim to align expectations, reinforce positive behaviors, address areas for improvement, and enhance organizational connectedness by fostering motivation and aligning employee contributions with the unit's objectives. This dialogue serves as a platform for shared responsibility and career path mapping, allowing employees the opportunity to voice their concerns on various issues. Employees who seek further insights may also receive input from their indirect supervisors. The feedback and summaries from these discussions are documented on a dedicated platform, which is transparently accessible to both employees and their managers, facilitating the review of past feedback within the "Personal Space for Development" section. In 2023, 98.9% of employees received annual feedback.



An essential aspect of "assessing the organizational climate" and fostering an open and relaxed atmosphere is the implementation of an **open-door policy and round tables**. These mechanisms facilitate direct dialogue regarding organizational and personal matters of concern to employees. Additionally, the Company prioritizes keeping employees informed about significant change processes, notable employee development stories, trends, and forward-thinking initiatives through podcasts, campaigns, divisional newsletters, and communications that cultivate hope, belonging, and pride.

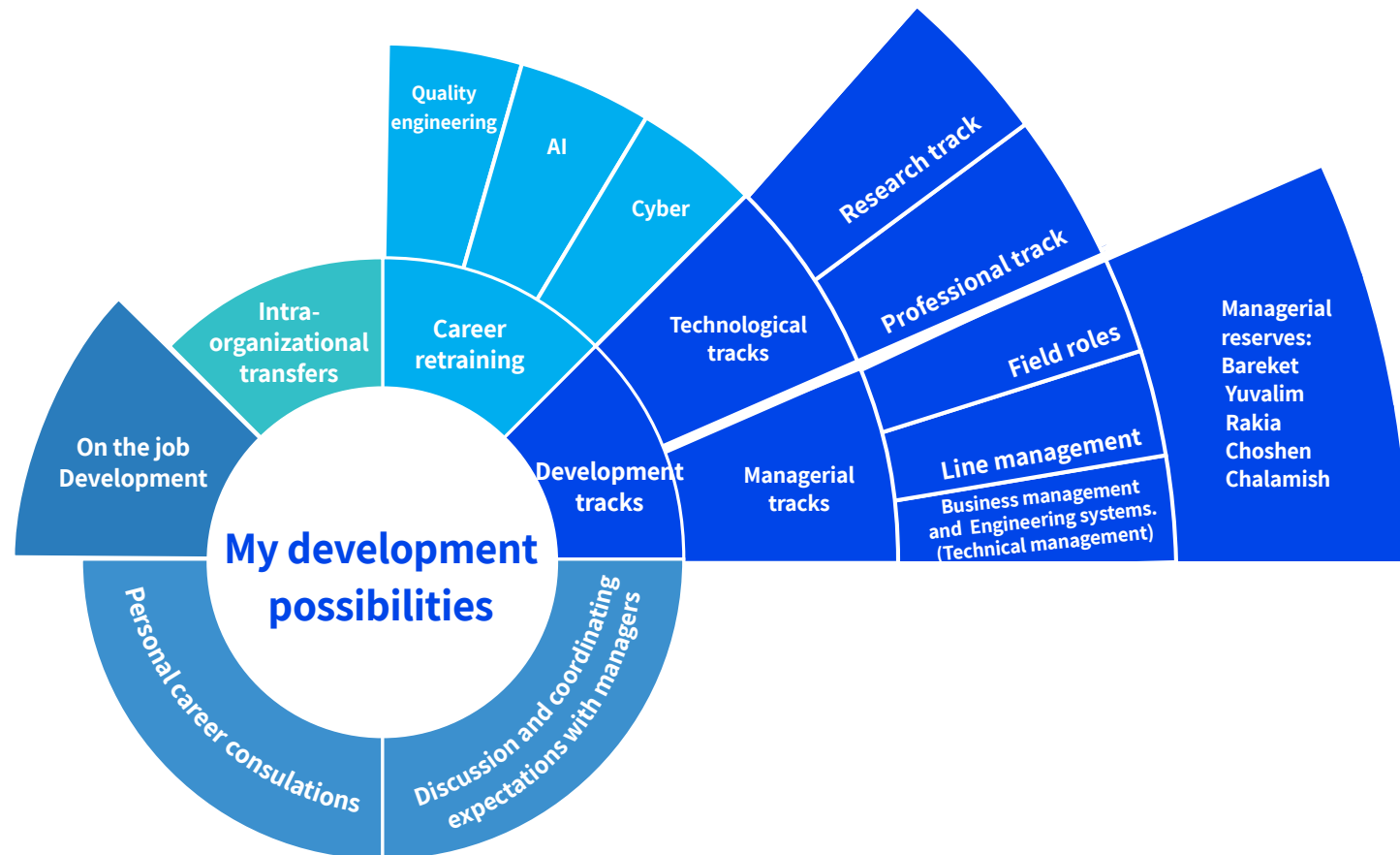




Employee Growth and Development

As a leading and innovative organization, Rafael presents challenges within one of the most advanced technological work environments globally, offering opportunities for growth and career advancement while promoting learning and knowledge sharing. Rafael is committed to maximizing avenues for growth and development for its workforce through the integration of organizational culture, tools, and processes derived from the domains of learning, organizational development, research, and internal organizational communication.

The Development Fan



The Learning Center

As a concept, an organization at the forefront of technology, in an era characterized by rapid technological advancement, places significant emphasis on investing in the continuous professional development of its employees. It is committed to ensuring that learning is perceived as an ongoing process rather than a singular event (lifelong learning).

Learning is assigned to the **Learning Center**, which collaborates in the implementation of the organizational strategy while adjusting to surrounding challenges and is integrated within the Learning and Development Unit.

Professional knowledge is disseminated through four schools at Rafael, each designed to provide essential options and tools for professional and managerial growth. **The School of Technological Professions** focuses on disciplinary training and system engineering, while the **School of Business Management** oversees management training across various business roles, including project management, contracts, and marketing. **The School of Staff Professions** is dedicated to training staff managers in operations, quality, finance, and related fields. Additionally, the **School for Safety Certification and Training** enhances employee competencies in safety practices. Complementing these vocational schools is a digital learning function that facilitates hybrid training and microlearning for online self-study.

To foster lifelong learning within the organization, the Learning Center implements a variety of activities and training initiatives across several levels:

- **Onboarding** – Induction processes and training, including onboarding workshops and core job training.
- **On-the-job professional training** – Specialized training and technological education tailored to meet the specific needs of employees in their roles.
- **Reskilling** – Programs designed to equip employees with additional skills to adapt to the evolving labor market.
- In 2022, Rafael introduced a dedicated self-learning portal, "SELF E", featuring a range of cross-disciplinary learning topics such as Excel, negotiation, infographics, storytelling, and time management.
- Additionally, in 2022, the organization increased the number of licenses for self-learning across various platforms by 60% compared to 2021.

In 2023, approximately 4,000 employees participated in various programs, including 1,921 in management training tracks, 593 in technological tracks, 228 in management reserves, and 26 in professional reskills across fields such as quality engineering, artificial intelligence, and cybersecurity.

Over **4,000** Employees were integrated in the various study programs



In 2023 the scope of learning (within the organization and outside it) was **252,010** Hours

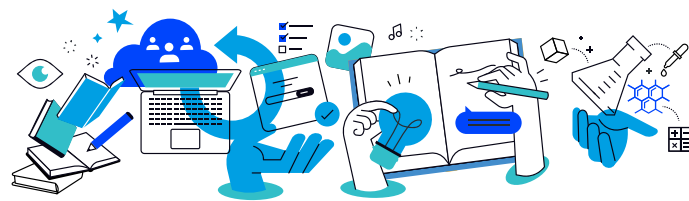
29.5 Hours On average per employee



In order to facilitate the management of learning processes and to furnish learners with a diverse array of tools, **all learning processes have been consolidated under a singular system, R-Class, commencing in 2021.** R-Class is an innovative platform characterized by a user-friendly and efficient mechanism for the search and retrieval of professional content, learning materials, and access to the training catalog.

Hours of study		
	2022	2023
External study programs	36,133	29,549
Internal study programs	182,845	222,461
Total	218,978	252,010

*Hours of study do not include self-learning content



Leadership Development

A robust, skilled, and cohesive leadership is imperative for fostering renewal and growth within an organization, particularly in a complex, global, and tumultuous environment. The leadership paradigm at Rafael addresses multiple challenges including business, managerial, national-security, and technological-professional domains. Each manager within the organization serves as a mentor who inspires individuals and teams, makes critical decisions, and is often necessitated to undertake courageous choices. Consequently, these leaders are expected to possess a systemic perspective, an openness to varying outcomes, a personal touch, passion connected to meaning, courage and innovation, flexibility and adaptability, professionalism, critical thinking, a commitment to continuous learning, responsibility, and managerial audacity.

In addition to the cultivation of essential qualities, managers and prospective leaders are supported through databases and management and knowledge preservation tools. Significant attention is devoted to equipping leaders with tools for **present management** – fostering positive leadership practices through heightened awareness and active listening. This includes, among other initiatives, Recharge workshops aimed at disseminating contemporary management trends, roundtable discussions, field meetings, and an "open door" policy. Furthermore, in 2023, dedicated **mentoring**



training was conducted by experienced practitioners to provide employees in technological and business sectors with comprehensive and focused guidance, resulting in 24 pairings throughout the year. Concurrently, **external mentoring** facilitated by professional coaches and consultants was executed through several online meetings on a specialized platform, benefiting 18 trainees.

In early 2023, **two training programs were concluded for territory heads and administration heads** in the business divisions, specifically at the Vice President level. Feedback received highlighted substantial contributions and pertinence to both theoretical and practical applications of adaptive leadership, lessons drawn from accumulated personal and organizational experiences, enhancement of managerial tools, and a more profound geopolitical comprehension.

Reserve Programs

The **reserve programs** at Rafael are structured to identify, prepare, and support the future management strata of the organization through various tracks: **Rakia** for senior core positions (territory heads; 55 appointments from among the participants); **Yuvalim** for project management within business divisions (achieving a 70% appointment rate); **Bareket** for management roles (including area head and line division head, with 64% of participants receiving appointments); **Choshen**, aimed at developing managers for Rafael's headquarters; and the new **Chalamish** program, which focuses on the training of future system engineers, including the conversion of engineers from other fields (see below). These reserve frameworks aim to ensure optimal staffing and address existing gaps.

Encouraging Knowledge Sharing

Rafael actively promotes knowledge sharing among its employees by **encouraging them to serve as lecturers in both academic settings and within the organization.** Consequently, these employees assume significant roles within the Learning Center, facilitating the transfer of learning values and sharing their distinctive knowledge and experience amassed across diverse fields. By 2023, Rafael's cadre of lecturers comprised approximately 400 internal educators, who engaged in the learning and training processes in addition to their responsibilities in the Company. In this context, four collaborative sessions were conducted, featuring 25 internal lecturers from Rafael and five academic lecturers, addressing subjects such as advanced materials, cybersecurity, and artificial intelligence. A conference honoring internal lecturers is projected for 2024.

