

**Policy on Compliance
with
Israeli Anti-Corruption Laws,
the OECD Anti-Bribery Convention,
and
the International Anti-Corruption Laws
("Anti-Corruption Policy")**

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 and the International Anti-Corruption Laws
(“Anti-Corruption Policy”)

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Policy on Compliance with Israeli Anti-Corruption Laws, the OECD Anti-Bribery Convention, and the International Anti-Corruption Laws

1. Introduction

Rafael Advanced Defense Systems Ltd., as well as its respective affiliates and related entities (collectively, “**Rafael**” and/or the “**Company**”), believe in conducting business ethically, honestly, and with integrity. It has been and continues to be the policy of the Company to conduct its operations and activities in compliance with Israeli anti-corruption laws and the OECD Anti-Bribery Convention, as well as the applicable anti-corruption laws of other countries.

The Company is committed to conducting business ethically and honestly, and expects its directors, officers, employees, and agents to help ensure that this Company Policy on Compliance with Israeli Anti-Corruption Laws, the OECD Anti-Bribery Convention, and the International Anti-Corruption Laws (the “**Policy**”) is being followed. The consequences of failing to comply with this Policy and applicable laws are potentially severe for the Company and its employees. Violation of Israeli anti-corruption laws, the OECD Anti-Bribery Convention, and other applicable anti-corruption laws can result in substantial fines against the Company and can subject employees and the Company to prosecution, criminal fines, and imprisonment. Therefore, Rafael has zero tolerance for any deviations from this Policy. In addition, employees violating Company Policy are subject to disciplinary action, including possible termination of employment.

2. Statement of Policy

The Company’s officers, directors, employees, subsidiaries, affiliates, and agents are prohibited from directly or indirectly giving, promising, offering, or authorizing any third party to offer money or anything of value to a Government Official in an attempt to improperly influence the Official or obtain a benefit of any kind. A Government Official includes any officer or employee of any national, regional, local, or other government, or any department or agency of such government, or any officer or employee of a government-owned or controlled company or enterprise. Government Official also includes any political party, political party official, or candidate for political office. This prohibition applies to Rafael’s activities worldwide.

Furthermore, every officer, director, employee, subsidiary, affiliate, and agent of the Company is obligated by this and other Company policies to keep books, records, and accounts that accurately and fairly reflect all transactions and dispositions of Company assets.

Any individual or entity subject to this Policy who has reason to believe that a violation of Company policy or applicable law may have occurred is required to report the activity to the Company’s General Counsel immediately. The General Counsel shall notify the Company’s Compliance Officer. The Company will ensure that no retributive action

is taken against anyone making such a report in good faith because of such reporting. Reports may be submitted anonymously. Information regarding how to submit a report is provided in section 5 below.

3. Corporate Ownership of Policy

The Company's commitment to compliance and to conducting business ethically and in full compliance with laws starts at the top of the Company and permeates the entire corporate family.

A. Board of Directors and Anti-Corruption Committee

The Company's compliance with Israeli anti-corruption laws, the OECD Anti-Bribery Convention, and other related laws is overseen by the Board of Directors. The Board of Directors has delegated implementation and supervision of the Company's compliance program to the Company's Compliance Officer, who in turn has established a committee dedicated to anti-corruption compliance ("**Anti-Corruption Committee**") consisting of representatives from Internal Audit (as an observer), Finance, Marketing, and the Legal Department. The Anti-Corruption Committee will regularly meet to review, guide, and oversee the implementation of this Policy, the compliance program set forth herein, the related procedures, the results of risk assessments and audits, and any changes in applicable law, regulations, and guidance.

B. Compliance Officer and Compliance Department

Day-to-day responsibility for implementing this Policy is vested in the Company's Compliance Officer. The Compliance Officer's functions shall include: establishing and enhancing compliance policies and procedures, conducting a periodic Anti-Bribery and Corruption risk assessment to identify gaps and determine prioritized and practical remediation measures, reviewing data collected regarding Business Partners under the Due Diligence and Monitoring of Business Partners Procedure ("**DD and Monitoring Procedure**"), requiring supplemental due diligence in appropriate cases, opining on whether individual Business Partners should be retained, opining on requests to provide certain Business Courtesies, providing anti-corruption training to employees and Business Partners, and other related duties. The Compliance Officer shall be an officer of the Company and shall report directly to the CEO of the Company.

The Compliance Officer, in consultation with the General Counsel, is also responsible for developing a comprehensive plan to monitor each aspect of the Company's compliance program, including the activities of subsidiaries, joint ventures, and Business Partners. The plan shall address areas to be monitored, mechanism of monitoring, frequency of monitoring, and to whom the results will be reported. The plan shall include various monitoring mechanisms, including in-person monitoring, that are tailored to the risks presented by the individual, entity, or activity subject to monitoring.

On an on-going basis, the Policy and all related procedures shall be reviewed and revised by the Compliance Officer, if necessary, taking into consideration, inter alia, findings of the Internal Auditor, risk assessments, violations of the policy, and other factors

impacting the risk profile of the Company or the effectiveness of this Policy. On an annual basis, the Compliance Officer will report to the Anti-Corruption Committee on the state of the compliance program and any recommendations to modify the program. The Anti-Corruption Committee will approve any such changes or recommend additional actions. In addition, the CEO of the Company shall annually issue a statement to the employees of the Company regarding the Policy and the activities under the Policy taken during the previous year. This statement shall then be posted on the Company's website.

