

SUSTAINABILITY REPORT 2019



ABOUT THIS REPORT

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Avibras is publishing its sustainability report for the fourth consecutive year, with the objective of presenting the company's initiatives and results, reporting on practices, sharing knowledge and demonstrating accountability to its stakeholder groups, the market and society in general. The company is intent on driving continuous improvement, as portrayed by this report.

The document contains financial and non-financial information and was developed in accordance with the Core option of the Global Reporting Initiative (GRI) Standards version.

The report is published annually. The current report covers the period from January 1 to December 31, 2019. The previous document, for 2018, was published in July 2019, and there have been no significant changes in relation to scope and boundaries.

This report reflects:

- The essence, the profile and the corporate positioning of the company.
- The main projects and initiatives in progress.
- Key innovations and technological developments.
- The most important results.
- The company's outlook.
- Avibras positioning in relation to the COVID-19 pandemic.



The content of the publication was developed based on interviews with key company executives, as well as additional information contained in institutional materials, internal reports, news about the company and complementary documents and data researched.

The principles guiding the consolidation of the content were cohesion in narrative, balance of topics, clarity of content and scope.

The information reported covers all the Avibras Indústria Aeroespacial S.A. industrial units. The Avibras Indústria Aeroespacial S.A. financial statements are presented individually, and on a consolidated basis with the

company's subsidiary Avibras Divisão Aérea e Naval S.A. The financial statements were submitted to external audit by KPMG.

This document is published in Portuguese and English. The digital version is available on the company's website at: www.avibras.com.br.

Any comments, suggestions or questions about the report may be addressed to sustentabilidade@avibras.com.br.

Materiality

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The content of the 2019 Sustainability Report also took into account the review of the Avibras Materiality Matrix, conducted in 2019.

The company's material topics were reviewed and re-analysed in the light of changes in the conjuncture involving the company, the assessment of trends and alterations in the context of sustainability, in particular regarding environmental management, including the question of eco-efficiency.

For this reporting cycle, the previous list of material topics was maintained, with the inclusion of the topic of eco-efficiency. The list of stakeholders was not changed, that is to say, no new groups were included.

The purpose of this review was to drive continuous improvement in sustainability for the company and identify opportunities to evolve its strategies and practices.

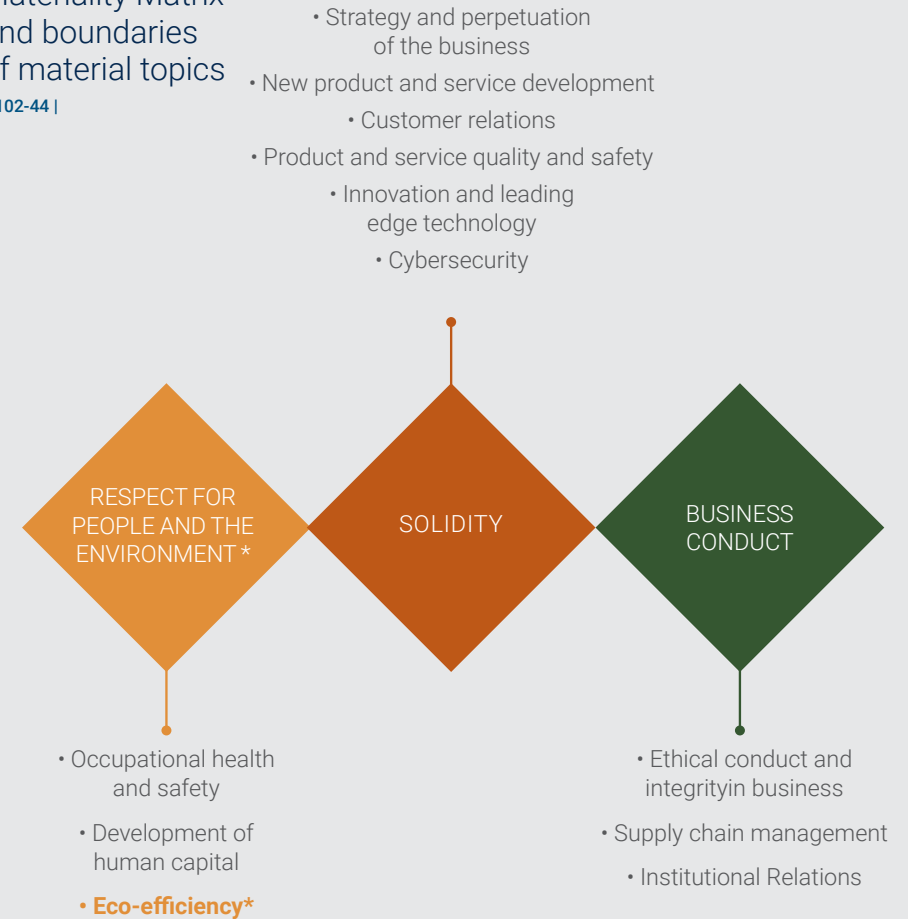
The materiality review process encompassed the following stages:

- Survey of topics based on the previous report.
- Interviews with Avibras executives.
- Analysis of internal company documents.
- Benchmarking with Brazilian and international companies in the sector, with the assessment of public reports.
- Analysis of international documents and studies such as: Dow Jones Sustainability Index (DJSI), Sustainability Accounting Standards Board (SASB), Materiality for Sectors and Global Risks Report 2020.
- Verification of adaptations, based on GRI guidelines.
- Compilation and analysis of results, with support from a specialised consultancy.

The topics selected enable an overall vision of the company's strategy and reinforce the alignment of the materiality review process with major sector demands and global guidelines. See as follows.

Materiality Matrix and boundaries of material topics

| 102-44 |



* Pillar adjusted with the inclusion of the topic eco-efficiency due to its importance for the sector.