Historically, Rafael has incentivized employees to pursue higher education, particularly with a thesis, in disciplines poised to enhance the Company's technological and competitive edge. As of the conclusion of 2023, approximately 300 employees were enrolled in advanced degree programs at academic institutions in Israel, with 12 engaged in doctoral studies at prestigious universities abroad. Rafael subsidizes their tuition and compensates for the hours of absence necessary for their educational endeavors, additionally providing a comprehensive support package for those studying overseas.

To further foster knowledge sharing and facilitate employee awareness of potential career alternatives, a **Career Café** was inaugurated in 2022. This initiative offers employees the opportunity to engage with senior managers and gather information regarding various optional positions, irrespective of their current roles. Furthermore, a Development and Career Week was organized, aimed at acquainting employees with opportunities and facilitating pathways for promotion and mobility. This initiative received substantial interest, with approximately 5,000 employees in attendance, and included both in-person and virtual lectures covering a range of positions, alongside "networking meals" with division managers.

The Chalamish Reserve

This internal initiative facilitates the conversion of engineers from various disciplines to the pivotal roles of system engineers, who are expected to possess knowledge across diverse domains and integrate various areas of expertise to engage in informed, multidisciplinary decision-making. Admission to the program necessitates a comprehensive selection process evaluating personal competencies, cognitive attributes, and resilience. The program encompasses an extensive learning experience of approximately 380 hours, focusing on weapon systems, cyber defense, verification and validation processes, and manufacturing technologies. In 2023, 35 engineers participated in the program utilizing a hybrid learning format, which included both in-person sessions on campus and online meetings from home. Practical learning opportunities involved on-the-job training in projects, supported by professional mentors from corresponding departments. Fifteen graduates who successfully completed the program have commenced the application of their acquired knowledge in their roles within the organization. The fourth cycle of the program is scheduled to commence in 2024.

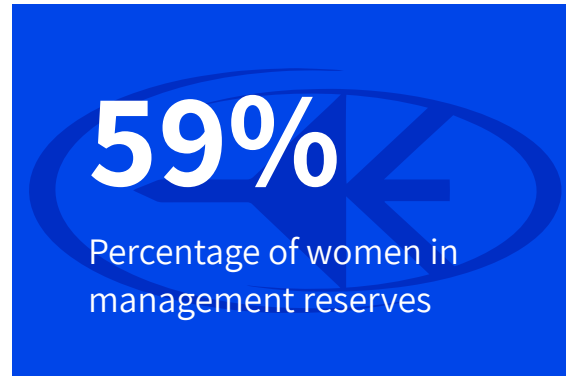


Diversity and Inclusion

Rafael places significant emphasis on the integration of employees from a multitude of demographic groups and actively promotes affirmative action for candidates from underrepresented populations within the labor market. The principles of diversity and inclusion, extending beyond regulatory mandates and the objectives of the Government Companies Authority as well as employer branding initiatives, are fundamentally associated with the cultivation of a stimulating work environment that fosters innovation, creativity, and risk-taking, in addition to enhancing the sense of belonging and pride among employees.

Throughout the reporting period, Rafael prepared a strategic plan that included specific objectives aimed at incorporating employees from **four diverse demographic groups**: the ultra-orthodox community, members of the Druze community, members of the Ethiopian community, and persons with disabilities, while also pursuing gender equality. The organization prioritizes tolerance and acceptance, ensuring that every employee is afforded the opportunity to express their individuality without necessitating the minimization of their differences or conformity to the majority group.

In 2023, the **representation of employees from diverse populations reached 5.32%**, thereby fully satisfying the target established by the Government Companies Authority (minimum target – 2.2%, full compliance – 5%). The **proportion of women out of all management positions** at level 4 (department head and above) was recorded at 26.42% (minimum – 25.5%, full compliance – 28.5%). **Within management reserves, the representation of women reached 59%.**



Rate of diversity populations and women in management reserves (percentage)

	2021	2022	2023
Rate of diversity populations out of the total employees hired	2.055	2.14	5.32
Rate of women in management positions (department head and above)	25.6	25.87	26.42



Corporate responsibility is heart and soul, that transcends mere regulatory compliance. It emanates from intrinsic values and an understanding that the ripples and extent of our influence reverberates beyond the confines of Rafael. As a significant employer, we wield considerable impact on the fabric of Israeli society, particularly concerning the landscape in the northern regions. ”

Iris Holtzken

Head of the HOTAM Unit (Employee Experience, Processes and Operations, Systems and Analytics)



During the reporting period (2022-2023), several actions were undertaken to advance diversity goals:

- Appointment of a **diversity supervisor** at the company management level, who participated in a diversity managers training course facilitated by the Companies Authority.
- Development of a **recruitment strategy and the designation of a recruitment leader** aimed at enhancing the integration of employees from diverse backgrounds.
- **Comprehensive mapping** of relevant diversity demographics, sanctioned by the Equal Employment Opportunity Commission, accompanied by the establishment of divisional goals.
- Formulation and implementation of a work plan, primarily focusing on **awareness and organizational discourse**.
- Rigorous adherence to gender representation within management reserves.
- Collaboration with non-profit and business organizations specializing in recruitment and placement from diverse populations, including Zionism 2000, youth centers in Druze communities, Rayan centers, Al-Fanar for career guidance in Arab society, Equal Opportunity, Equal Employment, the All-Good (Shekulo Tov) Group, Kama-Tech for recruiting ultra-orthodox individuals, Tech-Career in the Ethiopian community, and more.
- Allocation of **standards for the employment of persons with disabilities**.
- Appointment of an **accessibility coordinator and designated accessibility trustees** at each service-providing location accommodating 50 individuals or more.
- Strict compliance with accessibility standards and linguistic diversity in company publications, coupled with transparent communication of all accessibility arrangements.
- Initiation of a group of **system testers on the autistic spectrum**, facilitated by the "All-Good" association.
- **Onboarding of IDF wounded and disabled personnel** within the Armaments Division.
- Conducting training initiatives aimed at fostering a **culture of diversity and inclusion**, particularly within the context of managerial training and HR staff development.
- **Establishment of a team of diversity trustees from all divisions** to actively promote organizational engagement and local initiatives.
- Presentation of diversity and inclusion efforts to management, including a senior management forum in each division, with **emphasis on the criticality of these**

- issues articulated by the Company's CEO.**
- **Specification of relevant observance days, including Diversity Day**, International Day for the Advancement of the Rights of Persons with Disabilities, Women's Day, Pride Month, etc., while the holiday and vacation calendar recognizes significant dates for adherents of various religions.
 - **Integration of messages** advocating for a multicultural, secure, inclusive, and accepting work environment in the Company's internal communications, addressing the plurality of family structures extant today.
 - Establishment of an **engineering class** with a composition of 50% participants from diverse populations (including 7 Druze, 3 persons of Ethiopian origin, 1 ultra-orthodox participant, and 1 participant on the autistic spectrum) led by the Operations Division.
 - Launch of a **machining course with twelve ultra-orthodox participants** from the Galilee region, organized by the Manor Division.

In alignment with the work plan for 2024, a strategic emphasis was placed on the recruitment of Druze workers, acknowledging their integral role as part of the IDF's combatant demographic.

Additionally, a specialized recruitment channel was developed in collaboration with the Rehabilitation Division of the Ministry of Defense and other relevant agencies to facilitate the targeted and accelerated recruitment of disabled IDF personnel.



Women at Rafael

Rafael allocates substantial resources to the advancement of future female engineers by providing high school girls with exposure to pertinent fields. The organization is committed to increasing the representation of female engineers and managers, including those from ultra-Orthodox backgrounds. **Women comprise 24.4% of management positions at Rafael** and represent 15.8% of senior management. In 2022, Rafael initiated a project to implement Amendment 6 to the Equal Pay Law, which included the dissemination of questionnaires to managers and employees, the establishment of a complaints and inquiries mechanism, and the presentation of targeted information sessions to the Human Resources team. The discrepancies in salary between women and men at Rafael are minimal and result from various agreements (such as overtime and reserve), rather than reflecting differences in gross salary.

Rate of women in various positions (percentage)

Rate of women	2021	2022	2023
Senior management	20.0	15.8	15.79
Management – middle ranks*	23.8	24.4%	24.59
Non-managerial rank	25.0	25.7	26.35

* Middle management includes managers at field, department and area-head levels



The imperative of team diversity is paramount. As a defense and government organization, we bear the responsibility to incorporate individuals from varied backgrounds and provide them with genuine opportunities for integration. Our concentrated efforts in facilitating the integration of the Druze population serving in the IDF and disabled IDF personnel reflect our commitment to this significant principle. ”

Nirit Etzion

Director of the Recruitment Center

Recruitment of ultra-orthodox Individuals for Core Positions

In a pioneering initiative undertaken by Rafael to promote the employment of ultra-orthodox men within the technology-defense sector, a group of ultra-orthodox workers from Nof HaGalil, all of whom are family men, was recruited in 2023. This group participated in training programs in CNC machining, which were entirely sponsored by Rafael, and subsequently became integrated into the Company's manufacturing system. The initiative was implemented in collaboration with the Nof HaGalil Municipality, the local Technological College, and the "Tzurim" and "Melachtam" organizations. Mayor Ronen Flut emphasized that "the company that developed the 'Iron Dome' for missile defense is now constructing a social 'Iron Dome' to counter the polarization and division within Israeli society, which are threats of comparable magnitude to missiles. I firmly believe that this initiative presents a win-win scenario, benefitting all parties involved: the ultra-orthodox community, Rafael, Nof HaGalil, and the State of Israel".



Employment of Persons with Special Needs

At the Atidot Home employment center in Acre, which serves residents with special needs, a Rafael production line operates focused on core systems projects. Residents are engaged in tasks such as wire stripping, screw sorting, assembling subassemblies, and preparing infrastructure for assemblies. This engagement allows them to utilize a range of skills while fulfilling important roles within operational activities. Income generated from these activities is allocated to the residents for their personal needs. The center is recognized as a Rafael subcontractor, and its activities have been rewarded with the Minister of Welfare and Social Services Award.

The employment of persons with special needs necessitates certain accommodations and continuous guidance; however, it represents a crucial component in ensuring equal opportunities and facilitating integration into society, thereby enabling individuals to function as independently as possible. In 2022, two residents of Beit Kessler, a rehabilitation center for persons with physical disabilities in Haifa, were integrated into a production role at Rafael. Additionally, in 2022, a group of individuals on the autism spectrum was included in the catering system at the David and Leshem Institutes. These workers, sourced from the Krayot area, receive ongoing support from the Alvin Israel Association.