The Compliance Officer shall appear in front of and report to the Board of Directors of the Company periodically, and in any event at least once a year. Such report shall include, at a minimum: a list of agents retained by the Company over the previous year, the commission rates for such agents, commissions paid over the previous year, any additional Business Partners that have been reviewed by the Compliance Officer, any changes to the Company's risk profile, changes to the Compliance Program, reports on training and audits performed, due diligence exemptions granted to any Business Partners, the number of secondary due diligence investigations performed and their results, reports of any remedial actions taken, results of compliance-related monitoring activities, and any other issues that shall be deemed relevant by the Compliance Officer.

At least every three years, the Compliance Officer shall perform a risk assessment of the Company's activities, in relation to Anti-Bribery and Corruption risks. The primary objective of the corruption risk assessment is to better understand the risk exposure so that informed risk management decisions may be made. Such risk assessment shall commence by establishing a process. The assessment shall include at least the following steps: identification of the risks, rating the risks, mapping of existing controls to such risks, calculating the residual risk, and developing a plan of action to address such risks. The results of all such risk assessment shall be documented and presented to the Anti-Corruption Committee for its approval. The Anti-Corruption, Ethics and Compliance Handbook for Business (<http://www.oecd.org/corruption/Anti-CorruptionEthicsComplianceHandbook.pdf>) shall serve as a guideline for such risk assessment, and the Compliance Officer will take into account additional currently available guidance from credible international organizations and regulators. The Compliance Officer shall determine on a yearly basis whether a new risk assessment is required and present his determination to the Anti-Corruption Committee.

4. The Anti-Corruption Laws

A. Israeli Anti-Corruption Laws

i. Anti-Bribery Provisions

The Israeli Penal Law prohibits corrupt payments, offers or promises of money, valuable consideration, a service or any other benefit, to influence any act or decision (including a decision not to act) of a foreign government official to induce the official to use his or her influence to affect a government act (or failure to act) or decision, in order to obtain, to assure or to promote business activity or other advantage in relation to business activity¹.

The Israeli Penal Law prohibits corrupt payments to government officials of foreign countries. The Israeli Penal Law defines “foreign public official” as any employee of a foreign country or of a public international organization, or any person acting in an official capacity for or on behalf of a foreign country, a public body constituted by an enactment of a foreign country, or a public international organization. It is mentionable that the definition also applies to entities over which the foreign country exercises, directly or indirectly, control, including where more than one foreign government exercises such control, such as in the case of State-owned enterprises.

As noted above, the Israeli Penal Law applies to more than just payments and offers and promises of payments. Moreover, section 294(b) of the Penal Law prohibits an offer or promise regardless of the reaction of the foreign public official, or of his or her knowledge of the offer or promise. Therefore, an offer or promise would (in itself) be sufficient to complete the offence of bribery.

The Israeli Penal Law also prohibits offering, promising or giving “money, valuable consideration, a service or any other benefit” to foreign government officials. The term “any other benefit” has been broadly interpreted in Israeli case law as including non-

¹ Article 291A of the Penal Law 1977 makes it an offence to bribe a foreign public official:

291A. Bribing a Foreign Public Official

(a) A person who gives a bribe to a foreign public official for an act in relation with his functions, in order to obtain, to assure or to promote business activity or other advantage in relation to business activity, shall be treated in the same manner as a person who commits an offence under Article 291.

(b) No indictment shall be issued in respect of an offence under this article unless given written consent from the Attorney General.

(c) For the purpose of this article: “foreign country” includes, but not limited to, any governmental unit in the foreign country, including national, district or local unit. “foreign public official” includes any of these:

(1) An employee of a foreign country and any person holding a public office or exercising a public function on behalf of a foreign country; including in the legislative, executive or judiciary branch of the foreign country, whether by appointment, by election or by agreement; (2) A person holding a public office or exercising a public function on behalf of a public body constituted by an enactment of a foreign country, or of a body over which the foreign country, directly or indirectly, control; (3) An employee of a public international organization, and any person holding a public office or exercising a public function for a public international organization;

“public international organization” means an organization formed by two or more countries, or by organizations formed by two or more countries.

pecuniary advantages such as sexual favors, or appointments to a public position. In addition, Israel has chosen not to introduce an exception of small facilitation payments.

Israeli Penal Law clarifies that an offence of bribery is committed where a bribe is given “personally by the person who gives it or through another person”. It further provides that a person who gives money to an intermediary shall be treated as a person giving a bribe. Israeli authorities advise that the offence of bribery through an intermediary does not depend upon the state of mind or knowledge of the intermediary. Thus, for example, the foreign bribery offence would be complete where a bribe is given through an intermediary even if the intermediary does not know that the money (or other advantage) is a bribe but simply transfers it to the foreign public official.

ii. Record-Keeping and Internal Controls Provisions

Israeli Tax Regulation stipulates a duty of book-keeping which is imposed on all taxpayers and stipulates, *inter alia*, the type of books, documents and information that must be kept, the manner in which they should be kept, and for how long. The particular accounting books that are required to be kept by taxpayers who are individual-independent-workers or companies are determined on the basis of the business sector to which they belong, the size of the business turnover, and the number of employees employed in the business.

The Tax Directives (Management of Accounting Books) 1973 provide that an accounting system must be kept for a period of seven years from the end of the fiscal year to which it refers, or six years from the date on which the taxpayer filed the tax-return for that fiscal year, whichever is later. As stated in the Directives, certain documents that are not included in the schedule to the Directives are to be kept for a period of three years from the date of filing of the income tax-return for that particular fiscal year. These documents include those prepared in the course of business such as statistical reports, orders, internal memos, contracts and minutes of meetings; and documentation and accounting books that the taxpayer kept either voluntarily (i.e. in addition to the requirements of the schedule to the Directives) or pursuant to other legal requirements under the Securities Law 1968 and the Companies Law 1999 (which include order books in a wholesale business, and records and reports to the Ministry of Industry Trade and Labor).