Material topics – correlation with GRI topics

| 102-44 | 102-46 | 102-47 |

Pillar	Topics	Evaluation of materiality	Topic	Disclosure – Core	Impact	
					Inside	Outside
SOLIDITY	Strategy and perpetuation of the business	Priority	GRI 201: Economic performance 2016; GRI 202: Market presence 2016; GRI 401: Employment 2016; GRI 413: Local communities 2016	201-1; 201-4; 202-1; 401-1; 401-2; 413-1	X	X
	New product and service development	Important	GRI 203: Indirect economic impacts 2016	203-2	X	X
	Customer relations	Important			X	X
	Product and service quality and safety	Very important	GRI 416: Customer health and safety 2016	416-1; 416-2	X	X
	Innovation and leading edge technology	Very important	-		X	X
	Cybersecurity	Very important	-		X	
RESPECT FOR PEOPLE AND THE ENVIRONMENT	Occupational health and safety	Very important	GRI 403: Occupational health and safety 2016	403-2; 403-3	X	
	Development of human capital	Very important	GRI 404: Training and education 2016	404-1; 404-2	X	
	Eco-efficiency	Very important	Enerfy, water, effluents and waste		X	X
BUSINESS CONDUCT	Ethical conduct and integrity in business	Priority	GRI 205: Anti-corruption 2016	205-2; 205-3	X	X
	Supply chain management	Very important	-	102-9	X	X
	Institutional relations	Important	GRI 415: Public policy 2016	415-1	X	

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MESSAGE FROM THE CEO

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We had an intense year in 2019 in terms of achievements and transformations that drove the company and the continuity of the Avibras por ExcelênciaPrograma (AVPEX). We proceeded to strengthen the company culture, mainly by promoting our four priorities: safety and security, quality, on-time delivery and costs.

In place for two years, AVPEX has driven the company's evolution, consolidating our culture, most notably in the value chain, in processes and tools, in people management, leadership and innovation, with a positive impact on customer relations. We examined processes, systems and activities, identifying improvement opportunities that reflected directly on our products, services and businesses.

A central focus in 2019 was our priority to enhance quality. We disseminated quality-related concepts and principles in a practical way to employees, instilling knowledge, experience and incentives to promote

innovation and develop a positive mindset. This resulted in the full engagement and commitment of our teams.

Our financial results during the year were satisfactory and would have been even better but for the question of bank guarantees, which has generated a certain impact on the closure of deals.

During the year, we implemented a series of initiatives aimed at boosting productivity and business efficiency. Our financial results reflect these efforts. Operating revenue grew by 51%, reaching R\$950 million (compared with R\$628 million in 2018), with an EBITDA margin of 19.9%. Operating cash generation totalled R\$236.5 million.

These results demonstrate that, even aware that we have many challenges ahead of us, we are on the right track, guided by effective strategy formulation.



Plant in Jacaré

In operating terms, our sales efforts and expertise in project development were essential in the company's growth.



We conducted a series of important initiatives for employees in 2019, such as the launch of the You in Action! programme – Your Mindset is the Key to Excellence, which introduces important development measures in the occupational health and safety and environmental areas; and the Life Plan, aimed at preparing employees for retirement. We also enhanced existing programmes, such as the Leadership Development Programme, and the new employee induction programme, known as the Avibras Journey: The Path to Your Success Starts Here – and the Intern Programme.

The dedication and commitment of our teams were fundamental in enabling us to achieve the results we did.

Another point worthy of note in 2019 was the reinforcement of our Compliance Programme and measures aimed at driving information security in processes, which boosted the company's competitiveness in the market.

In terms of products and developments, particularly worthy of note was Avibras' partnership with the Aeronautics and Space Institute (IAE), attached to the Aerospace Science and Technology Department (DCTA), resulting in the signature of a technology transfer contract granting Avibras a license to produce and commercialise the VSB-30, a suborbital vehicle that has achieved great success in the Brazilian Space Programme in terms of the number of launches.

This technology transfer contract enables the continuity of the manufacture and commercialisation of the VSB-30 with technological enhancements, in addition to accelerating the development of internationally competitive Brazilian launch vehicles for micro-satellites.

We intend to expand Brazil's proactive stance in the space area, driving the Brazilian Space Programme (PEB), as well as generating employment.

Currently, Avibras is also involved in the development and manufacture of S50 rocket engines for the VLM-1 (micro-satellite launch vehicle), in the Brazilian Space Agency's (AEB) National Space Activities Programme (PNAE).

Avibras works with the country's three Armed Forces – Navy, Army and Air Force –, as part of a robust partnership developed over many years of activities. Our deliveries have helped the Brazilian Armed Forces (FAB) to absorb new technologies, ensuring a relevant position for the country in the global market.

We are also fully prepared to fulfil the demands of our customers in the international markets, involving major technological challenges. We have a series of high added value products in the final stages of development, which will positively impact company revenues.

Close to completing 60 years of activities, characterized by major achievements, Avibras is focused on its sales effort, on the development of new businesses and on constant advances in results-oriented innovation and technology.

We have fostered technological development and innovation since the 1960s. Technology and innovation are in Avibras' DNA and are essential for its growth and future success. We exercise innovation and inventiveness, principally in the product and service development process. This is part of the company's daily routine, driven by the attentive care and creativity of our work force.

The path to excellence requires continuous transformation and imposes innumerable challenges. We will continue to add value with our efforts in pursuit of excellence, with total focus on our customers' needs, to ensure the ongoing growth and perpetuation of the company.

João Brasil Carvalho Leite
CEO

COVID

Company strategy during the COVID-19 pandemic

| 403-3 |

On January 31, 2020, the World Health Organisation (WHO) announced that the new coronavirus (COVID-19) was a global health emergency.

Avibras has paid close attention to the evolution of the COVID-19 pandemic, responding responsibly to the guidelines laid down by the Ministry of Health and competent bodies.

With the **health and safety of its employees, customers, service providers and partners in mind**, Avibras has sought to adopt best practices for combating the virus in its installations.

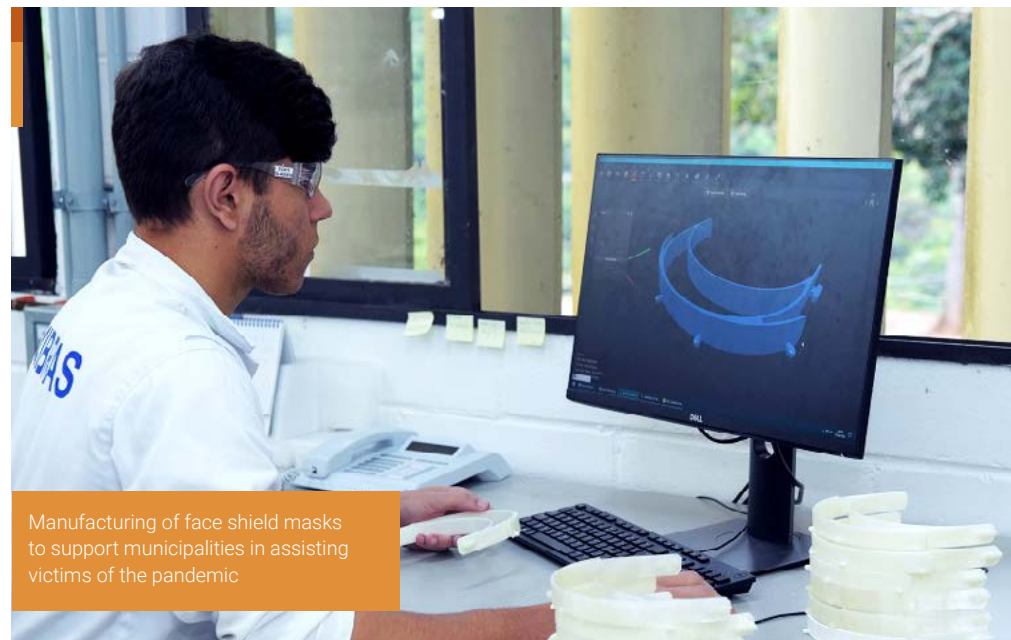
To adapt to this new work flow, we implemented **paid leave** for our **employees**. Only those whose activities are essential for honouring contractual obligations have been maintained on company premises. Due care has been taken with these employees, who have been working in shifts with flexible schedules to avoid agglomerations and in full alignment with healthcare authority recommendations.