Human Resources in the Context of the "Iron Swords" War

The organization's activities associated with the war were centered around four strategic axes:

Support Framework for Managers

Provision of information, tools, advice, and support in emergency management

Functional continuity

Ensuring functional and business continuity

Connectedness

Fostering a sense of meaning, belonging, and contribution

Individual Support

Addressing the evolving needs of the organization's personnel



This is complemented by intensive efforts to support combatants, communities, and the home front

Functional Continuity

The organization's Business Continuity Plan (BCP) was implemented in October across all operational levels. To address operational and supply requirements, critical systems were adapted to operate in shifts, including extended hours into the night and on weekends, alongside greater flexibility in remote work conditions. Exceptional work procedures were enacted to align with the emergency situation.

To fulfill the professional staffing needs, modifications were made to the recruitment processes, enabling expedited integration of personnel into the organization, with a focus on former employees possessing specialized knowledge and certifications returning for fixed durations or as volunteers. A personnel exchange initiative also transpired across various divisions.

The exigencies of the moment, coupled with frequent and significant alterations in the workforce, necessitated the ongoing collection and management of information to create an organizational overview, including employee attendance, reserve service assignments (to

provide support and temporary replacements), casualty statistics, evacuee demographics, and other relevant data as part of the BCP.

This capability was facilitated by dedicated dashboards utilized during the COVID-19 pandemic, which were repurposed already on October 9 for emergency application, serving the organization throughout the campaign.

The extensive changes also affected the transportation system, which was adapted to be flexible and hybrid. Operating hours were extended, accommodating additional shifts and weekends, with transportation services reaching additional endpoints. The operations of the kitchens and catering facilities were similarly expanded, introducing alternative provisions for Shabbat meals, including challah and chilled food options for weekends.

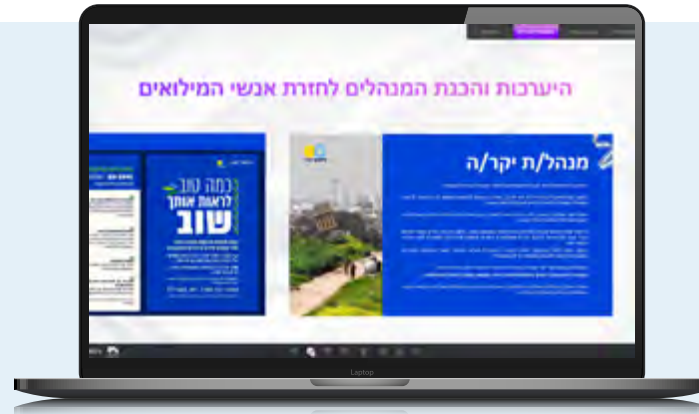




Individual Support

At the individual level, the imperative to provide comprehensive and continuous care for the needs of employees and their families, as well as to enhance both personal and organizational resilience, has become increasingly pronounced. In certain instances, due to the geographical proximity of facilities in the northern region of the country, employees found themselves among the evacuees and victims in the first and second circles. To augment personal resilience, a telephone information and support center was established for employees and their family members, when a decision to open the center was made on October 9, and its operational commencement being on October 15. This initiative utilized a new communications infrastructure, which involved an external switchboard connected to mobile numbers, ensuring availability and continuous response. Five employees were assigned to provide assistance at the center, addressing requests for emotional support and general information across various topics.

Approximately one thousand Rafael employees participated in 17 meetings, conducted both face-to-face and online, aimed at fortifying personal resilience. Furthermore, support groups were formed for parents and spouses of active-duty soldiers, online respite meetings took place for family members, and lectures covering topics from mindfulness to fight-or-flight responses were delivered during working hours. Families were afforded opportunities to host relatives in Shdema over weekends, solutions were devised for allowing children without structured frameworks to accompany parents at work, with coordinated activities tailored for children. Procedures related to the registration of sick days and reimbursement of expenses, such as toll roads, were made more flexible and efficient. Additionally, packages intended to bolster recruits and their families were distributed, extensive preparations were made within the organization for the reintegration of reserve service members, which included assistance in the form of "soft landings", along with consultations with psychologists and social workers for interested individuals. A survey



was conducted to evaluate emotional responses and attitudes amidst the prevailing "war routine".

Moreover, the payroll unit transitioned to an emergency operational format to deliver optimal support and solutions, encompassing accurate remuneration for reserve personnel and assistance in the exercise of rights through the Rehabilitation Division at the Ministry of Defense in cases of injury involving employees or their family members during service. In conjunction with Matkam (the Technology, Information and Processes Administration at Rafael), the payroll unit ensured comprehensive responses to the numerous and rapid regulatory changes necessitated by emergency orders and aligned with the organization's policy. Notable changes that were rapidly implemented included modifications to attendance analysis in light of the Emergency Economy Order, reduced work hours for spouses of reserve members, compensatory rest for employees required to work on Shabbat, wage compensation for those absent during the conflict, annual leave accrual adjustments, travel allowance calculations for evacuated employees, among others.



Support Framework for Managers

To effectively engage all employees, an initial action that was undertaken was to empower managers by equipping them with the necessary tools to navigate emergency situations. This included the provision of written instructions, messages promoting resilience, a toolkit for team meetings titled "Coping Together", and guidance on planning amidst uncertainty. Key themes that emerged from this initiative include: active listening, empathy and inclusion, connectedness and cohesion, motivation and the mitigation of burnout, hybrid work practices, flexibility, change and crisis management, and employee development. Managers, in collaboration with the Human Resources Department, facilitate regular meetings and updates, foster personal contact, and provide individual assistance, supported by the organizational social system and internal aid funds.



Connectedness

Special emphasis is placed on the management of internal organizational communications with regular frequency and in alignment with the evolving combat situation. This process involves a meticulous focus on message clarity and transparency, consistency of language and the update source, broadening of recipient demographics (including employees, suppliers, and family members), the utilization of diverse internal and external communication channels, facilitating management accessibility for employees' inquiries, and the maintenance of dedicated portals ("For Resilience" – tools for functioning; "Iron Swords" – updates). In one initiative, employees were encouraged to compose inspirational phrases that foster resilience and strength, when some of these phrases (e.g., "Every soul needs an Iron Dome of Hope") were affixed to refrigerators in kitchenettes or displayed in offices and transportation stations. The management of communications throughout the conflict significantly contributed to the establishment of certainty, to the extent possible, to the enhancement of cohesion and connectedness, and to the instillation of pride among all employees of the organization, as those actively engaged in the war effort and in defense of the homeland.





Health and Safety

Due to its involvement in the development of combat systems, numerous operations undertaken by Rafael entail safety and environmental risks. However – and precisely because of this – the Company places significant importance on maintaining the safety of its employees, customers, guests, local communities, and the environment. Substantial resources are allocated towards the establishment of a secure work environment, exceeding legal mandates, while high safety standards are implemented across all operational areas, including research and development, construction and infrastructure, production, testing, demonstration, training, and utilization.

Rafael is responsible for providing safe combat systems intended for operational application and for ensuring an acceptable level of risk at each phase, encompassing logistical activities, storage, maintenance, training, and decommissioning. Thus, product safety engineering is a primary consideration, as is the safety of work processes and experimental procedures. In instances involving new technologies **where international safety standards are lacking (such as high-power lasers and various autonomous systems), guidelines are developed internally within the divisions in collaboration with the Safety Division and the intended customer.** Each project, when initiated, begins with the establishment of a project safety committee, which includes a safety engineer. This committee is tasked with addressing the safety of the system and its components, overseeing aviation safety during development and testing, and facilitating the development of safety hardware or firmware, and more.

Rafael's safety paradigm encompasses the necessity to **anticipate** potential outcomes and formulate corresponding courses of action; To conduct a professional and comprehensive risk **analysis** informed by knowledge derived from learning processes, alongside obligatory requirements; **All to facilitate** activities in accordance with risk assessments through applicable solutions that align with overarching mission objectives. A fundamental instrument for ensuring safety is the promotion of **transparency and a culture of investigation and reporting**, employed as a mechanism for improvement

and learning, an emphasis reinforced in the training of managerial personnel at all levels. Safety considerations are integral to all facets of the organization's operations – ranging from research and development of new technologies or systems, infrastructure construction, production, testing, maintenance, demonstration, training, knowledge transfer, and decommissioning. At each phase and action, safety factors are engaged and prioritized. The approach integrates safety considerations into the core of operations, fostering an organizational culture of safety as a



fundamental principle at all management levels. This is accomplished through regular audits conducted by each level among its subordinate tiers.

Internal stakeholders concerning safety – comprising the Company's employees and managers – carry out ongoing monitoring and regulatory processes in collaboration with the Ministries of Defense, Labor, Transportation, Environmental Protection, the Standards Institute of Israel, insurance companies, and more. Rafael adheres to ISO 45001 concerning occupational safety and health, ISO 14001 concerning environmental management systems, and SI 9301 concerning traffic safety and quality management systems. Required standards are disseminated to all stakeholders, with annual audits conducted by the Standards Institute at headquarters and across divisions



Our numbers for 2023:



3.05
Ration between "near miss" incidents and industrial accidents



100%
Compliance with safety investigation goal



200%
Expansion of the integration of the safety culture index



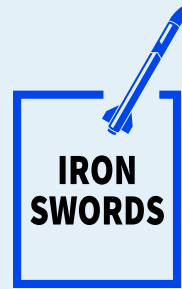
About **2,000**
Occupational monitoring per year

Safety Management and Principal Steps

The advancement of a safety culture at Rafael and the maintenance of a minimal level of risk are under the purview of the **Occupational Safety and Health Division, led by the Chief Safety Engineer, a member of management who reports directly to the CEO.** The division comprises safety engineers, including professional safety engineers and other relevant personnel. The organization engages external consultants to address specific issues as necessary. In compliance with regulatory guidelines, Rafael systematically monitors the frequency of workplace accidents and the resultant absenteeism. The severity of incidents affecting individuals, property, and the environment is assessed against internal organizational metrics. Data is systematically presented and analyzed by internal expert committees. The safety policy and associated programs, which are supported by established targets, are disseminated across organizational units and periodically reported to various management tiers, including the Board of Directors, in alignment with regulatory requirements.