Rafael complies with Israeli tax regulation as follows:

a. Personal Income Tax:

Rafael provides all its employees with pay slips, as required by the Salary Protection Law 1958. Israeli income tax and other applicable withholdings with respect to the Salary, including Social Security payments, are deducted from Employees' Salary by the Company at source.

The Company prepares and keeps detailed reports regarding benefits and/or bonuses granted to employees, as well as the taxes paid by the Company thereon. The said benefits include both personal benefits, and group benefits, i.e. benefits which cannot be ascribed to specific employees.

Withholding taxes from payments to suppliers:

As required by law, applicable taxes are deducted at source from payments made to suppliers, and transferred to the Israeli Tax Authority.

The Company keeps records and information (such as names, addresses, and ID numbers) relating to every supplier that has been paid, and that is subject to withholding tax.

b. Corporate Tax:

The Company submits to the Tax Authority annual financial reports and annual tax adjustment reports, after being audited by the Company's external auditors, and complies with the Tax Authority's instructions with regard to tax payment.

c. Value Added Tax (VAT):

The Company complies with the Value Added Tax Law, 1975, which is applicable to the Company, as it registered as a "Registered Business" in Israel.

iii. Penalties for Violations

Foreign bribery is an indictable felony offence under the Israeli Penal Law (one that is punishable by 7 years' imprisonment). The Penal Law provides for a convicted person to be treated in the same manner as a person who commits a domestic offence of active bribery (i.e. offering or providing a bribe). In turn, a person convicted of committing active bribery is liable to a maximum of Seven (7) years imprisonment, or imprisonment and a fine (in some cases it is also possible to impose a fine without also imposing a term of imprisonment).

Since the bribery and foreign bribery offence is punishable by seven years' imprisonment, a sentencing court may impose a substantial fine. Financial sanctions are the same for legal entities as they are for natural persons.

In the case of intermediaries, the construction of the offence for the liability of intermediaries means that an intermediary would be subject to a higher penalty than the person from whom the bribe has originated, since the intermediary would be deemed as having taken a bribe (liable to 10 years imprisonment, and a substantial fine). It should be noted that the Penal Law supplements these sanctions by allowing a fine of up to four times the benefit obtained by the offence, even if that amount exceeds the maximum fine prescribed for the offence.

In addition, violations of the Israeli Penal Law and the anti-corruption laws of other applicable countries are also violations of the Company's policy. Employees who violate this Policy will be subject to disciplinary action up to and including termination of employment.

Failure to comply with book-keeping and accounting requirements, as set forth in the Income Tax Ordinance, 1961 and the Tax Directives (management and accounting books), 1973, can have one or more of the following consequences:

- The Ordinance can render a person liable for a criminal offence where there is a failure to keep documents in accordance with the provisions of the Directives, punishable by up to one year's imprisonment and/or a substantial fine.
- In the case of Rafael, as a "governmental company," failure to submit complete financial statements, where the Chairman of the Company or a Director knew or should have known of such failure and did not take proper precautions to prevent it, may lead to the removal of the Chairman or Director from office.

Sanctions for violation by auditing accountants of their obligations are mainly disciplinary, and subject to investigation and sanctioning by the Accountants Council. Sanctions include a warning; reprimand; suspension of license; or revocation of license.

B. The OECD Anti-Bribery Convention

In 1997, the Organization for Economic Cooperation and Development ("OECD") adopted the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions ("**OECD Anti-Bribery Convention**"). The OECD Anti-Bribery Convention requires signatory countries to adopt national legislation criminalizing bribery of foreign public officials in international business transactions. The OECD Convention also requires signatory countries to assert jurisdiction as broadly as possible in cases involving bribery of foreign public officials. Signatory countries also must hold corporations (not just individuals) liable for foreign bribery. Furthermore, countries must cooperate with one another in the prosecution of international bribery cases and cannot invoke "bank secrecy" laws to deny mutual legal assistance.

Israel became a signatory of the OECD Convention on March 11, 2009.

For more information on the OECD Convention, see <http://www.oecd.org/>.

C. The Anti-Corruption Laws of Other Countries

The U.S. Foreign Corrupt Practices Act ("**FCPA**") prohibits corrupt payments, offers or promises of money or anything else of value to a foreign government official, directly or indirectly, to improperly influence an official act or decision (including a decision not to act) or to induce the official to use his or her influence to improperly affect a government act (or failure to act) or decision which benefits the company, including but not limited to obtaining or retaining business or directing business to anyone, or securing an improper advantage. Criminal penalties may be imposed for violation of the anti-bribery provisions of the FCPA, including fines, per violation, of up to US\$2,000,000 for companies and up to US\$100,000 as well as five years' imprisonment for individuals. Companies may also be required to return all profits resulting from the corrupt transaction, and may be sanctioned by the U.S. government in various other ways.

Many other countries have public anti-bribery laws similar to the FCPA. Over one hundred sixty (160) countries have signed the OECD, Organization of American States ("**OAS**"), and/or United Nations ("**UN**") conventions on anti-corruption as of the time this Policy was issued. These conventions require countries to implement domestic anti-

corruption legislation. The Company is subject to applicable anti-bribery laws of the countries in which it operates, including those countries where its facilities or offices are located and/or incorporated.

5. Compliance with the Anti-Corruption Laws & Company Policy

The following procedures must be in place at all of the Company's operations and offices, and are mandatory for all employees, directors, and officers.