Care has also been redoubled with **customers, service providers and partners**, with the provision of all the necessary attention and support.

The company has also applied initiatives based on **science and technology in combating COVID-19, in addition to providing support for the communities** in the regions in which it operates – São José dos Campos, Jacareí, Lorena and region, in the state of São Paulo –, providing assistance to front line healthcare professionals and contributing to the prevention and reduction of the effects of the pandemic.

To ensure greater focus in this effort, the company created a work front dedicated to finding alternatives and solutions to attenuate the effects of the crisis. Employees from diverse areas have been engaged in measures to support municipal governments in the provision of assistance to victims of the pandemic.

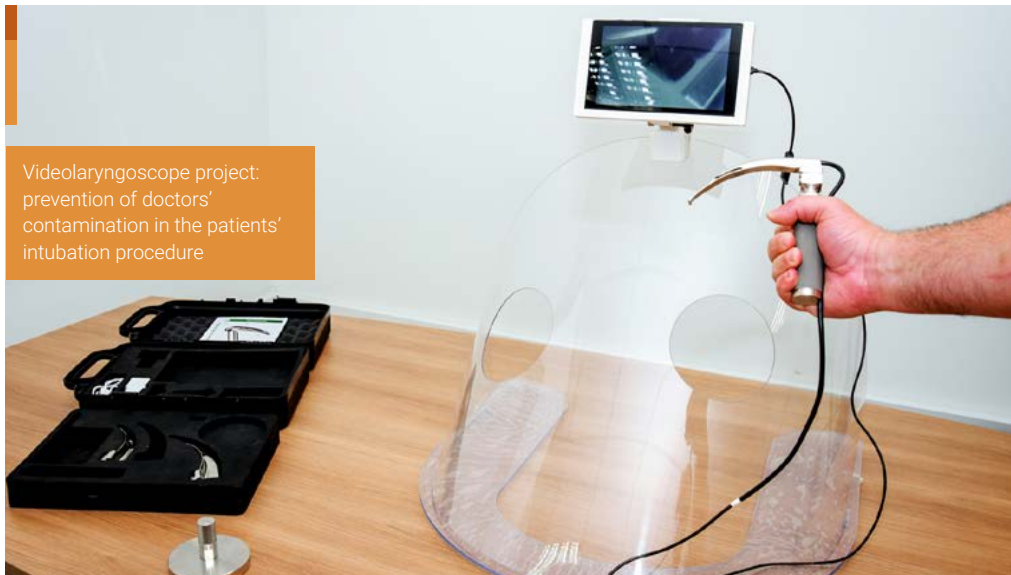
The company has manufactured adjustable and reusable face shield masks, compliant with the ABNT NBR ISO 13688:2017 standard for use by healthcare professionals treating COVID-19 victims, distributing them to the local governments in the cities of São José dos Campos, Jacareí, Lorena, Taubaté, Caçapava, Piquete and Jambéiro in the state of São Paulo. Avibras received technical support from the FACENS University Centre in Sorocaba (SP) in carrying out this project.



Manufacturing of face shield masks to support municipalities in assisting victims of the pandemic



Videolaryngoscope project:
prevention of doctors'
contamination in the patients'
intubation procedure



Another important initiative was Avibras' participation in a project to develop a video laryngoscope in partnership with Protec, a hospital material supplier in Cotia (SP). This equipment is essential in preventing the contamination of doctors and their teams in the process of intubing patients. This is an evolution of the laryngoscope, which assists doctors in distancing the patient's tongue in order to access the trachea and illuminate the entrance to the throat. The objective is to donate this equipment to local governments in the region to support the treatment of COVID-19 patients.

In April 2020, Avibras also donated personal protective equipment (PPE) to the Rinem Integrated Emergency Network in Vale do

Paraíba (SP). The equipment was for medical staff treating new coronavirus victims in the region. The equipment consisted of disposable nitrile safety gloves and Tyvek coveralls with hoods in different sizes

Regarding **impacts on the company's economic-financial results**, it should be noted that the pandemic led to a series of significant decisions on the part of governments and private sector organisations which, in conjunction with the potential impact of the pandemic, increased the level of uncertainty for economic agents, with the potential to impact the amounts recognised in the financial statements.

Given the degree of uncertainty in relation to the evolution of the pandemic and its impacts, at this moment it is not practical to estimate the financial impact of the pandemic on revenues and operating cash flows. The

company is constantly assessing the effect of the pandemic on its operations and its asset and financial position with a view to implementing appropriate measures to minimise the impacts on operations and the financial statements.

In the midst of the uncertainties caused by the pandemic, Avibras will maintain its internal and external measures to combat the virus both inside and outside its installations, prioritising people's lives and well-being.

The company is fully aware of its connections with and responsibilities to society, believing that initiatives aimed at providing support are a demonstration of humanity and help to generate hope for people and for business.



Delivery of face shield
masks to city halls
in the region

AVIBRAS

Avibras Indústria Aeroespacial S.A. (Avibras) is a privately owned, 100% Brazilian company recognised globally for the excellence and quality of its products, services and systems. Its essence is being innovative and independent in critical technologies.

Company profile

| 102-1 | 102-2 | 102-4 | 102-5 |

The company operates in the following areas:

- Defence
- Aeronautics
- Space
- Electronics
- Vehicles

Avibras has a diversified industrial complex, with two plants in Jacareí and Lorena, in the state of São Paulo, which include manufacturing facilities, laboratories, development centres, testing areas and warehousing space. It has a broad technology portfolio and a highly qualified team.