Extensive Initiatives to Streamline Processes within the Company

In 2023, through the collaboration of dedicated work teams with maintenance, purchasing, end customers, and IT systems, a comprehensive initiative was undertaken to streamline and shorten process durations within the Company, while maintaining safety standards. A significant focus was placed on enhancing execution capacity, characterized as a proactive organization-wide activity aimed at maximizing output on production lines. **Throughout the reporting period, several key processes within the safety system were updated and refreshed, many of which involved the implementation of advanced automation and digitization technologies.**



Safety in Testing with an Emphasis on "Iron Swords"

The Safety Division rigorously oversees all testing procedures at Rafael, wherein dedicated discussions are conducted by the Safety Committee prior to each test. Following the onset of conflict, there has been a significant escalation in the scope and intensity of such tests, necessitating a considerable enhancement of organizational efforts in this domain. Personnel have effectively responded to testing demands while upholding safety margins. A particular challenge has emerged regarding noise signatures, which involves establishing a noise containment arena and mitigating noise levels from the firing tunnel. Concurrently, ongoing efforts, anticipated to extend into **2024, have focused on managing high-energy tests, predominantly concerning high-power lasers and armed aircraft, while updating relevant Ministry of Defense regulations. Simultaneously, the incorporation of aviation safety into the engineering framework has been a continuous process from the project's inception.**



Mitigation of Employee Risk

The integration of automation facilitates the reduction of human factors in risk-prone areas, thereby serving as a force multiplier in enhancing safety. In 2023, Rafael incorporated advanced robotics for the assembly of explosive components, automated feeding systems, specialized cabinets for battery charging, and safety lathes. Automation was integrated into the assembly line processes, including the insertion of system components, and an automated loading system was introduced at the testing range. Additionally, remote operation and control capabilities were added in laboratories handling hazardous materials, while chimneys were elevated and a fumigation system was installed to eliminate gas emissions from manned facilities. Examples of strategies for mitigating worker exposure to risk include:

A disk weighing system



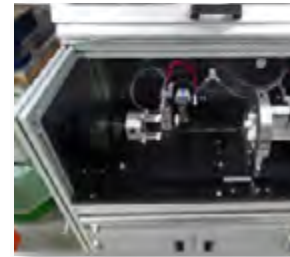
Laser welding in a closed chamber instead of TIG at the battery plant



Pilot of an explosives cutting machine



An ampule cutting machine in optics



A retort propulsion system in CVD



Shielding of electrical testing in batteries



Safety in Design

From a design aspect, the organization's engagement in various projects has been significantly enhanced through the establishment of safety committees, which include a **response to technologies that incorporate AI.** A dedicated professional team has been formed to address design safety and support the project committees. An outline detailing the establishment, management, and

operation of the committee has been disseminated, and the product and systems design procedures have been updated. For 2024, informed by insights gained in 2023, learning objectives regarding safety in design within the business divisions have been established.



Safety Risk Management

Safety risk management is a fundamental aspect of operations at Rafael. The dedicated procedure outlines the methodology for systematically and continuously managing risk across relevant issues and operations. This procedure delineates responsibilities for management and control and provides risk management methods and reporting formats for standard practices. Initiatives in this area may originate from any employee; However, responsibility lies with managers at the department head level and above, with support from unit safety engineers. These managers are tasked with identifying all facilities, processes, and activities under their jurisdiction that pose potential safety risks, along with any defined harmful factors. Retaining direct responsibility within the unit, rather than outsourcing, fosters professional expertise and promotes a safety culture within the organization.

As part of a methodological approach based on the American military standard MIL-STD-882, risk factors are initially identified, and the severity and likelihood

of incidents are assessed, taking safety measures into account. Approval for activities is granted only after this assessment. The process delineates corrective actions corresponding to specific risk levels, which may include eliminating the risk factor, substituting it with a safer alternative, and employing engineering means (such as remote work), administrative measures (procedures, signs, instructions, training), and personal protective equipment. Additionally, the process outlines the required actions should a risk materialize.



Reporting of Safety Incidents and Investigations

In the safety management processes, significant emphasis is placed on the investigation of workplace accidents and occupational illnesses. The investigation follows a detailed procedure that includes the method of execution, compilation of findings, conclusions, recommendations for improvement, and monitoring of actual implementation. Each investigation is disseminated and communicated to stakeholders, and where necessary, safety instructions, risk management procedures, and relevant training are updated accordingly.

Digitization significantly enhances safety management through the use of computerized systems and platforms that enable data collection, analysis, insight formulation, and knowledge sharing. A user-friendly interface presents relevant risk indicators for each unit, with the system generating alerts as needed. Furthermore, digitization strengthens reporting capabilities for safety incidents, allowing reports to be submitted from any location at any time via a dedicated mobile application compatible with tablets and smartphones. In 2023, a unique infrastructure solution for hybrid work in the safety sector was implemented. Each incident reported within the system requires review according to the established management chain, followed by documentation of corrective actions taken and lessons learned. Employees, including external workers and contractors, who report safety incidents, are kept informed about the handling process and subsequent steps taken.

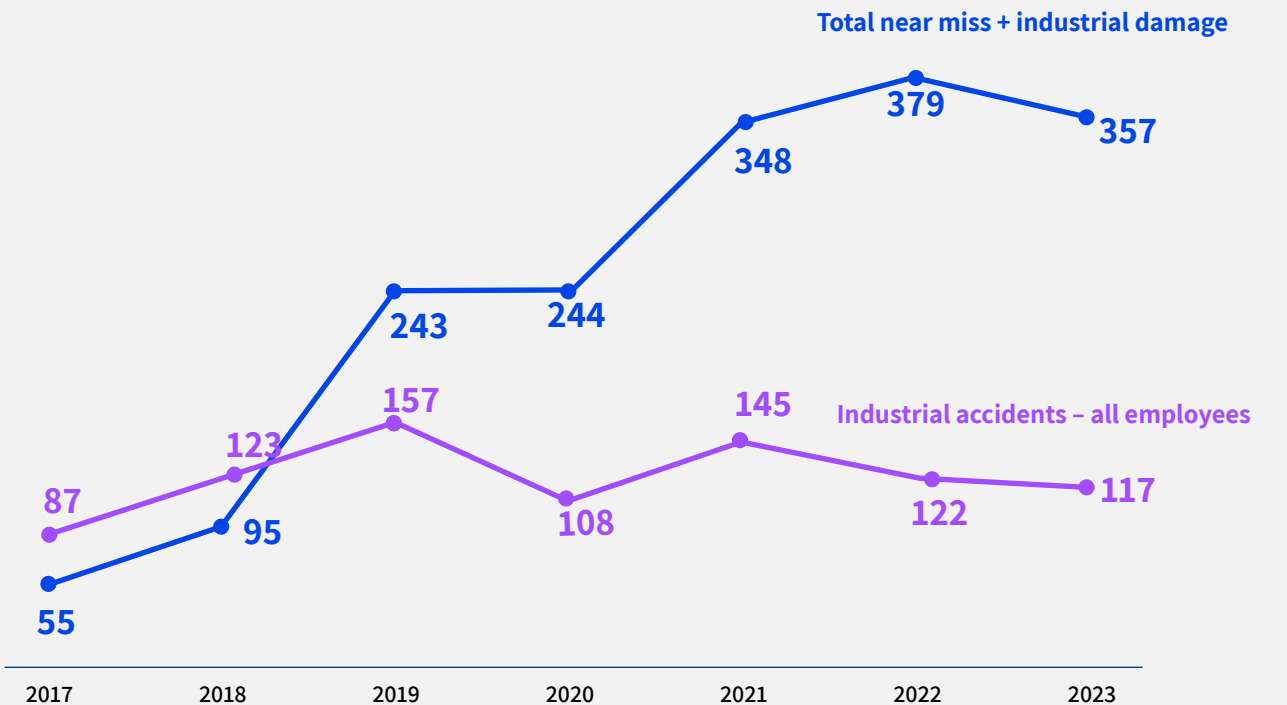
A Culture of Safety

Safety is part of Rafael's DNA. It is ingrained in employees from the outset and emphasized in every aspect of the business. Continuous updates and refresher processes enhance this commitment. Throughout the year, seminars, lectures, training, and certification programs are conducted, alongside self-learning opportunities utilizing specialized kits. To foster learning and professional development, advanced teaching methods are employed, incorporating a blend of traditional and innovative learning tools, leveraging technology and digitization, such as VR hazard surveys, experimental labs, and various refresher tutorials.

Annually, a dedicated conference for the safety system is organized, where safety trustees are elected, and the CEO presents certificates to outstanding individuals in the field. These conferences feature cutting-edge technological topics, including AI and advanced systems, as highlighted in the 2023 conference.

To promote organizational safety awareness, Rafael encourages employees to **report "near miss" incidents**, recognizing this practice as an essential strategy for reducing industrial accidents that occur at the workstation or during work activities.

Industrial near miss* compared with industrial accidents for all employees



* Near miss incidents include light industrial damage incidents with the potential to cause harm to people



During the reporting period, Rafael initiated a **pilot program on safety culture, utilizing a unique index** that evaluates various aspects of training within the unit, risk management, safety incidents, safety audits, occupational hygiene, emergency drills, management awareness, and compensation for officers in charge. The pilot commenced with four 'fields' (a field is lower in hierarchy than a division) and was expanded to eight in 2024.

60%
Increase in "near miss" reports since 2020, when a long-term goal has been set – for continuous improvement of at least 10% increase in the ration between "near miss" reports and actual accidents, compared to the previous year

3.05
2023 has seen great improvement in the ration between "near miss" reports and the number of industrial accidents, compared to 2019 where the ratio stood at 1.55



Knowledge Sharing

A central part of promoting a safety culture relates to sharing knowledge with stakeholders within and outside the organization, in order to create mutual enrichment and learn from the experiences of others.

At Rafael, knowledge communities are active in promoting sharing and consultation on various topics, such as working with hazardous materials. Additionally, periodically, a forum of safety engineers and various professional forums (for electrical risks, lasers, high-pressure systems, etc.) convene. Alongside this, Rafael maintains regular contact with relevant authorities and institutions – the Occupational Safety and Health Administration, the Institute for Safety and Hygiene, the Standards Institute, the Home Front Command, and government ministries – and participates in professional conferences both in Israel and abroad.

At the International Space Safety Conference, which took place in Japan in May 2023, Rafael presented three papers, one of which was written in collaboration with the Israeli Air Force. The conference included a session with safety experts from leading space agencies, including NASA and SpaceX, led by a senior team of professional experts from Rafael, whose representatives are part of the IAASS (the International Association for Space Safety) Safety Committee for Space Launches. Israel's proven knowledge and experience in general, and that of Rafael in particular, make the organization's experts global leaders in the field.



Metrics and Goals

Topic	Index	2023 Goal	Execution
Risk management	Percentage of expiration of risk management reports in active processes	The index was updated in 2023, a control goal was set for 2024	1.9%
Safety incidents	"Near miss" incidents compared with the number of industrial accidents (the entire organization)	3.4	3.05
Safety investigations	Percentage of investigations conducted for incidents determined to require an investigation (divisional goal)	100%	100%
Safety culture	Safety culture in the unit (field level and above) with respect to the set of indices determined in 2022	Measuring and pilot in 4 fields	Executed (and expanded to 8 fields in 2024)

Maintaining Employee Health

Alongside safety aspects, maintaining employee health is given top priority at Rafael. To this end, frequent surveys on hygiene topics are conducted, **and about 2,000 occupational monitoring assessments are carried out according to an annual plan – a plan that complies with legal requirements, company policy, and risk assessments.**

These actions, supported by a computerized system and tests from an accredited laboratory, examine the level of exposure to hazardous materials, noise, dust, and more, while developing an occupational protocol for each employee and identifying deviations. According to the findings, alternatives are considered in the form of changes in working methods, technological efficiency, and the use of new materials.