A. Compliance by Employees

i. Training

On an annual basis (during the first quarter of each fiscal year), the Compliance Officer shall develop an annual training plan, to be reviewed and approved by the Anti-Corruption Committee, and shall determine which employees should receive anti-corruption training. Employees receiving training should include relevant employees in the following functions: Sales/Marketing, , Legal, Contracts, Procurement, Audit, Finance, and any others identified by the Compliance Officer in the annual training plan, according to a list of specific positions to be prepared by the Compliance Officer ("**Positions List**"). Training should include Israeli anti-corruption laws, the OECD Anti-Bribery Convention, other applicable anti-corruption laws, and relevant Company policies and procedures. Training should also include function-specific training to educate employees about corruption risks and red flags that can arise in the course of their specific functions at the Company.

Any employees added to the Company's Positions List because they were newly hired by the Company or transferred/promoted to a position on the Positions List should receive a copy of this Policy at orientation and should be trained on this Policy within ninety (90) days of being hired or given new responsibilities, or, if that is not practicable for some reason, at the first available training course.

ii. Certifications

All employees fulfilling the functions listed in the Positions List will be required to sign certification forms at least annually, or as otherwise determined by the Compliance Officer, in which they certify their understanding of, and agreement to comply with, this Policy and related procedures, Israeli anti-corruption laws, the OECD Anti-Bribery Convention, and applicable anti-corruption laws of other countries. Each employee shall also certify that he or she is not aware of any compliance violations.

iii. Reporting, Investigating, and Remediation

The Company's officers, directors, employees, subsidiaries, affiliates, and Business Partners are responsible for reporting actual or potential violations of this Policy, Israeli anti-corruption laws, the OECD Anti-Bribery Convention, or the relevant applicable anti-corruption laws of other countries to report the matter to the Company. The employee should report to the Company's General Counsel. Reports can be submitted by email,

mail, or telephone as follows: ssunray@rafael.co.il; Shmuel Sunray, Legal Department, Rafael Advanced Defense Systems, P.O.B 2250, Haifa, 3102102, Israel, +972-4-879-4033. Reports can also be sent to the Compliance Officer or Internal Auditor. Reports received by any other persons, such as supervisors, Human Resources, Compliance or Finance personnel or others must notify the General Counsel as soon as practicable. This will ensure the proper escalation, investigation, and remediation of any issues. The General Counsel shall notify the Company's Compliance Officer and Internal Auditor. The Compliance Officer, in consultation with the Legal Department, shall identify additional avenues for reporting as needed.

In order to encourage employees to report violations of this Policy and the abovementioned rules and regulations, such reports need not be signed and may be sent anonymously, where permitted under local law. Moreover, the Company prohibits actual or threatened direct or indirect retaliation, harassment, or discrimination against anyone who in good faith seeks advice, raises a concern, reports misconduct or provides information in an investigation is strictly prohibited. Some examples of retaliation include: denial of benefits, termination, demotion, suspension, threats, harassment or discrimination. If any individual, regardless of his or her role at the Company, retaliates against anyone who has truthfully and in good faith reported a potential violation, Rafael will take appropriate action—even where no violation is revealed after investigation. However, if an individual has intentionally made a false report, the Company will respond accordingly.

The Company, led by the Legal Department together with Compliance Department, will investigate actual or potential violations of this Policy or applicable law, which will be reported to the Anti-Corruption Committee and to the Board of Directors, if applicable.

The Company will respond appropriately to issues raised through the reporting mechanism, as well as to any weakness in the Company's Compliance Program. This response may include disciplinary action, up to and including termination of employment for anyone who: (a) violates this Policy or related compliance procedures, Israeli anti-corruption laws, the OECD Anti-Bribery Convention, or other applicable laws, (b) fails to detect or report such violations, (c) retaliates against others who report such violations, or (d) fails to enforce this Policy.

iv. New Hires, Transfers, and Promotions

Rafael, as an Israeli government-owned defense company, is under the constant direct supervision of the Israeli Ministry of Defense, which, in its capacity, conducts comprehensive security screening on a regular basis for all of Rafael's potential candidates for employment. These inquiries include comprehensive background investigation, including with regard to criminal records, involvement in criminal events, physical and mental state, use of alcohol and narcotics, involvement in anti-government activities, etc. If any such information is discovered during this process regarding a candidate for one of the positions on the Positions List, the employee shall go through additional screening, performed by the General Security Service, regarding the preliminary findings.

Rafael follows applicable local laws and regulations regarding “cooling-off periods” related to hiring current or former Government Officials. Potential employment candidates for roles with higher risk, such as interacting with Government Officials, Finance/Accounting, and/or managing Business Partners, shall be screened prior to hiring.

v. Records of Compliance Efforts

The Company must keep records of training provided (including a list of required and actual attendees, date(s) of training, and copies of materials presented), employee certifications, and issues reviewed, including the resolution of each issue and any disciplinary action taken. Disciplinary actions taken, in whole or in part, as a result of non-compliance with the requirements of this Policy, Israeli anti-corruption laws, the OECD Anti-Bribery Convention and the relevant applicable anti-corruption laws of other countries must be reported promptly to the Company’s General Counsel and the Compliance Officer.

B. Hospitality, Meals, Travel, and Gifts for Government Officials

i. Introduction

The Company has a strict policy with regard to giving anything of value to a Government Official, which, if done, must be provided and approved in accordance with this Policy, Rafael’s Business Courtesies Policy, Rafael’s procedure no. 22.00.01 regarding “Marketing Visits in Rafael,” and procedure no. 00.00.14 regarding “Business Courtesies,” attached herewith. In order to be appropriate (and therefore approved), any hospitality, travel expense, or gift for a Government Official must:

- with respect to travel, hospitality, and meals, be provided in connection with a bona fide and legitimate business purpose;
- not be motivated by a desire to exert improper influence, or the expectation of reciprocity;
- be reasonable and customary under the circumstances;
- not be lavish;
- be tasteful and commensurate with the standards of professional courtesy generally accepted by multi-national corporations;
- never be cash or cash equivalents; and
- comply with the local laws and regulations that apply to the government official.