The company was founded in 1961 by a group of engineers from the Instituto Tecnológico de Aeronáutica (ITA), including João Verdi Carvalho Leite, father of the current Avibras CEO, João Brasil Carvalho Leite.



Further information about the company's history may be found [here](#).

The company's activities are characterised by the differentials of quality and innovation, essential for maintaining its status as a major player in the national and international markets. In Brazil, Avibras maintains a robust partnership with the Armed Forces.

In its almost 60 years of activities, Avibras has consolidated its position as a driver of development, conducting businesses that

generate sustainable value for customers, shareholders and society in general. It is one of the hundred largest companies in the Defence sector worldwide and one of the hundred largest exporters in Brazil.

The company is proud of its key position in the Brazilian industrial defence base (BID) and in the Brazilian Space Programme (PEB), in which it has great growth potential.

Further information about the company: www.avibras.com.br.

Production units

| 102-3 | 102-4 |

The Avibras units are located in the Vale do Paraíba region of the state of São Paulo, Brazil's main aerospace hub. Its industrial installations are located in the São Paulo state cities of Jacareí and Lorena, as mentioned previously. The company's administrative headquarters are in São José dos Campos, in São Paulo state.

São José dos Campos

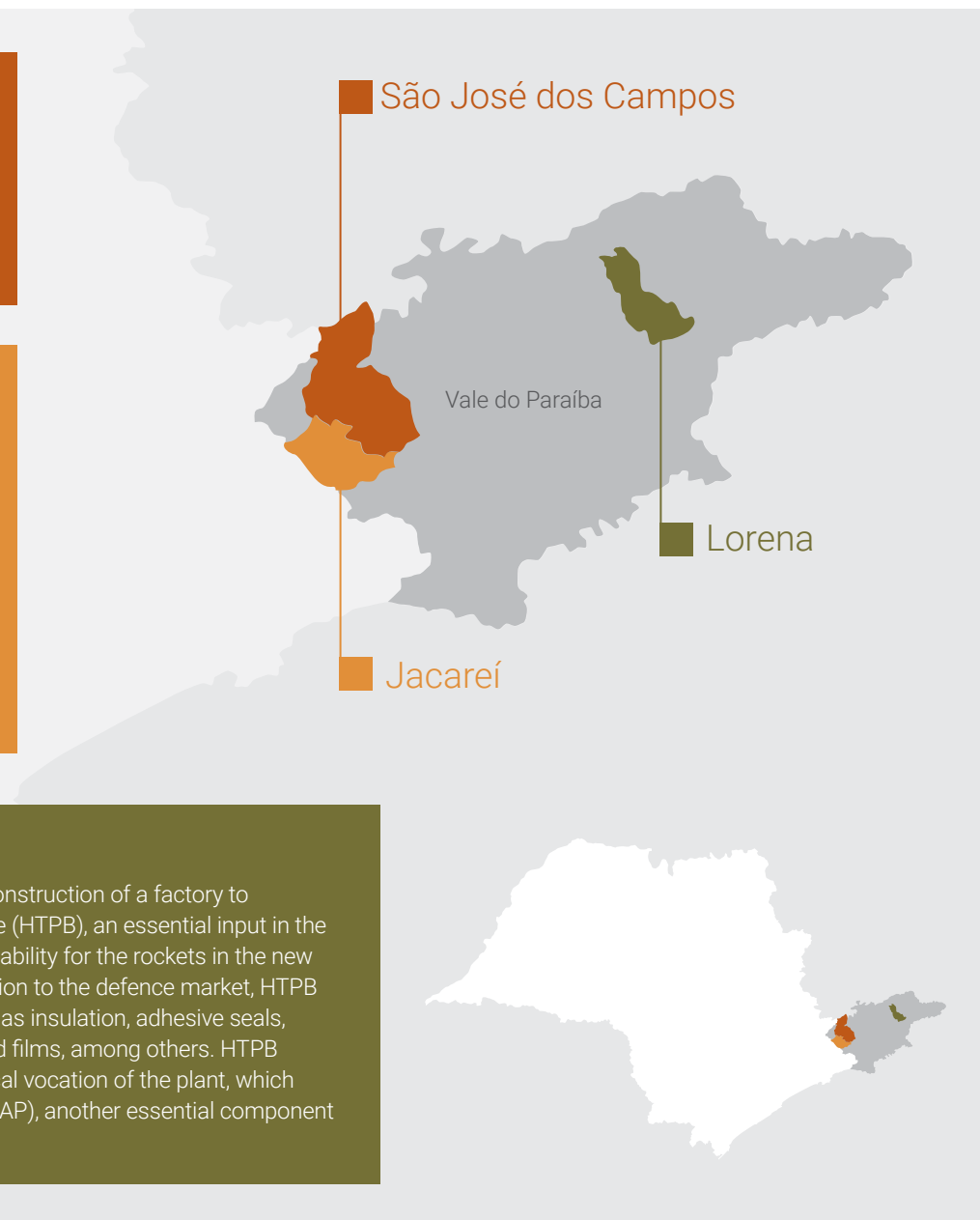
The company's first unit, founded in 1961 by a group of engineers from the Instituto Tecnológico de Aeronáutica (ITA), including João Verdi Carvalho Leite.

Jacareí

The industrial complex concentrates product engineering; mechanical, electro-electronic, chemical and composite material production for all the company's rockets and missiles; as well as the largest armoured vehicle plant in Brazil. It also produces launch containers and has research laboratories for product development, quality control and validation.

Lorena

The complex is being expanded with the construction of a factory to produce hydroxyl-terminated polybutadiene (HTPB), an essential input in the production of solid fuel, a fundamental capability for the rockets in the new Brazilian Space Programme (PEB). In addition to the defence market, HTPB has a number of civilian applications, such as insulation, adhesive seals, liquid-proofing, encapsulation, coatings and films, among others. HTPB production reinforces the industrial chemical vocation of the plant, which already produces ammonium perchlorate (AP), another essential component in the manufacture of solid fuel.



Corporate identity

| 102-16 |

Avibras' corporate identity is embodied in the following principles, which express its DNA.

Essence

To pursue the best possible results, ensuring the dedication and engagement of all.

Mission

To develop the company's own innovative, independent technology in the fields of Aeronautics, Space, Electronics, Vehicles and Defence, generating sustainable value for customers, shareholders, employees and society.

Vision

To be a benchmark in Brazil in technological independence, characterized by unique solutions, robustness, technical boldness, competitiveness and responsibility, always guided by the nation's broader interests.



Values

Healthy Workplace

To ensure that the company is a great place to work, where employees can achieve fulfilment.