Rafael employees undergo comprehensive examinations by an internal occupational physician in the Company (according to the nature of their work). **The clinic is accessible to all employees, regardless of the risk level involved in their work.** Special emphasis is placed on the organization's response capabilities to emergencies and various medical situations. In this context, dozens of employees have been trained as paramedics, and many defibrillators have been placed throughout the facilities. The paramedic team is equipped with complete first aid kits, including monitors, LMA devices, and evacuation vehicles that are equipped as ambulances. Each year,



about 1,500 urgent medical visits are recorded at Rafael's facilities. In addition, flu vaccination campaigns (around a thousand employees were vaccinated in 2023) and blood donations have been introduced in the organization's premises. Reliance is mainly on internal teams due to the need to minimize the entry of unauthorized personnel.



Another part of maintaining employee health involves promoting awareness of a healthy lifestyle. In this context, flyers and communications are sent, and concentrated days and training sessions on health and nutrition topics are organized – for example, around Heart Day (with physical metrics testing) and a dedicated ergonomics training that all employees underwent in 2023 (it should be noted that all workstations in the organization are planned according to strict international standards, while providing solutions for specific needs). Rafael offers its employees discounted access to fitness and sports clubs and operates yoga, Pilates, and TRX classes at its facilities. In addition, sports days and group training sessions are arranged, and the Company supports the activities of Rafael sports teams in workplace leagues and tournaments in football, basketball, and cycling.



Responsible Procurement and Supply Chain

Rafael engages in the procurement of services and products amounting to billions of shekels annually. This underscores the necessity for responsible practices within the organization and throughout the supply chain. Rafael is committed to ensuring that its suppliers, regarded as partners, adhere to the values it promotes, which encompass workers' rights, environmental stewardship, business ethics, and compliance with the SI 10000 social responsibility management standard.

Rafael advocates for suppliers and contractors to implement an environmental management system, encouraging them to exceed legal requirements in efforts to prevent environmental pollution and utilize sustainable packaging and auxiliary materials. Additionally, suppliers must secure approval from the Export Division of the Ministry of Defense, contingent upon inspections conducted by the Division, along with compliance reviews by Rafael concerning employment conditions, including salary, due diligence, and legal assessments. Human rights inspections are also conducted, focusing on regulations associated with online sales and the use of AI, assessed according to Freedom House guidelines, while implementing organizational policies on Anti-Human Trafficking & Slavery and Conflict Minerals.

Rafael recognizes that suppliers and contractors are essential to its operations and mandates their adherence to safety standards equivalent to those applicable to its own employees. **During the reporting period, a safety committee for contractors was established to monitor accidents and "near-miss" incidents. The contractor's employees are encouraged to report these incidents, similar to all Company employees, and they are subject to monitoring and analysis in accordance with the protocols applied to all other incidents.** In severe cases, the safety committee is authorized to impose sanctions, ranging from warnings to penalties (which are allocated to reward exemplary contractor employees) to work stoppages.



Connecting procurement to corporate responsibility has enhanced our ability to ask pertinent questions at every stage and with every subcontractor. For instance, when leasing logistics space, it is crucial to assess the land's usage, wastewater management, and pollutant treatment. Ensuring compliance with labor laws and the fairness of wages is also essential. ”

Deputy Head of the Ofek Administration

Our numbers for 2023:



83%

Domestic procurement out of the entire procurement



25%

Increase in the scope of domestic procurement compared to 2021



82%

Rate of local suppliers out of all suppliers



48%

Of suppliers are located north of Hadera or south of Gadera



More than

116,000

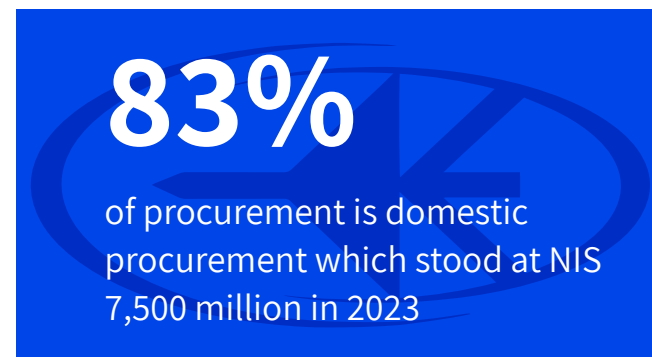
Inquiries and questions in 2023 were submitted via the supplier portal



Domestic Procurement as a Lever for Economic Resilience

In alignment with its comprehensive responsibilities to Israeli society, Rafael prioritizes the acquisition of services, products, and processes from external suppliers that do not constitute its core operations. The foremost emphasis is placed on local procurement, particularly from peripheral areas and businesses that focus on employing underrepresented populations. Procurement from foreign sources is largely conducted under constraints, primarily in cases where local technology and alternatives are unavailable, in adherence to reciprocal procurement commitments or the utilization of American FMF funds (aid agreements), or due to the local supplier's limited capacity to meet supply demands. When Rafael finds it necessary to initiate competition between local suppliers and those based outside of Israel, a preference of 10% in price is afforded to the Israeli supplier, in accordance with legal requirements and Rafael's procedures.

In 2023, the magnitude of domestic procurement reached approximately NIS 7,500 million, accounting for 83% of Rafael's overall procurement. **This figure represents a 43% increase in the rate of domestic procurement over a two-year period.** The proportion of local suppliers among all suppliers was 82%, with 48% of these suppliers situated north of Hadera or south of Gedera. By prioritizing domestic procurement, Rafael contributes significantly to job security and quality employment for thousands of Israelis, both directly and indirectly.



Scope of procurement in NIS million

	2021	2022	2023
(Project-related procurement (Israel	2,797	4,470	5,645
(Project-related procurement (overseas	2,706	2,204	1,563
Total project-related procurement	5,503	6,674	7,208
(Administrative procurement (Israel	1,007	1,112	1,947
(Administrative procurement (overseas	72	56	20
Total administrative procurement	1,080	1,168	1,967
Rafael's total procurement	6,583	7,842	9,175
Rate of procurement from domestic suppliers out of the overall procurement	58%	71%	83%

Procurement Management

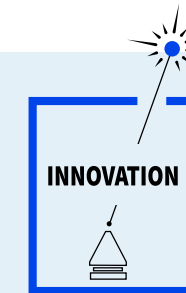
The Procurement Function

The procurement function at Rafael is designed to serve as a leading, professional, and dynamic entity, functioning as a knowledge center in the planning, guidance, control, and implementation of purchasing activities. This role encompasses the development of supplier networks and human capital while persistently striving to streamline and enhance processes, it executes project requirements, facilitates timely deliveries, ensures adherence to quality standards, remains within target pricing, and ultimately contributes to the profitability of the organization.



Buyers at Rafael

Buyers at Rafael receive training from the Procurement Administration, with most employees undertaking a certification examination within 3 to 6 months of their employment. This examination necessitates the provision of solutions to diverse scenarios. Beginning in 2023, an additional component of training will be introduced, addressing the specific needs of every buyer at the unit level (for instance, mechanical procurement). Continuous learning is emphasized post-certification through an annual program that focuses on processes, systems, and skills essential for fostering a sense of service and partnership. This program has been developed in an innovative format comprising digital "learning capsules" that leverage accumulated organizational knowledge.



During the reporting period, Rafael's procurement system was organized according to areas of specialization. Administrative procurement is overseen by the Operations Department and specializes in indirect procurement across categories such as services, infrastructure, tools, and equipment. The procurement activities are centered on managing ongoing procurement, agreements, and contracts, supported by approximately 400 complex agreements in domains including catering, maintenance, and construction. Conversely, **project procurement is administered by the Ofek Administration**, which commenced operations in April 2023 and consolidates all supply chain entities under a single umbrella for the first time. Such concentration facilitates the consolidation of unified experience and knowledge, enabling synchronization, pooling, and prioritization of resources, as well as fostering long-term planning. This structure also contributes to a reduction in time to market.

The Ofek Administration is tasked with achieving the supply budget target, initially set at NIS 6.8 billion at the beginning of 2023 but revised to NIS 7.8 billion in April. It integrates three supply chains, each aligned with a specific business division – Air Defense, Air and Intelligence, and Sea and Land.

Ethics with Suppliers

As part of Rafael's corporate responsibility, all procurement personnel are mandated to conduct their activities in a resolutely ethical manner – exhibiting honesty, fairness, good faith, and an absence of extraneous considerations or bias, while exercising utmost care in safeguarding the trade secrets of suppliers. Any instance of a proposal designed to confer personal benefit (including its acceptance) must be reported immediately to supervisory personnel. Furthermore, as a government entity, Rafael operates in accordance with the laws and regulations governing tender obligations (particularly within defense system contracts). Deviations from these norms are permissible solely under the conditions and exemptions delineated in the applicable regulations. The company is committed to **providing equal opportunities for participation in and success in tenders for all suppliers within Israel.**



Rafael serves as a catalyst in the expansion of the Israeli industrial ecosystem, driving the entire industry forward. We encourage suppliers to adopt the most advanced production technologies available and invest in knowledge sharing and support as appropriate. Given a choice between domestic production and overseas procurement, we will consistently prioritize local expenditure, even in instances where foreign purchase proves more economical. The resultant added value is considerable.

Yoav Wexler, VP of Operations



The intention is to collaborate with a "select group of suppliers" who fulfill Rafael's quality and certification standards, possess the technological capabilities required for the production and development of the requested procurement items, demonstrate economic strength that guarantees stability and continuity, and exhibit competitiveness regarding pricing, scheduling, and service levels. Furthermore, these suppliers must fully comply with the regulatory requirements of the State of Israel, and, when applicable, those of the countries in which Rafael operates.

The procurement system – managed through a dedicated function within the Ofek administration – evaluates and ranks suppliers, conducts audits and assesses their performance against established criteria. Rafael endeavors to be a principal customer for its suppliers and expects recognition as a preferred customer. Additionally, the Company aims to implement contracts on a Turnkey basis, thereby establishing full and comprehensive responsibility of the manufacturer for all aspects, including each of the components.

Supplier Relations

Rafael oversees its relationships with over 3,000 suppliers, both domestically and internationally, through a comprehensive **supplier portal**. This portal features effective modules tailored to the quality sector, tagging systems, streamlined communication methods, and service level agreement (SLA) measurements, among other functionalities.

In 2023, the supplier portal facilitated the submission of more than 116,000 inquiries and questions. Periodically, Procurement Management Review (PMR) meetings are convened with suppliers, during which presentations address employee rights, environmental compliance in accordance with SI 14000, aspects pertaining to SI 10000, management ethics, operational continuity during crises, and community social involvement. At the conclusion of each calendar year, suppliers obtaining a score of 90 or higher across various categories are acknowledged as outstanding, receiving recognition in the form of fines collected from other suppliers due to delays. Major supplier conferences are conducted periodically, with the most recent taking place in 2024. **Rafael regards suppliers and contractors in its operational sphere as integral components of the Company's activities, mandating adherence to safety standards equivalent to those required of all employees.** Within this context, Rafael promotes the adoption of Environmental, Health, and Safety (EHS) management systems among its suppliers and subcontractors by integrating safety appendices within contracts and conducting audits of suppliers, including source audits.