All such hospitality, travel expenses, and gifts must be reviewed in accordance with Rafael’s Business Courtesies Procedure. When required, no hospitality, travel expenses, or gifts may be provided until the written approval required in the Business Courtesies Procedure, whether from the Compliance Officer, Finance, or other, is received.

All hospitality, travel expenses, and gifts must be recorded accurately and transparently in the Company’s books and records with sufficient detail and documentation to identify each recipient’s name and title, the name and title of each beneficiary of the payment, and the purpose of the payment as set forth in the abovementioned policies.

ii. Hospitality

All hospitality, including meals and entertainment, provided for a Government Official must be reasonable and customary, and provided in the normal course of business. In addition, such hospitality expenses must be permissible under the applicable local laws and regulations. Lavish meals or inappropriate entertainment should always be avoided. The Company, or any employee acting on behalf of the Company, should make payment for such expenses directly to the restaurant, hotel, or other service provider.

Red flags that can arise in connection with providing hospitality for a Government Official include, without limitation:

- request or demand by a Government Official to go to a restaurant or other establishment owned or managed by his or her relatives and/or friends;
- request or demand by a Government Official to go to a restaurant or other establishment located in a faraway or unusual location; and
- food and/or drink prices that are disproportionately high when compared to such prices at similar establishments.

iii. Travel Expenses

All travel expenses provided for a Government Official, including the costs of transportation, lodging, meals, and entertainment in connection with business travel, must be reasonable and customary, based on a specific business need, and provided in the normal course of business. In addition, all such travel expenses must be permissible under the applicable local laws and regulations and must be limited to what is necessary to meet the business need. Acceptable business needs include, for instance, plant visits and inspections or negotiating contracts with the government. Lavish meals or inappropriate entertainment are never proper. The Company, or any employee acting on behalf of the Company, should pay such expenses directly to the airline, hotel, recognized travel agent, or any other provider of the service wherever possible and should inform Government Officials of this practice in advance.

If it is necessary to reimburse legitimate travel expenses incurred by a Government Official, the Company must inquire into the permissibility of such reimbursement under applicable laws as well as governing regulations of the Government Official's agency or other governmental employer. Further, the Company must obtain receipts sufficient to document the expenses consistent with the Company's policies regarding reimbursement of employee expenses. The Company does not allow for the payment of *per diems* to Government Officials.

iv. Gifts

Gifts to Government Officials should be avoided unless specifically permissible under Rafael's Business Courtesies policy, local rules, and Rafael's procedure no. 00.00.14 regarding "Business Courtesies".

C. Charitable Donations and Political Contributions

Rafael, as a government-owned company, generally is prohibited by the public administration rules of the State of Israel from making any donations to charities or governmental agencies and governmental instrumentalities, or making any political contributions of any sort.

D. Compliance by Business Partners

i. Introduction and Definition of Business Partner

Any non-employee company representative can be considered a Business Partner. The term “**Business Partner**” is broadly interpreted to cover any third party who is interacting or will interact with Government Officials for or on behalf of the Company and may include, but is not limited to, any agent, consultant, joint venture partner, representative, lobbyist, lawyer, accountant, customs broker, freight forwarder, offset facilitator, supplier, and visa expeditor. Any person or entity authorized to interact with any Government Official or agency on behalf of the Company would likely be a “Business Partner.” In general, Rafael does not engage third parties who are Government Officials or owned or controlled by a government or government official; however, if Rafael were to do so, the entity would be considered a Business Partner. Examples of non-Business Partners could be landlords, utility companies, or service providers to the Company, so long as they do not interact with any Government Official or governmental agency on behalf of the Company. The Company shall not engage a Business Partner without a legitimate and appropriate business justification.

The Company has a process for retaining Business Partners. In particular, before entering into, renewing, amending, or terminating agreements with Business Partners, the Company is required to perform due diligence that is reasonable under the circumstances and to obtain the opinion of the Company’s Compliance Officer and relevant functions, pursuant to the requirements of the DD and Monitoring Procedure. The substance of the contacts or potential contacts by a Business Partner or proposed Business Partner with any Government Official or governmental agency or other possible activity which could result in violations of Israeli anti-corruption laws, the OECD Anti-Bribery Convention, or other applicable law determines the type and level of due diligence and approval required, in accordance with the DD and Monitoring Procedure. After reviewing and approving a relationship with a Business Partner, the Company will obtain a written agreement with each Business Partner that contains provisions that obligate the Business Partner to adhere to the requirements of Israeli law, the OECD Anti-Bribery Convention, and the local law in order to protect the Company and provide transparency into its relationship with the Business Partner, as further outlined below and as specified in the DD and Monitoring Procedure attached herewith.

The Compliance Officer may adjust the required due diligence for certain Business Partners. If the Compliance Officer determines that a specific Business Partner is relieved of the need for undergoing the due diligence review process, the Compliance Officer must

follow the requirements described in the DD and Monitoring Procedure and keep records of all exemptions granted.

ii. Due Diligence of Business Partners

It is critical for the Company to know its Business Partners. Thus, prior to entering into or renewing relationships with Business Partners, the Company gathers and analyzes background information on its Business Partners, such as their corporate structure, ownership information, connections to Government Officials, and certain banking information, in accordance with the DD and Monitoring Procedure, which describes Rafael's risk-based requirements for the review and monitoring of Business Partners.

An important aspect of both due diligence and continuing oversight of Business Partners is attention to and reporting of "red flags." Red flags are circumstances that may indicate corruption. Although the presence of a red flag does not mean that a bribe already has been or will be paid or offered to be paid, it does mandate greater scrutiny and the implementation of safeguards against a violation of this Policy, Israeli anti-corruption law, the OECD Anti-Bribery Convention, and the applicable anti-corruption laws of other countries.