Sustainability

To obtain a fair profit while serving society, being useful to the nation and driving economic, social and environmental sustainability.

Safety and security

To rigorously ensure safety and security in the broadest sense: occupational safety, asset security, information security and safe commuting.

Quality

To pay attention and get things right the first time. Quality depends on the individual! To drive quality in all our activities. To strive for excellence in all our responsibilities.

Respect for people

To value the human capital that identifies with the company culture, remaining permanently updated, innovative and productive, constituting a living example of evolution without revolution.

Team spirit

To be capable of working alone and in teams, showing mutual respect, zeal and willingness, without stealing the limelight. To engage in open dialogue.

Innovation

To maintain a permanent state of alertness, backed by sources of competitive advantage, to exploit opportunities to use and commercialise the organisation's technology in new market niches, responding rapidly and with quality to client requests.

Solidity

To organize the company for consistent growth, avoiding adventures that might put its survival at risk.

Strategic technology

To diversify markets and stabilise revenues, based on the knowledge and technologies developed.

Guidelines for success

To use internal procedures in a creative, proactive manner, as a recipe for success in the pursuit of leading edge solutions. To focus on results and collaboration, assuming ownership of the company's goals.

Valuing principles

Commitment to the company's values. Wherever we are, we will always be Avibras professionals.

Focus on results

To act in an integrated and planned way, aimed at optimising time and resources in order to achieve our goals and meet our deadlines with quality.

Harmony with the environment

Commitment to the best environmental practices and to conserving biodiversity in the company's factories. Care for and harmonious interaction with the environment.

Business conduct

Commitment to doing business with integrity, effectively applying the Code of Ethics and Conduct, in addition to observing the management, internal procedure and work instruction manuals. Continuous improvement in compliance and in anti-corruption preventive systems.



Strategy

Pillars of activity

| 102-16 | 102-40 | 102-42 |

Avibras operates in the Defence, Aeronautics, Space, Electronics and Vehicle sectors, supplying high added value products, services and solutions, with emphasis on technology and innovation.

But it is more than a supplier. Avibras seeks to serve with an excellence that effectively creates value for its stakeholders.

The company strives to **generate sustainable value** in the products and services it offers and in the relations it maintains with all its stakeholders and with society in general.

The Avibras **stakeholder groups** are: employees, shareholders, customers, suppliers, communities, business institutions and industry associations, government bodies, banks and development organisations, technical partners and universities/academia, in addition to technology parks and industrial development and innovation agencies.

The basis for the selection of the company's stakeholders is the map of target audiences prepared by the Sustainability Committee.

Avibras conducts its business based on the current and future needs of its customers, the market and society as a whole, taking into account the economic, environmental and social dimensions, as well as governance.

The company's position in Brazil is consolidated based on its strong partnerships principally with government bodies and the Brazilian Armed Forces (FAB). In the international market, its customers include companies and government bodies in other countries.

The company's activities are underpinned by the following pillars:

- Corporate identity
- Avibras' permanent goals
- Avibras' priorities
- Avibras' culture



Permanent Avibras goals

Valuing people

Enhancing company performance

Increasing the value of the company

Ensuring the perpetuation of the company



Avibras' priorities

There are four priorities:

Safety and security

To rigorously ensure safety and security in the broadest sense: occupational safety, asset security, information security and safe commuting.

Quality

All employees are expected to execute their activities in compliance with internal procedures, demonstrating willingness, keenness and awareness.

On-time Delivery

Honouring commitments to customers is essential.

Costs

To boost competitiveness, control cash flow and leverage results.

Avibras culture

The Avibras Culture is underpinned by a series of processes, policies, standards, regulations and guidelines.

In their routines, all the businesses are expected to observe the principles of impartiality, transparency, ethics, competitiveness, free from conflicts of interest, focused on the current and future needs of society.

Reinforcing these principles, in previous reviews the following were selected and maintained as priority topics for the company:

- Strategy and perpetuation of the business
- Ethical business conduct and integrity

Strategic planning

Perpetuation of the business is a strategic priority for the company.

Accordingly, the tool of strategic planning is vitally important.

In each cycle, Avibras **strategic planning** seeks to incorporate the following elements:

- To generate value continuously and sustainably.
- To attract favourable capital.
- To train, motivate and engage the work force.
- To continuously measure, monitor and enhance performance.
- To constantly improve management systems.
- To manage risks and opportunities.

Within this context, since 2018 the Avibras strategic planning process has been optimised, driving greater simplification and more meaningful integration of the company's other business processes.

The company's strategic planning is aimed at establishing strategic long-term macro-projects on the following organisational fronts:

- Business
- Innovation and technology
- People and culture
- Management and business excellence
- Income and financial health

After the establishment of the long-term strategic macro-projects, it is necessary to establish the short-term goals and targets that determine the actions plans for Avibras leaders.

For 2020, seven strategic macro-projects were broken down into other projects that are being developed, monitored and accompanied on a regular basis.



Competitive intelligence

The Avibras strategic planning structure also encompasses the function of **competitive intelligence** to support the company's senior management in strategic areas, with a focus on the competitive environment.

This is a key differential for improved decision-making performance.

The Competitive Intelligence area is fundamental for the definition of Avibras business strategy, identifying technological changes, anticipating customers' needs and assessing the company's position in relation to future movements of the competition.

Trend and scenario analysis permits improved decision-making in the short and long term, taking into account each threat or opportunity, and boosting the sustainability of the Avibras business model.

The application of competitive intelligence enables important enhancements in the product portfolio and its short, medium and long-term evolution, in addition to the identification of potential customers and information for building relations with them.

Competitive scenarios in the political, economic or technology spheres are seen as determinant drivers of change for the business and are always assessed competitively, analysing how the company can and must compete with the most modern and efficient processes and technologies in its segment of activity.

Moreover, competitive intelligence enables the company to consolidate business strategies, equipment production and product and service development based on the excellence of its competencies.

The function of competitive intelligence is incorporated into all new business analysis. For example, it was used as a basis for the repositioning and segmentation of the Avibras Artillery Saturation Rocket System for Area Saturation – further information on the ASTROS system in this chapter in the Products and services section –, as well as for the approach and focus of the Commercial area in Brazil and overseas. It is responsible for the interpretation of external conjunctures and for identifying opportunities, fundamental for defining plans for the company's strategic macro-projects.

Learn more about the ASTROS system on page 20.



Relevance in the Defence sector

Avibras is a Strategic Defence Company accredited by the Brazilian Ministry of Defence.