During the reporting period, a safety committee for contractors was established, and a system was developed to supervise contractor activities in collaboration with the Legal Bureau, the Procurement Department, and the Operations Division. In instances of violations or near-accidents involving contractors, the contractor's representative is summoned to the safety committee, which reviews the incident and, ultimately, this multi-party committee determines the necessary actions to be taken.

Over
3,000
Suppliers

116,000
Questions and inquiries
submitted through the
supplier portal in 2023



Procurement and Suppliers During "Iron Swords"

The increased activity during the war and the critical nature of Rafael's operational continuity in support of the war effort necessitated heightened mobilization commencing in October 2023. Suppliers constituted an essential component of the operation, providing services in catering, maintenance, and construction, as well as expediting the development of vital components required for combat, enhancing production rates, and facilitating maintenance at the IDF's order of battle and ongoing operations, including weekends, contingent upon approvals issued to that end by the Ministry of Labor. This collaborative effort was characterized by reciprocal support, with Rafael ensuring continuous and close communication with its suppliers and offering assistance where feasible, particularly to businesses from the northern regions and the Gaza Envelope that were compelled to evacuate.





Promoting Society and Community

We deem the society in which Rafael operates to be integral to its success narrative. For over two decades, Rafael and its employees have engaged in significant and extensive volunteer activities within the community. The ethos of volunteerism is embedded within the organization and is manifested through a diverse array of projects.

The year 2023 was characterized by the expansion and enhancement of our core programs aimed at fostering technological education. During this period, we organized hackathons focused on the construction and programming of robots in Nahariya and Kiryat Yam, with participation from hundreds of students. Additionally, we awarded scholarships totaling NIS 187,000 to exceptional students pursuing technological majors in the northern region. We commemorated "a week of good deeds" during which, in collaboration with a thousand students, we installed electronic control panels in Shlomi, Jerusalem, Tel Aviv, and Be'er Sheva. Our Rosh Hashanah gatherings were themed around community and society, reflecting an initiative to elevate awareness regarding impactful community activities. Furthermore, in response to the

outbreak of the "Iron Swords" war, we developed a tailored community program with a focus on the northern region of the country.

This initiative is directed by a **steering committee for community relations**, consisting of all division heads and managers of administrative departments. The committee establishes guidelines and monitors both short-term and long-term impacts. Quantitative assessments are primarily conducted concerning the scientific-technological projects and their effects on participating students. Under the steering committee operates an **action team for community relations**, comprised of managers from all divisions, who initiate, plan, and execute community activities within their respective divisions.

The operational model we have established is predicated on three central principles.



a. Sphere of Influence

The objective is to facilitate socio-economic development in regions adjacent to Rafael facilities and the localities where the majority of employees reside, specifically targeting areas with the potential for sustained and long-term impact.

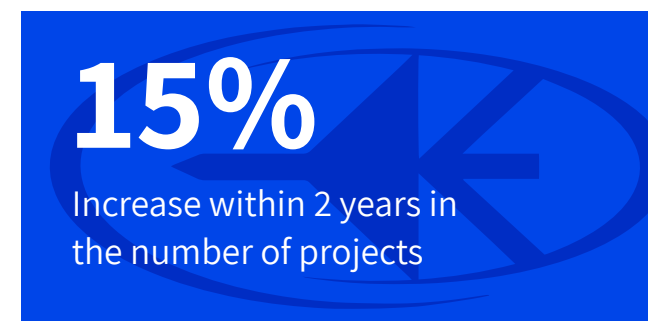
b. Nature of Activity

The emphasis is on the promotion of **technological education**, comprising 33 projects, which accounts for 56% of the total initiatives. In conjunction with this focus, efforts are directed towards supporting and strengthening **at-risk populations**, engaging in volunteer activities for **children and adults with disabilities**, and preserving the **memory of the Holocaust**.

c. Our Partners in the Community

Community partners play a critical role in the planning and execution of activities. Consequently, there is a concerted effort to collaborate wherever we find a committed and high-quality community partner.

As of the end of 2023, Rafael employees are volunteering during their free time across 59 diverse projects delineated by the Company, **reflecting a 15% increase** over the course of two years. Rafael allocates resources, professional guidance, and logistical support to these initiatives



Our numbers for 2023:

- 2,500**
Employees volunteering in the community
- 59**
Community projects
- 33**
Initiatives to promote technological education
- 18**
Initiatives to encourage technological studies among young girls
- 14**
Local authorities partnering in social activities
- 2,000**
Students and graduates in Rafael's programs in the community, every year
- NIS 187,000**
In scholarships for outstanding students from the northern localities, every year



Promotion of Technological Education

Empirical evidence indicates that organizations can significantly impact their communities while aligning with their core business objectives. In accordance with this principle, Rafael, as an innovative leader in the technological sector, prioritizes the promotion of technological education through its community initiatives. In this area, we are equipped to effectuate substantial short- and long-term impacts.

The objective of this initiative is to enhance the academic experience of students engaged in technological disciplines or related fields, to immerse them in engineering contexts, and to stimulate their enthusiasm and curiosity concerning pertinent subjects. This serves as a crucial resource not only for the individual students but also for the community and the state, which require intellectually gifted individuals among the forthcoming generation of engineers and scientists.



RNG – Rafael, the Next Generation

In Israel, there persists a notable shortage of professionals in engineering and technology sectors, particularly in peripheral regions and among women, whose representation in academic pursuits in these fields remains disproportionately low relative to their demographic representation. The RNG – Rafael Next Generation – initiative aims to address this challenge by motivating girls to consider careers in technological professions. This endeavor aspires to enhance the probability of an increased female presence in scientific faculties within academia, thereby facilitating a more expedient trajectory toward managerial positions within the industry, specifically at Rafael.

During the ninth grade, prior to choosing their high school specialization, female students engage with female scientists from Rafael who act as mentors. These interactions include hearing their personal stories, insights regarding their educational journey, service in the military, and professional choices, which serve to inspire the students. They also participate in tours to familiarize themselves with Rafael's technologies and the scientific work environment, as well as attend lectures covering relevant topics such as aeronautics, space, chemistry, and software development.

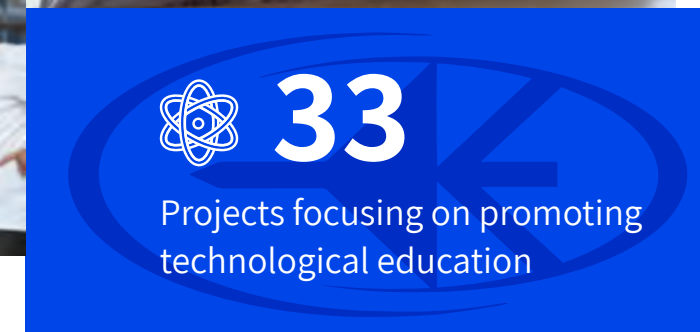
The RNG program currently operates in **18** schools, reflecting an **11%** increase over a two-year period, encompassing **11** local authorities in the northern region. Annually, approximately **400** female students, identified by educational institutions, participate, supported by around **100** female volunteer engineers from Rafael.

Cyber Magshimim and Magshimim+

Military service in the elite units of the Intelligence Corps and the Cyber Division serves as a gateway to respected careers in high-tech industries and facilitates social mobility. The "Magshimim" program, initiated by the Rashi Foundation, aims to integrate outstanding youth from social and geographical peripheries into these units.

As part of this initiative, high school students receive reinforcement, enrichment, and training in software engineering and cyber disciplines, while acquiring knowledge, work methodologies, and practical experience. Approximately 20 Rafael employees serve as mentors for the program. Prior to their enlistment in the IDF, exceptional students are integrated into Rafael's Development Division and the Company's Cyber Operations Center, where cyberattack attempts are monitored. This initiative has led to the creation of the "Magshimim Plus" program, which provides a group of twelfth-grade students with an intensive week of study in a bootcamp format. Participants gain exposure and knowledge in data analysis, media research, encryption practices, web and mobile development, and more. They are trained to independently investigate complex topics in development and cyber security. Rafael is the sole corporate partner in "Magshimim" that operates this cutting-edge project for the most talented students in the northern region.

The RNG program currently operates in **18** schools, reflecting an **11%** increase over a two-year period, encompassing **11** local authorities in the northern region. Annually, approximately **400** female students, identified by educational institutions, participate, supported by around **100** female volunteer engineers from Rafael.

33
Projects focusing on promoting technological education

Lehavim

A program focused on the study of UAVs, administered by the IDF's Atidim Administration in various regions of the country. Approximately 100 high school students participate in the program in both the northern and southern areas, with mentorship provided by Rafael employees.

Summer Semester in Haifa

This unique initiative is developed in collaboration with the Excellence Unit within the Education Division in Haifa, aimed at advancing students from the city's technological reserve. During the Passover break and throughout the summer, students engage with Rafael engineers for a week of experiential learning centered on significant technological exposure. Participants confront complex engineering challenges spanning mechanics and artificial intelligence. By the end of 2023, over 700 students had benefited from this program.

Rafael Ms

This initiative connects eighth-grade graduates with technologies in mechanics, electronics, and software in Rafael systems. Engagements include demonstrations, lectures, experiments, and construction projects. Students cultivate skills in teamwork, collaboration, and self-directed learning, culminating in an end-of-semester event where they present their final projects developed throughout the week.

Rafael AI

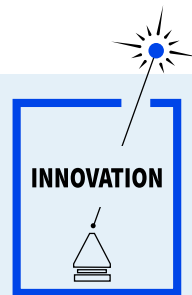
A prestigious project tailored for ninth-grade graduates with a keen interest in software. Over four intensive days, students collaborate with mentors, attend enriching lectures, and undertake a complex programming task that incorporates artificial intelligence.

Promoting and Strengthening At-Risk Populations

As part of its social-community initiatives, Rafael is dedicated to supporting youth and adults on the fringes of society. This is achieved through structured frameworks that equip them with essential life skills and basic technological knowledge, guiding them towards a normative and fulfilling life. These efforts primarily take place in youth villages and social programs within local authorities.

Volunteering for Children and Adults with Disabilities

In this domain, Rafael seeks to leverage its expertise to create a substantial technological impact. The ability to significantly enhance the life of one girl, the autonomy and daily functioning of a wounded IDF soldier, and the opportunity for a teenager to assimilate into society – means the world. Rafael operates a workshop focused on the design and production of assistive devices for both adults and children, staffed by approximately 20 Rafael retirees who contribute their extensive knowledge and experience toward this important endeavor.