In the context of relationships with Business Partners, red flags can arise in a variety of circumstances, including during a due diligence review, contract negotiation, contract performance, or termination of a relationship. As a result, Company employees who approve the retention of, or interact with, Business Partners must be alert for material changes to the Company's understanding of the relationship with a Business Partner and the risks presented by such a relationship or any circumstances that suggest any ethical or financial impropriety. The following is a non-exhaustive list of some of the red flags that can arise in transactions involving Business Partners:

- transaction involving a Government Official with a reputation for corruption, or who requests a payment or gift;
- transaction in a country or industry with a reputation for bribery or corruption;
- request by the customer or Business Partner for an unusual transaction structure, inclusion of incorrect or unnecessary cost items, or false documentation;
- other than as strictly provided for in the controlling contract, a request by the Business Partner for payment "up-front" or before completion of a project, or for an increase in compensation during the life of a project (other than an increase commensurate with an increase in services);
- unnecessary third parties or multiple Business Partners performing similar functions;
- demand or strong suggestion by a government agency or Official that the Company retain a particular Business Partner;
- requests that payments be made to a third party;
- requests that payments be made in a country that is not the country where the Business Partner resides or where the Business Partner provides services;

- requests for payment in cash;
- requests for unusually large payments, or payments that appear excessive relative to the service to be rendered, such as with respect to agents, payments that exceed the guidelines for acceptable commissions set by the Board of Directors' Commissions Committee;
- requests for reimbursement of poorly documented expenses;
- incomplete or inaccurate information in required disclosures made by the Business Partner, or requests by the Business Partner for false invoices or other documentation;
- refusal to certify compliance with this Policy or agree to comply with applicable laws, including anti-bribery laws;
- refusal to provide information requested during a due diligence review process;
- the laws of the country prohibit the use of a Business Partner or restrict the form or amount of compensation;
- the Business Partner is owned by or employs a Government Official;
- one or more principals or beneficial owners of the Business Partner are related to a Government Official;
- the transaction with respect to which the Company has engaged the Business Partner is with a country that is considered challenging with regard to corruption issues, as shown by international benchmarks and reputation such as those published by Transparency International;
- Business Partner does not appear capable of performing the intended services, or there has been a pattern of misrepresentation or inconsistency; or
- Business Partner has a record or reputation for significant contributions to political parties or candidates for office.

The above list of red flags is not exhaustive. Other circumstances can arise that create a concern that corrupt activity may occur. Company personnel who learn of circumstances that suggest the possibility of corruption or that materially change the Company's understanding of the relationship with a Business Partner or the risks presented by such a relationship should report such red flags or circumstances immediately to the Compliance Officer or the Company's General Counsel.

iii. Contract Provisions

Once a relationship with a Business Partner has been approved, the relationship must be formalized through a written agreement setting forth all of the terms of the business arrangement. The agreement should include provisions that adequately protect the Company and increase the transparency and visibility of the Company into the Business Partner's activities and operations. Such provisions may include, but are not limited to, anti-corruption certification language, termination, indemnification, and triggered audit right provisions, in accordance with the DD and Monitoring Procedure. In order to ensure that all legal requirements are adequately addressed, agreements with Business Partners should be based on standard agreements developed by the Legal Department prior to providing them to the Business Partner for execution. Agreements not based on or that deviate from the standard agreement must be approved by the Legal Department. A

Business Partner's reluctance to include appropriate provisions in the written contract also should be considered a "red flag" and addressed as such as part of the due diligence process. See Section 7.B.ii. of this Policy, which references policies on entering into contracts and disbursing funds.

iv. Monitoring

Rafael must monitor on an ongoing basis each Business Partner. Monitoring should be risk-based and can include audits by the Company. The monitoring and auditing will be carried out for the purpose of ensuring that each Business Partner is complying with this Policy and its contractual obligations. Monitoring efforts shall be tailored to the operations and risks of each Business Partner. The Compliance Officer, overseen by and with the support of the Anti-Corruption Committee, is responsible for implementing appropriate monitoring for Business Partners.

E. Subsidiaries and Affiliates

This Policy applies to each subsidiary and affiliate subject to Rafael's control. Each such entity must have in place a reasonable, risk-based compliance program. At a minimum for entities subject to Rafael control, such programs shall include:

- Code of Conduct based on a template provided by Rafael's Compliance Department or an equivalent;
- policies, procedures, or processes depending on the actual risks presented by the entity and reasonably designed to ensure compliance with this Policy and the relevant anti-corruption laws;
- designated Chief Compliance Officer reporting to the subsidiary/affiliate Managing Director / CEO, with professional guidance from Rafael's Compliance Officer;
- Business Partner procedures consistent with the actual risks presented by the entity and consistent with Rafael's DD and Monitoring Procedure, including:
 - due diligence process and criteria for classification of Business Partners, approved by Rafael's Compliance Officer;
 - high-risk Business Partners will include, at minimum, any with commission rates higher than 10%.
 - review committee, comprised of at least the Managing Director, Chief Compliance Officer and Chief Financial Officer / Chief Operating Officer;
 - Rafael Compliance Officer approval of high-risk Business Partners following review through Rafael's DD and Monitoring Procedure; and
 - standard contracts for Business Partners based on Rafael's standard contracts.
- Managing Director will report at least annually regarding compliance to the entity's Board of Directors;
- annual compliance-related training for relevant employees; and

- regular compliance-related communications between the entity's compliance function and Rafael's Compliance and Legal Departments.