In the Industrial Defence Base (**BID**), which is currently undergoing consolidation with the redefinition of the scope of activities of its main players, Avibras has a representative participation and increasingly intends to be positioned as a key partner and significant supplier of defence systems for the Brazilian Armed Forces and of products and services for the Space sector.

The Armed Forces strategic projects and government purchases are fundamental for the consolidation of the Industrial Defence Base.

Avibras is one of the most traditional and important companies in the Defence sector in general.

Worthy of note in the context of the Industrial Defence Base is the creation of the **Technological Commissioning Model**, for which Avibras is well prepared. This is a public procurement model, in which administrative entities may contract research, development and innovation services for the solution of a specific technical product or development of an innovative product, service or process. This relationship is established via contract and is characterised by the existence of technological development and risk. The development may be undertaken by a single company in isolation or by a consortium.

In the Army, it should be noted that Avibras is part of Brazil's Missile and Rocket Artillery history through the Strategic Army Programme ASTROS 2020 (PrgEE ASTROS 2020), one of the drivers of the transformation of the Brazilian Army.

The ASTROS system, conceived and developed by Avibras, contributes to the evolution and consolidation of missile and rocket artillery, supporting the technological leap in capacity, efficiency and effectiveness for ground forces. It also reinforces the Army's collaboration in the achievement of strategic national goals, in addition to creating and maintaining highly specialised jobs, generating income and overseas earnings for Brazil through exports to friendly nations.

With respect to the Brazilian Space Programme, there is further information on Avibras' participation in the Brazilian Space Programme in Products and services.



Minister of Defence visits Avibras

On February 21, 2019, the Brazilian Minister of Defence, Fernando Azevedo e Silva, and his entourage visited the Avibras installations.

In the company of Avibras CEO João Brasil and directors, they toured the company's facilities and viewed its products.

On this occasion, the minister stated: "In my capacity as Minister of Defence, I am delighted and honoured to make my first visit to Avibras, a strategic company whose major technological and industrial capacity is at the service of our country."

The minister also underscored that the visit enabled him to personally verify the excellence and quality of Avibras products. Additionally, he emphasised the importance of the Avibras partnership with the Brazilian Armed Forces, involving strategic programmes, including the high technology ASTROS 2020 missile and rocket artillery system.



Products and services

| 102-2 | 201-4 | 416-1 |

Product lines and services

Avibras has **diversified lines of products and services** in the sectors in which it operates.

In the **Defence sector**, the company manufactures a wide range of strategic products that include: complex defence systems, armoured military vehicles, special multiple task vehicles, Remotely Piloted Aircraft Systems (RPAS), ballistic rockets, guided rockets and missiles, with software, hardware and plans developed and integrated inside the company.

Worthy of note in the manufacture of special vehicles and electronics and software, are:

■ **Vehicle Division:** production of special vehicles, mainly for military applications. The company also provides solutions in the field of industrial automation and logistics, port automation, container loading and handling, railway/highway transportation systems and integration of multimodal systems.

■ **Electronics and Software Division:** Avibras develops, integrates and maintains hardware and software for systems with large complex architectures in the Defence area. It provides a range of solutions to integrate real time onboard systems and mission critical systems, meteorological sensors, radars, inertial navigators, GPS and DGPS systems, military radio communication and control systems, geographical systems to support navigation and monitoring of the execution of field missions, and interoperability solutions for complex architectures. With modern systems and electronics integration laboratories, the company develops simulation



solutions, communication protocols for diverse platforms, as well as developing friendly systems operation interfaces. In the electronics area, Avibras has specialised teams, instrument laboratories, project tools, hardware and firmware development for onboard electronic equipment and integrated logistics support. It also undertakes testing and integration of other manufacturers' equipment with its products.



In the **Space sector**, Avibras develops propulsion solutions, suborbital rockets and vehicles, as well as onboard electronics and software. Hundreds of launches have already been undertaken successfully at the Alcântara Launch Centre (CLA) in Maranhão, and the Barreira do Inferno Launch Centre (CLBI) in Rio Grande do Norte, with rockets manufactured by Avibras.

In its **Materials Division**, the company manufactures items such as ammonium perchlorate and high energy solid composite propellants for rockets, missiles and space vehicles.

The company also supplies the **civilian market** with a broad range of products and services based on proprietary technology in the following areas: chemistry, transportation, electronics, and quality assurance. Avibras offers a surface treatment for metal parts, applicable to steel, galvanized steel and aluminium, mainly for the automotive industry.

A **new area of activity** for the company is NATO cataloguing services, essential for companies that wish to supply products and services for the Defence sector – Avibras is the only private company in Brazil certified to offer such services.

Lastly, the company provides **technical support**, offering the Brazilian market its high quality engineering infrastructure and the services of its specialists. The activities performed are based on the constant pursuit of excellence and the continuous improvement of the company's processes, products and services, in compliance with national and international standards. One Avibras differential is the integrated logistics support programme (ILS). There is further information in the Customer relations chapter in the sections Technical support and customer service and Logistics.

The production process, with matrix management and verticalised production activities, undergoes continual adaptation to boost the scope and scale of company activities.



Highlights – products and services in partnership with the Armed Forces

In 2019, products and services attesting to the solid partnership between Avibras and the Brazilian Armed Forces were greatly in evidence, such as:



A-DARTER

Avibras participates in the binational programme between the Brazilian Air Force and South Africa for the development of the fifth generation of the short range A-Darter air-to-air missile to equip the air force's new GripenNG fighter planes.

The final stage of the contract of the joint missile development contract was concluded in October 2019. This involved the delivery of the rocket engine produced by Avibras.

The A-Darter project was the result of the International Cooperation Agreement between Brazil and South Africa. The programme resulted in the development of technological, industrial and infrastructure knowledge which, in conjunction with Avibras' other programmes, position the company among the main companies qualified to develop latest generation missiles.



ASTROS 2020

The AvibrasASTROS System is adopted by both the Army and the Navy Fusiliers Corp in Brazil. It has also been used by the armed forces of diverse other countries since the 1980s.

Under the PrgEE ASTROS 2020 programme, which is aimed at expanding ground force capacity with a reliable, high performance technologically superior system, Avibras is developing the MTC 300 Tactical Cruise Missile. This employs 100% Brazilian technology, from conception, through engineering plans to prototypes, in preparation for manufacture.

The development of the MTC project advanced greatly in 2019 with the approval of the main contractual requirements by the Brazilian Army. In parallel, the rocket guidance, control and onboard electronics system for the AV-SS-40G guided rocket was validated. The product and processes are fully developed by the company employing innovative solutions.

The company is also manufacturing new MK-6 version ASTROS vehicles for delivery to the Brazilian Army in 2020.