Makers for Heroes

Rafael employees also apply their innovative and technological know-how, honed through the development of advanced combat systems, to create assistive devices for individuals with physical disabilities. Among the noteworthy initiatives is the "Makers for Heroes" program, organized by the Restart association, which aims to improve the quality of life for wounded and disabled IDF soldiers. This inspiring program mobilizes teams of "makers" – engineers, medical professionals, designers, and programmers – drawing on creative talent from leading Israeli industries to devise new technological solutions. Throughout the year, multiple record days are organized, culminating in proposals from which Rafael's Chief Scientist selects intricate solutions for implementation by Rafael units.

For instance, in one project in 2023, a team of engineers devised a unique one-handed remote control for a gaming console intended for a wounded IDF soldier. This solution not only enabled the soldier to indulge in his former hobby but also fostered a sense of competence.



Rafael engineers integrated various fields of knowledge to develop a personalized, innovative, and tailored solution for Niv, who was injured during his military service. This was accomplished through close collaboration with him to define the solution and ensure its suitability over an extended period. We take great pride in mobilizing Rafael's human capital, expertise, and technology for a project aimed at restoring the lives of wounded IDF soldiers as much as possible. ”

Dr. Tzachi Glickman

Senior Vice President
Head of R&D and
Engineering Division





From the Holocaust to Rebirth

As a fundamental component of Israel's security and its deterrence capability, Rafael finds profound importance in the transition from the Holocaust to Rebirth, underscoring the message of "Never Again". Employees engage in volunteer activities at day clubs serving Holocaust survivors, assisting them in documenting their life stories, facilitating group social interactions, and providing support with everyday technological tasks. The Company also collaborates with the Western Galilee Ghetto Fighters' House, where employees aid the museum's staff in various technological endeavors, including archival documentation. Annually, a delegation is sent to Poland, where preparations for the trip include accompaniment by a Holocaust survivor. Upon return, delegation members further engage in volunteer efforts alongside Holocaust survivors.

Excellence in Industry

This initiative, in partnership with the Manufacturers' Association, seeks to enhance and fortify enterprises by implementing principles of quality and excellence. Rafael employees voluntarily support the management of small and medium-sized enterprises in the northern region, many of which are suppliers to Rafael. The focus is on developing and executing a quality work plan aimed at improving management practices and product quality. Enhancements are showcased in the National Award for Quality in Industry competition, with enterprises recognized and awarded stars based on their achievements.

Employee Donations

As a government entity, Rafael is not permitted to make donations directly. However, in response to community needs expressed by employees, the Company established a framework for the centralized collection of employee donations through a dedicated donation fund for hospitals and the Rabbi Firer Association. Annually, a project is initiated to collect donations for the "Kamcha DePesha" campaign, aimed at supporting families in need within the communities served by Rafael. Additionally, the Company donates furniture and other equipment to local centers and local authorities.

In 2022, a total of **NIS 270,921** was raised for the "Kamcha DePesha" campaign, and **1,147 meals** were donated to families in need.

In 2023, a total of **NIS 284,621** was raised for the "Kamcha DePesha" campaign, and **1,204 meals** were donated to families in need.



Developing the Periphery in Israel and Promoting Economic Resilience in the Country

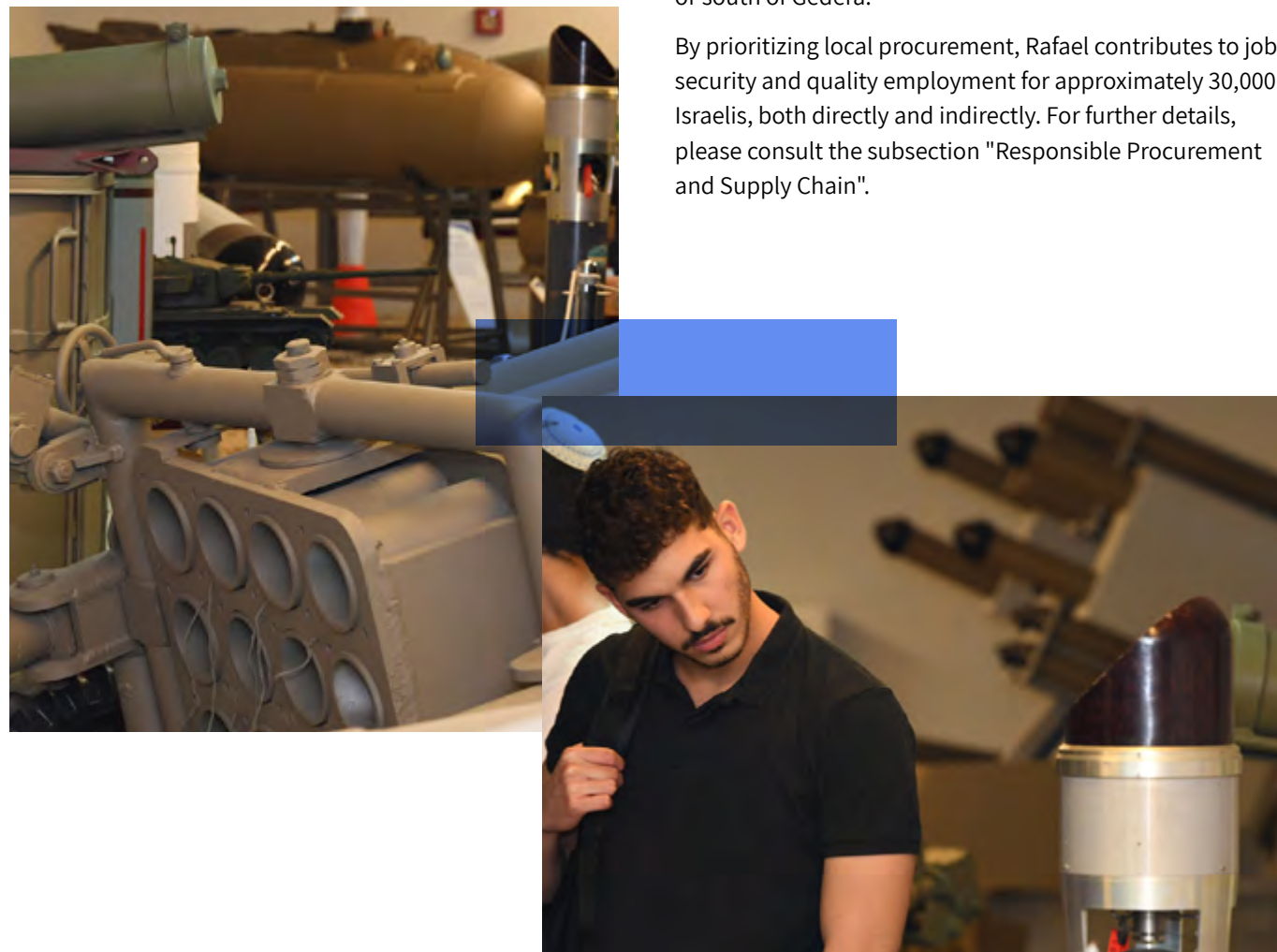
Diverse Employment

At Rafael, employing individuals from underrepresented populations is a top priority, recognizing its dual benefits: enriching the organization with a variety of perspectives and fostering an inclusive environment where employees can identify with Rafael and experience a genuine sense of belonging. During the reporting period, diversity and inclusion objectives were established for four primary groups: ultra-orthodox, Druze, the Ethiopian community, and persons with disabilities. For additional information, please refer to the subsection "Diversity and Inclusion" above.

Domestic Procurement

In line with its broader responsibility towards Israeli society, Rafael is committed to procuring services, products, or processes not central to its core activities from external suppliers. Special emphasis is placed on local procurement, particularly from the periphery and businesses that prioritize the employment of underrepresented populations. In 2023, the volume of domestic procurement reached approximately NIS 7.5 billion, representing 83% of Rafael's total procurement – a 43% increase in domestic procurement within two years. The proportion of local suppliers among all suppliers was 82%, with 48% of these suppliers located north of Hadera or south of Gedera.

By prioritizing local procurement, Rafael contributes to job security and quality employment for approximately 30,000 Israelis, both directly and indirectly. For further details, please consult the subsection "Responsible Procurement and Supply Chain".



Collaborations with Academia

Rafael's contribution to Israeli society is exemplified by its commitment to academic research and extensive partnerships with academic institutions. Thirty-five employees serve as visiting lecturers across approximately fifteen courses at universities nationwide, imparting knowledge and expertise to the next generation of engineers in diverse subjects, including mechanics, quantum theory, composite materials, 3D printing, and artificial intelligence. In certain instances, the academic institution does not fund these lecturers, and Rafael assumes financial responsibility for their positions. This direct engagement facilitates a deeper connection between students and Rafael's experts, aiding in the students' integration into the organization.

Additionally, **Rafael invests approximately NIS 2 million annually in funding academic research in fields such as artificial intelligence, aeronautics, materials engineering, cyber technologies, and more.** The findings from this research are integrated into Rafael's operational system development processes, fostering mutual enhancement. Rafael also collaborates with academic consultants and utilizes laboratories, effectively incorporating the expertise of Israeli academia into its operations. To promote ongoing innovation and the integration of new capabilities, a dedicated group of dozens of Rafael researchers allocates 20% of their time to external projects, primarily within academia.





Iron Swords and Community Contribution



On October 7, 2023, the multi-front "Iron Swords" War commenced, impacting Rafael both as a defense company and as the largest employer in the north, serving as a catalyst for social change.

In response, Rafael's management adapted employee social activities to meet the demands of the war, focusing on three critical areas: IDF fighters in the north, agriculture, and technology.

Through the "Adopt a Company" initiative, Rafael units were paired with 10 reserve companies, particularly those stationed in the northern sector. Commanders outlined their needs, and Rafael collaborated with their Sergeant Major to address these needs. Employees contributed financially to purchase toiletries and care packages, with some also preparing meals. Rafael employees delivered these supplies directly to the field.

By the end of 2023, in alignment with prevailing circumstances, Rafael established an employee donation fund to support IDF fighters, raising NIS 325,370. Five refreshment centers were launched for thousands of fighters, organized by the "Association for Israel's Soldiers". At designated gathering points in the north, Rafael volunteers facilitated organized events that included food services, laundry, uniform distribution, medical assistance, grooming services, relaxation areas, and board games.

On a technological front, Rafael expanded the **Restart Association's** Makers Project to the rehabilitation departments of hospitals nationwide, delivering prompt solutions to many injured fighters.

In agriculture, Rafael employees volunteered in crop harvests and at the David and Leshem Institutes, organizing a **market for agricultural produce** originating from the north and south. Volunteers assisted farmers with the unloading and sale of goods, **leading to over 7 tons of fruits and vegetables sold to approximately 1,600 employees.** Additionally, volunteers engaged in numerous activities to support families affected by evacuations or reserve duty.