For related entities that are not subject to Rafael's control, Rafael's Compliance Officer shall employ good faith efforts to implement a compliance program, including due diligence and monitoring for third parties, consistent with the above requirements. Rafael's Compliance Officer will consider and include as appropriate all subsidiaries and affiliates in the annual compliance-related plans, such as monitoring, training, and communications. In addition, Rafael's other functions, such as Internal Audit, also conduct activities designed to oversee subsidiaries and affiliates.

6. Mergers, Acquisitions, and Other Business Combinations

Rafael shall conduct appropriate risk-based anti-corruption due diligence of the targets of all potential mergers, acquisitions, joint ventures, co-promotion agreements, and other significant business combinations. After completion of a merger, acquisition, joint venture, co-promotion agreement, or other significant business combination, the new business or operations must be promptly integrated into Rafael's compliance program. This integration must include training of new employees and a requirement that the new business implement and comply with this Policy or equivalent. Where appropriate, new businesses will be incorporated into Rafael's internal audit schedule as soon as practicable.

7. Record-Keeping and Internal Controls Procedures

Rafael's Finance Department has implemented a system of accounting and internal controls consistent with Israeli and international standards, and the Accounting Policy and related procedures are periodically reviewed and enhanced to maintain consistency with those standards and the risks faced by the Company.

A. Record-Keeping

Rafael's record-keeping practices are designed to ensure that transactions are controlled such that management objectives are met and corporate assets are properly accounted for. Records must be sufficient to allow preparation of financial statements in accordance with generally accepted accounting principles (GAAP) / International Financial Reporting standards (IFRS), including those employed in the foreign jurisdictions in which the Company reports.

It is the Company's policy that each transaction and acquisition or disposition of assets by the Company must have proper authorization; must be timely recorded; must be accurately recorded in terms of amount, accounting period, and accounting classification; and must accurately reflect the substance and purpose of the transaction. No transaction shall be entered into that requires or contemplates the making of false or fictitious entries or records in whole or in part. No accounting balances shall be created or maintained that have no documentary support or that have no reasonable basis in fact. Adjustments to accounting records must follow established procedures, and, once finalized, documents are not to be altered. The Company's policy prohibits the maintenance of undisclosed or

unrecorded funds or assets for any purpose, including that which disguises or misrepresents any aspect of a transaction.

Documentation for all transactions must correctly represent not only the financial facts of the transaction itself but also such other information as may be necessary to give a reviewer a complete understanding of the significant aspects of the transaction. The record-keeping requirements are not limited to transactions above a certain value.

Primary responsibility for the oversight of compliance with the record-keeping requirements is that of the Chief Financial Comptroller.

B. Internal Controls

i. General

The Company has policies and procedures addressing internal controls that are designed to ensure compliance with this Policy.

The Company has an organizational structure plan, which includes a detailed description of personnel positions. The plan's aim is to ensure separation between employees of various positions (such as between operational positions, possession of assets, documentation, and the entity executing the payment). This separation requires more than one employee to complete an activity, which helps reduce errors and fraud.

The Company has written procedures referring to the different fields of operation, including procedures regarding authorization of engagement with customers, acquisition and marketing entities, and method of inspection thereof. The signatory rights on behalf of the Company are executed according to the Company's guidelines and policies, and according to the resolutions of the authorized entities in the Company. The signatory rights are intended to ensure that a single person cannot, by himself/herself, engage the Company in binding commitments.

The Company has an ethical code, and actively pursues implementation of it among its employees.

The Company's annual financial reports are inspected by an external accountant, and the quarterly financial reports are reviewed by him. The Company's bookkeeper is approved by the Governmental Companies Authority and is rotated once every 5 years. The CFO and the Company accountant are responsible for choosing and amending the accounting policy in the Company.

The Company presents to the Board of Directors and to its Finance Committee a quarterly and an annual audit report. The Company's Board of Directors approves the Company's budget, as well as its financial reports.

The Company's documentation of its internal controls designates responsibilities for the performance of key internal accounting controls. The Chief Financial Comptroller is responsible for performing the following on a quarterly basis:

- assess whether the controls (1) are described accurately, (2) continue to meet the stated objectives, (3) are designed to prevent money from being paid for an improper purpose, (4) continue to be the responsibility of the same control owner, and (5) are performed at the same frequency;
- review, implement, or enhance a system for monitoring the controls and identifying deviations from them and areas for enhancement;
- identify new controls that have been implemented that should be added to the internal control documentation;
- revise the internal control documentation as necessitated by the above; and
- revise any policies and procedures manuals or other supporting documentation, as necessary.

The Chief Financial Comptroller is also responsible for ensuring that relevant finance personnel are trained to recognize corruption-related red flags, stop payments, and escalate, as appropriate.

The Company operates in order to report in its financial statements regarding the effectiveness of the internal controls (on a similar basis to that in section 404 of the U.S. Sarbanes Oxley Act (“**SOX**”)). During these preparations, the company keeps records of the internal inspections regarding the process of preparation of financial statements, treasury, revenues, acquisition, inventory, wages, IT, and general environmental control. The Company also performs, on a periodic basis, the required follow-up regarding the implementation of the controls.