With the PrgEE ASTROS 2020 programme, the Brazilian Army, through Avibras, has promoted the development of high technology products that will certainly guarantee Brazil's independence in strategic munitions deployment, ensuring national sovereignty in this crucial field.

In 2019, Finep (Financiadora de Estudos e Projetos) disbursed a further R\$57.9 million for the Technological Innovation Project for the ASTROS 2020 System, initiated in 2015.



SKYFIRE

SKYFIRE is a system of 70 mm air-to-surface and surface-to-surface rockets. The system, launched in 1998, comprises launchers, rockets and support material. This is complete system which is versatile and considered to be extremely effective. The rockets may be launched from fixed wing or rotor aircraft, as well as from ground launchers. The SKYFIRE-70 rockets are also used as sub-calibre training munitions in the ASTROS system.

MANSUP

In the Brazilian Navy's Anti-Ship Surface Missile programme (MANSUP), Avibras is responsible for the propulsion system (engine) and other components, as well as for the final assembly of the missile prototypes. In 2019, the company concluded its participation in the second phase of the MANSUP project, which should equip future vessels in the Brazilian Navy fleet.



Brazilian Space Programme

Avibras took part in the LAAD Defence & Security, considered to be the most important Defence and Security sector fair in Latin America



In the Space sector, Avibras has also been engaged in developing national technological solutions in the form of basic and intermediate training rockets. Furthermore, the company is involved in the development and the manufacture of the S50 rockets for the Micro-Satellite Launch Vehicle (VLM-1), under the Brazilian Space Agency's (AEB) National Space Activities Programme (PNAE). Avibras detains the expertise to integrate launch vehicles for the space programme.

For further details about Avibras products and services, access www.avibras.com.br – (Our products and services).



Avibras promotes products and solutions in leading trade shows in the Defence and Security sectors

From April 2 to 5, 2019, Avibras took part in the **LAAD Defence & Security** fair held in the Riocentro, in Rio de Janeiro. Now in its 12th edition, this is considered to be the most important Defence and Security sector fair in Latin America.

At the fair, Avibras showcased its technological and industrial capabilities, developed in function of its robust partnership with the Brazilian Armed Forces, in the following strategic programmes: ASTROS 2020 (Army), MANSUP (Navy) and A-Darter – fifth generation air combat missile (Air Force).

A number of Brazilian authorities visited the company's stand. Furthermore, delegations from friendly nations were also present at the company's stand, enabling Avibras to forge closer relations with these countries.

In December 2019, Avibras participated in two international Defence and Security area fairs. The goal was to promote its businesses, especially the company's higher added value products and services.

The fifth edition of **Expodefensa** took place between December 2 and 4, 2019, in Bogota, Colombia. A total of 250 companies from 26 countries exhibited at the event. Avibras was present on the Brazil stand, organised by the Brazilian government through the Brazilian export and investment promotion agency (APEX), the Brazilian Embassy in Colombia, the Ministry of Defence and the defence and security materials manufacturers' association Abimde.

Gulf Defence & Aerospace (GDA) held in Kuwait, from December 10 to 12, 2019, was attended by 134 exhibitors from 20 countries.

Integrated Product Development

The **Integrated Product Development** (IPD) methodology employed by Avibras eliminates the barriers between different areas of the company, reducing costs and production times. This results in more mature, better quality products focused on customer specifications.

The IPD accelerates product maturity by separating the development phases and integrating the Engineering, Test, Production, Supplies, Quality and Customer Support teams. This concept is underpinned by the decentralisation of technical decisions and the integration of the diverse teams through the use of a shared location for the different areas involved in the project.

Accordingly, teams from areas such as Product Engineering, Industrial, Supplies, Quality and Customer Support work together simultaneously and collaboratively from the beginning to the end of the projects.

The decentralisation of decisionmaking by nominating product engineering technical managers who work in synch with the project managers ensures greater team integration and faster development.

As such, IDP involves a series of concepts that drive high quality development, such as team empowerment, shared location and broad delegation of technical decision making, guaranteeing integration, efficiency and discipline.



Avibras launches Export Control Programme

With a view to ensuring that its products and technological solutions are compliant with Brazilian and international legislations and regulations, in June, 2019, Avibras launched its **Export Control Programme**, led by the Supply Chain management area.

The programme drives innumerable benefits for the company, ensuring: on time product shipments, continuous operation of the production lines, compliance with the requirements set forth in export licenses and traceability of products inside and outside the company, among other factors.



Avibras participation in the Brazilian Space Programme

Avibras was one of the first companies to participate in the Brazilian Space Programme, which helped the company to accumulate knowledge and expertise in the aerospace sector and in the development of Brazilian technological solutions.

An example of this is the **company's investment in the construction of a plant to produce hydroxyl-terminated polybutadiene (HTPB)**, a fundamental input in the production of solid fuel. This capability is indispensable for the rockets in the new Brazilian Space Programme. This represents a strategic investment decision for Brazil and for Avibras, which is fundamental to ensure national sovereignty and essential for aerospace activities. With operations scheduled to begin in 2020, the plant will have a production capacity of up to 2,200 metric tons of HTPB per year.

In addition to its applications in the defence and aerospace sectors, HTPB has numerous applications in the civilian market, such as insulation, adhesive seals, liquid-proofing, encapsulation, coatings and films.

Furthermore, Avibras is the only 100% privately owned Brazilian company that has the capability of integrating launch vehicles and suborbital vehicles for the country's space programme.

The company has reaffirmed its leading position in the Brazilian Space Programme, with the development and manufacture of the **S50 rocket engines for the VLM-1**. In 2019, the structural qualification tests of the engine envelope were conducted successfully, the first time this component was produced with 100% national technology and know-how in Latin America. Another key factor for the sector was the signature of a technology transfer

contract with the Aeronautics and Space Institute (IAE) of the Department of Aerospace Science and Technology (DCTA), granting Avibras a licence to produce and commercialise the VSB-30 suborbital vehicle. The vehicle enjoys excellent international acceptance and represents a pioneering move in the technology transfer process for the Space sector in Brazil.

Brazil has an important role to play in the Space sector because the country has acquired diverse competencies in this area over time, mainly through research and innovation initiatives. Over a period of almost six decades, the country has developed a competent industrial base. It also has a launch base in Alcântara (Maranhão), which has a privileged geographical location, factors which, according to industry specialists, are rarely found together in a single country.

After negotiations which intensified in 2019, on January 27, 2020, it was announced that Avibras and the Armed Forces' Aeronautics and Space Institute (IAE) of the Department of Aerospace Science and Technology (DCTA) had signed a technology transfer contract granting the company a licence to produce and commercialise the VSB-30 suborbital vehicle.