NIS 325,370

Collected via the employees' donations fund, dedicated to providing a response for the needs of IDF fighters

7 tons

Of fruits and vegetables from localities in the north and the south of the country sold to approximately 1,600 employees in the produce market



About the Report

This eighth report reviews Rafael Defense Systems Ltd.'s performance in corporate responsibility (ESG) for the years 2022-2023.

The report focuses solely on Rafael's performance, excluding subsidiaries and international representative offices, except for employee-related data. The Company has committed to regularly publishing an ESG report that highlights its achievements and those of its employees, as well as relevant trends, objectives, and multi-year developments.

This report adheres to the guidelines and standards set by the Global Reporting Initiative (GRI) and the Sustainability

Accounting Standards Board (SASB) specifically for the Aerospace & Defense sector.

Please note that in certain data tables, percentages may not total 100% or reflect exact amounts due to rounding.

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Indices



GRI Index

Indicator number	Indicator name	Source	Location
The Organization and Its Reporting Practices			
2-1	The organization's details	ESG Report	12-23
2-2	The percentage of employees who received anti-corruption training	ESG Report	166
2-3	The entities that appear in the organization's sustainability reports	ESG Report	166
2-5	External auditing of report	ESG Report	No auditing performed
2-6	Activity and products in the company, the value chain and other business relationships	ESG Report	24-25, 26-39
2-7	Workforce head count	ESG Report	106
Governance & Ethics			
2-9	Corporate governance structure and composition	ESG Report	65+66
2-10	Determining the composition of board of directors	Annual report 2023 ESG Report	Chapter 1. Restrictions and supervision of company activities, Regulation 21, Page 39-42 66
2-11	Role of the Chairman of the board	Annual report 2023	Chapter 1. Restrictions and supervision of company activities, Regulation 21, Page 39
2-12	Role of the board in supervising the management of ESG impact	ESG Report	66
2-13	Delegation of powers to manage EGS impact	ESG Report	52-53, 66
2-14	The board of directors role in reporting sustainability issues	ESG Report	52-53, 66
2-15	Processes to prevent conflicts of interest among board of directors members	ESG Report	67
2-16	Description of the process for communicating important issues to the board of directors in economic, social and environmental fields and the number of issues reported	ESG Report	66
2-17	Increasing the board's knowledge of ESG issues	ESG Report	66
2-19	The company's compensation policy	Annual report 2023 ESG Report	Chapter 2, Principles of Accounting Policy, Note 3, page 31 66
2-20	The company's method for defining compensation	Annual report 2023	Chapter 2, Principles of Accounting Policy, Note 3, page 31

GRI Index

Indicator number	Indicator name	Source	Location
Strategy, Policies and Practices			
2-22	Statement on sustainable development strategy	ESG Report	6-7, 52, 150
2-23	Statement on responsible business conduct	ESG Report	68
2-24	Implementation of the statement for responsible business conduct	ESG Report	69-73
2-26	Mechanisms for obtaining advice and raising concerns regarding ethics issues	ESG Report	71
2-27	Compliance with laws and regulations	ESG Report Annual report 2023	68 Restrictions and supervision of company activities, Regulation 21, Page 44-51
2-28	The company's participation in organizations and associations within the industry and others	ESG Report	55
Stakeholder Engagement			
2-29	The organization's approach to dialogue with stakeholders.	ESG Report	56-57
Employment & OHS			
2-30	Collective labor agreements	ESG Report	110
Materiel Topics			
3-1	The process for defining essential issues	ESG Report	58-59
3-2	List of essential topics	ESG Report	60-61
Economic Performances			
201-1	Direct economic value created and shared	Annual report 2023	Chapter 2, Financial statements, page 7-14
201-3	The company's commitment regarding retirement/employee compensation and pension plans	Annual report 2023	Chapter 2, Financial statements, Note 19, page 53-54
Indirect Economic Impacts			
203-2	Significant indirect economic effects	ESG Report	112, 146-149
Procurement Practices			
204-1	Policy, procedures and actual percentage in relation to local procurement	ESG Report	146-148

GRI Index

Indicator number	Indicator name	Source	Location
Anti-Corruption			
205-1	Description of how to detect corruption risks, including the percentage and number of units where inspections were carried out to detect corruption related risks.	ESG Report	68-72
205-2	The percentage of employees who received anti-corruption training.	ESG Report	68-72
205-3	Description of how identified corruption cases are handled.	ESG Report	68-72
Energy			
302-1	The organizations energy usage	ESG Report	88-90
302-3	Amount of energy consumed in the organization	ESG Report	88-90
302-4	Reducing the organization's energy consumption	ESG Report	88-90
Water and Effluent			
303-1	Managing water as a shared resource	ESG Report	92-94
303-2	Sewage and effluent management	ESG Report	92-94
303-3	Use of potable water	ESG Report	92-94
303-4	Sewage and effluent	ESG Report	92-94
303-5	Water usage	ESG Report	92-94
Biodiversity			
304-1	Description of activities to enrich biological diversity in areas controlled by the company and near them	ESG Report	91
304-3	Description of habitats where protective or restoration operations have been carried out	ESG Report	91
Emissions			
305-1	Direct greenhouse gas emissions (Scope 1)	ESG Report	85-87
305-2	Direct greenhouse gas emissions (Scope 2)	ESG Report	85-87
305-4	Intensity of the organization's greenhouse gas emissions	ESG Report	85-87
305-5	Description of initiatives to reduce greenhouse gases emissions and the results achieved	ESG Report	85-87
305-6	Description of actions taken to reduce emissions of substances that deplete the ozone layer	ESG Report	86
305-7	Air pollutant emissions	ESG Report	85-87

GRI Index

Indicator number	Indicator name	Source	Location
Waste			
306-1	Waste production and effects	ESG Report	94-99
306-2	<ol style="list-style-type: none"> 1. Actions taken to prevent the creation of waste and its effects as a result of the company's activities throughout the value chain 2. If the waste generated as a result of the organization's activities is managed by a third-party company, a description of the actions taken to ensure that the third party follows the procedures. 3. The processes used to collect and monitor waste figures 	ESG Report	94-99
306-3	Waste generated	ESG Report	94-99
306-4	Avoiding waste transferred to landfill	ESG Report	94-99
306-5	Waste transferred to landfill	ESG Report	94-99
Employment			
401-1	New employees and employee turnover	ESG Report	111-113
401-2	Exclusive benefits for full-time employees	ESG Report	114-117, 119-120
401-3	Maternity Leave	ESG Report	119
Occupational Health & Safety			
403-1	Occupational health and safety management system	ESG Report	136-145
403-2	Hazard identification, risk management and incident investigation	ESG Report	139-141
403-3	Existence and number of disease prevention trainings for employees, their families and the community	ESG Report	136-145
403-4	Employee training regarding workplace safety and security issues	ESG Report	138-139
403-5	Employee training regarding workplace safety and security issues	ESG Report	136-145
403-6	Promoting employee health	ESG Report	144-145
403-9	Work accidents	ESG Report	141

GRI Index

Indicator number	Indicator name	Source	Location
Training & Education			
404-1	Hours of training in relation to the number of employees	ESG Report	124-125
404-2	Skill management and career completion programs	ESG Report	112-113 124-127
404-3	Percentage of employees receiving professional employee feedback and organizational development tools	ESG Report	121-123
Diversity and Equal Opportunity			
405-1	Diversity of management bodies and employees	ESG Report	128-132
405-1	The ratio between base salary and compensation paid to women compared to men	ESG Report	131
Freedom of Association and Collective Bargaining			
407-1	Description of steps taken to guarantee employees freedom of association	ESG Report	110
Local Communities			
413-1	The nature, scope and effectiveness of actions designed to manage the company's effects on communities and community development programs	ESG Report	154-165
Public Policy			
415-1	Description of essential issues inherent to the organization's participation in public policy development and lobbying	ESG Report	57
CUSTOMER HEALTH AND SAFETY			
416-1	Stages in a product life cycle where safety and health aspects of the product are examined	ESG Report	74-81
416-2	Description of health and safety conduct as per regulations and voluntary codes	ESG Report	74-81
CUSTOMER PRIVACY			
418-1	Description of cases, based on law, standards and codes, where the privacy of customers/visitors was violated or information about them was lost	ESG Report	80

SASB Sector Level: Aerospace & Defense

Table 1. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE	Response
Energy Management	(1) Total energy consumed, (2) percentage grid electricity, (3) percentage renewable	Quantitative	Gigajoules (GJ), Percentage (%)	RT-AE-130a.1	ESG report P.88-89
Hazardous Waste Management	Amount of hazardous waste generated, percentage recycled ²	Quantitative	Metric tons (t), Percentage (%)	RT-AE-150a.1	ESG report P.95-99
	Number and aggregate quantity of reportable spills, quantity recovered	Quantitative	Number, Kilograms (kg)	RT-AE-150a.2	0
Data Security	(1) Number of data breaches, (2) percentage involving confidential information	Quantitative	Number, Percentage (%)	RT-AE-230a.1	0
	Description of approach to identifying and addressing data security risks in (1) company operations and (2) products	Discussion and Analysis	n/a	RT-AE-230a.2	ESG report p.56-57 P.61 p.77 P.80
Product Safety	Number of recalls issued, total units recalled	Quantitative	Number	RT-AE-250a.1	N/A
	Number of counterfeit parts detected, percentage avoided	Quantitative	Number, Percentage (%)	RT-AE-250a.2	N/A
	Number of Airworthiness Directives received, total units affected	Quantitative	Number	RT-AE-250a.3	N/A
	Total amount of monetary losses as a result of legal proceedings associated with product safety	Quantitative	Reporting currency	RT-AE-250a.4	0

Table 1. Sustainability Disclosure Topics & Accounting Metrics(Cont.)

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE	Response
Fuel Economy & Emissions in Use-phase	Revenue from alternative energy-related products	Quantitative	Reporting currency	RT-AE-410a.1	Data is unavailable at this time
	Description of approach and discussion of strategy to address fuel economy and greenhouse gas (GHG) emissions of products	Discussion and Analysis	n/a	RT-AE-410a.2	Data is unavailable at this time
Materials Sourcing	Description of the management of risks associated with the use of critical materials	Discussion and Analysis	n/a	RT-AE-440a.1	Data is unavailable at this time
Business Ethics	Total amount of monetary losses as a result of legal proceedings associated with incidents of corruption, bribery, and/or illicit international trade	Quantitative	Reporting currency	RT-AE-510a.1	0
	Revenue from countries ranked in the E or F Band of Transparency International's Government Defence Anti-Corruption Index	Quantitative	Reporting currency	RT-AE-510a.2	N/A
	Discussion of processes to manage business ethics risks throughout the value chain	Discussion and Analysis	n/a	RT-AE-510a.3	ESG report P.68-73 P.150-153

Table 2. Activity Metrics

Activity Metrics	Production by reportable segment	Quantitative	Number	RT-AE-000.A	N/A
	Number of employees	Quantitative	Number	RT-AE-000.B	ESG report P.106





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