Within the framework of performing the SOX procedure with regard to purchasing activities, a refreshing of the procedure of distribution of positions in the Company has been performed, as well as corrections, where required. The inspections according to the SOX procedure guarantee maintaining documentation of the engagement procedures in the Company in a manner that will enable presenting documentation, which is required to be kept by law and/or documentation strengthening the accounting documents.

ii. Disbursement and Contract Authorization

As part of the Company’s internal accounting controls, separate policies have been adopted regarding necessary authorizations required for (1) entering into contracts and (2) disbursing of funds. The employees who authorize payments and/or contracts pursuant to these policies are responsible for reviewing (or ensuring that appropriate reviews have taken place) for purposes of ensuring the Company’s compliance with applicable provisions of this Policy and other applicable Company policies and procedures.

iii. Employee Expense Report Authorization

It is the responsibility of the approver of an employee expense report to identify whether there are any “red flags” indicative of increased risk that the employee may have violated provisions of Israeli or other applicable local law, this Policy or other policies and procedures of Rafael. Examples of such red flags include: lack of documentation of expenses, ATM receipts or credit card statements used as support, gifts purchased for

customers/duty free purchases, hotels paid for other guests, extravagant entertainment, or other inadequate documentation. In addition to the requesting employee's approver, a team of designated Finance/Accounting employees review expense reimbursement requests to check the accuracy of reports, receipts, and invoices.

iv. Means of Payment and Other Banking Considerations

It is the Company's policy that no corporate check shall be written to "cash," "bearer," or third-party designees of a party entitled to payment. Wire transfers should only be made to bank accounts in the name of the person/entity entitled to payment and not to a third-party account designed by such person. Other than fully documented petty cash transactions, no transaction in cash that is not evidenced by a receipt bearing signature of the recipient shall be made. In those situations, the recipient must also be the acting party in a fully documented business relationship with the Company, and never a customer or Government Official. Petty cash also is subject to review and audit at all Company locations, including overseas marketing offices, by the Marketing and Internal Audit Departments.

The person/entity entitled to payment must be the person/entity with which the Company has the documented business relationship. Additionally, the following banking-related practices are prohibited under the Company's policy:

- use of numbered foreign bank accounts,
- bank accounts containing corporate funds but held in the names of individuals, and
- unrecorded petty cash or "black box" funds.

The Finance Department has internal controls designed to verify that the Company does not make cash payments, other than pursuant to 7.B.iii. or iv., or other unauthorized types of payments according to relevant Rafael Procedures and Policies.

C. Record-Keeping and Internal Controls of Subsidiaries and Affiliates

The Company shall ensure that each subsidiary and related entity subject to Rafael's control establishes and maintains a system of internal controls and record-keeping, that is consistent with the Company's standards, policies, and procedures. For similar business arrangements that are not controlled by the Company, the Company will use reasonable efforts to cause such entities to establish and maintain appropriate internal controls and record-keeping. Further, the Company shall obtain appropriate representations, warranties, and/or other protections in the joint venture agreement or Articles of Incorporation that specifically address the internal controls, and record-keeping obligations. Specifically, the Company will do its utmost to audit any such entity to ensure that the standards of internal controls and record-keeping practices are adequate, and will exercise audit rights on a periodic basis. The Company will regularly consider whether any information obtained during the ordinary course of its business activities indicates potential concerns with regard to the entity's system of internal controls or record-keeping, and will investigate and take appropriate remedial action in such event.

D. Internal Audit Function

The Company's Internal Audit Department is familiar with and shall integrate the anti-corruption components of the Company's compliance program into annual and multi-year audit work plans, which shall be approved by the Board of Directors. The audit plans will address the anti-corruption compliance program as described in relevant policies, procedures, and processes and including Business Partners, the due diligence process, contracting, business courtesies, and other potential risk areas. The Internal Audit Department, with assistance from outside parties having appropriate specialized expertise, will regularly conduct audits to determine the Company's and its Business Partners' (where appropriate) adherence with this Policy and the Company's anti-corruption compliance program. The nature, scope, and extent of the internal audit procedures will be determined by the Internal Auditor after appropriate consideration of the input from the Company's Finance Committee of the Board of Directors, Compliance Officer, the General Counsel, and the Company's executive managers, and the results of risk assessments performed. The internal audit procedures will address awareness of and compliance with the policies contained herein, and audits of the Company's business units, functions, subsidiaries, affiliates, and joint ventures will include anti-corruption compliance.

Internal Audit will document and report the results of each compliance-related audit to relevant management and the Compliance Officer and, as appropriate, to the Board of Directors.

Any potential violations of the Company's anti-corruption program, either brought to the Internal Audit Department's attention or discovered during an audit, will be reviewed appropriately and thoroughly investigated on a timely basis in accordance with the Company's policies and procedures and in coordination with the Legal Department.

8. Records Retention and Documentation Procedures

The Company will keep records relating to the compliance and audit of this Policy for a minimum of seven (7) years. Each department identified below will ensure that the records it maintains are associated with a record series under the Company's Records Retention Schedule to comply with the foregoing. Records relating to this Policy are owned as follows:

- (i) the Company's Compliance Officer is responsible for maintaining records of employee training, employee certification, and issues reviewed as required under paragraph 5A(v) above;
- (ii) the Company's Compliance Officer is responsible for (a) maintaining records regarding due diligence on Business Partners and for investigations of potential violations of this Policy, (b) approvals for hospitality, travel, and gifts for Government Officials, and (c) charitable donations and political contributions;

- (iii) the Company's Chief Financial Comptroller is responsible for maintaining records relating to record-keeping and internal controls; and
- (iv) the Company's Internal Audit Department is responsible for maintaining records regarding internal audit for compliance with this Policy.

9. Deviations from this Policy

The General Counsel may consider deviations from this Policy in limited circumstances. In any such instance, the General Counsel shall seek an opinion from the Compliance Officer regarding the applicability of this Policy. The General Counsel also will seek advice from outside counsel, if needed, in assessing the legality of the proposed deviation under all applicable law. The General Counsel will document the rationale and scope of any approved deviations in writing and submit the documentation to the CEO for final approval.

10. Violations of this Policy

Any employee who violates this Policy will be subject to disciplinary action, up to and including termination of employment.

This Policy is effective as of the date set forth above and supersedes all prior policies with respect to the subject matter of this Policy.

POLICY APPROVAL:

Daniel Benshabat
Chief Compliance Officer
Rafael Advanced Defense Systems Ltd.