This represented a pioneering move in the technology transfer process for the Space sector in Brazil.

The VSB-30 is the most successful suborbital vehicle in the Brazilian Space Programme. A total of 31 launches have been undertaken, all of them successful. Four occurred at the Alcântara Launch Centre in Maranhão, and 27 at the Esrange Launch Centre in Sweden. It may be used for experimental tests with applications in satellites, space vehicles and the pharmaceutical industry.



Avibras signs technology transfer contract to produce and commercialise the VSB-30 suborbital vehicle



Foguete de Treinamento Intermediário (FTI)

This technology transfer contract enables the continuity of the manufacture and commercialisation of the VSB-30 with technological enhancements, as well as accelerating the development of internationally competitive Brazilian launch vehicles for micro-satellites.

The VSB-30 was developed by the IAE in a cooperation agreement between Brazil and Germany. This is a rail-launched suborbital vehicle, stabilised by fins and induction bearings when the vehicle leaves the rails, which contributes to its stability during flight. It has two solid propulsion stages and permits the transportation of useable scientific and

technical cargoes of up to 400 kg at an altitude of 270 km. It also permits experiments in a microgravity environment during six minutes.

This suborbital vehicle is certified and qualified and is considered safe, reliable and stable. These characteristics ensure excellent acceptance of the VSB-30 in the international suborbital scene and represent a pioneering move in the technology transfer process for the Space sector in Brazil.

The initiative reinforces the “triple helix” concept adopted by Avibras which positions joint actions between business, academia and the government as the path to technological innovation and economic development for the country.

According to agencies in the Brazilian Space sector, the transfer of technology enabling Avibras to manufacture and commercialise the VSB-30 suborbital vehicle is highly positive for the sector. The general director of the Armed Forces’ DCTA (Department of Aerospace Science and Technology) at the time of the announcement, Air Commodore Luiz Fernando de Aguiar, stated that this was an unprecedented moment for Brazil. “We are transferring a product based on Brazilian technology that has already been tested. The product is now fully mature,” he declared.

The current general director of the DCTA, Air Commodore Hudson Costa Potiguara, who succeeded Air Commodore Luiz Fernando de Aguiar, underscored that partnerships such as these strengthen the industry. “I think this venture is brilliant. Avibras is a strong company, a constant partner of the DCTA, part of whose mission is to drive the development of the industry.”

For Commodore César Demétrio Santos, an engineer and director of the IAE, Avibras will execute the project competently. “This is the consolidation of a dream. This approximation with industry is essential for the development of the Space Programme,” he stressed.

S50 rocket engine

As mentioned previously, Avibras is also engaged in the development and manufacture of the S50 rocket engines for the VLM-1 under the Brazilian Space Agency’s (AEB) National Space Activities Programme (PNAE).

In 2019, the structural qualification tests of the engine envelope were conducted successfully, the first time this component has been produced with 100% national technology and know-how in Latin America.



Photo: Aeronautics and Space Institute (IAE)

Ethics and integrity in business

| 102-16 |

Ethical conduct and integrity in business is a priority topic for Avibras.

So much so that the Audit, Compliance and Information Security area reports directly to the company CEO, with indirect report to the Audit and Risk Committee and the Ethics Committee, ensuring full autonomy in the area's activities.

Code of Ethics

Ethical conduct is determined by the **Code of Ethics**, and is mandatory for the entire company.

The Avibras Code of Ethics sets forth the standards of ethics and behaviour required of all company professionals, regardless of hierarchical level, in internal and external relations: Board, Advisory Board, shareholders, managers, supervisors, other employees and interns.

The document formalises the company's commitment to conducting business with integrity and complying with the policies, procedures and practices that guarantee a business environment free of corruption. In other words, the Code of Ethics is a key instrument for organisational alignment that establishes the ethical standards and behavioural norms applicable to relations within the company and with external audiences, with the objective of driving integrity in business. The code is available in three languages (Portuguese, English and Arabic).

Ethics and integrity are reinforced with ongoing training courses focused on ethics and compliance for employees at all levels of the company and by periodic communications from the Ethics Committee designed to underscore the topics set forth in the Code of Ethics.



Training in ethics and compliance

| 103-2 and 103-3: Anti-corruption | 205-2 |

In June 2019, Avibras initiated a series of **ongoing training courses in ethics and compliance**. This initiative is part of the **Compliance Programme**, which in turn is incorporated into the Avibras por Excelência programme (AVPEX).

The actions in this “package” include an anti-corruption due diligence process conducted by the Compliance and the Legal areas, involving the assessment of 100% of Avibras commercial representatives.

Training sessions on the Code of Ethics were conducted with approximately 50% of the employees. This practice was initiated in 2019, and the training courses will be conducted on an annual basis.

The focus is on orientating employees in relation to the importance of acting in accordance with the company’s ethical posture and culture, critical factors for organisational, professional and personal success. The training courses address the principles of ethics, conduct, morality and compliance, providing examples from company routines and the professional environment, demonstrating the impacts of individual actions and also detailing possible disciplinary sanctions.

The goal is to ensure that every employee is actively engaged in maintaining a healthy work environment, promoting respect, ethics and productivity in company routines and in the work force.

The company has a compliance model which condenses a broad set of disciplines and processes to ensure that laws and regulations, policies and guidelines established for the business and for Avibras activities are followed, as well as preventing, detecting and addressing any deviations or breaches that may occur.

In addition to face to face training courses, the Ethics Committee transmits messages via internal company channels underscoring the guidelines in the Code of Ethics for all employees.

Another important factor is the Induction Programme, an initiative that introduces new employees to the company. These newcomers receive a copy of the Code of Ethics and orientation on company guidelines, as well as learning how the Ethics Channel works (further information on this channel ahead).

Furthermore, all Avibras suppliers receive material on the company’s guidelines, underscoring the importance of transparency and integrity in the commercial relations between the company and its partners.

Ethics Channel

The company also has an **Ethics Channel**, which is a relationship channel with its employees, customers, suppliers and other strategic stakeholder groups. It was created for the receipt and formalisation of reports aimed at enhancing and continuously improving Avibras services, demonstrating the company’s concern about unethical behaviour or violations of its Code of Ethics, values and culture.

It is the responsibility of the Ethics Channel to analyse any issues related to the Code of Ethics with impartiality and seriousness, seeking solutions to the questions raised and providing responses to those making the reports when they are identified. Reports of breaches of the Code of Ethics should be made through the Ethics Channel. Based on impartiality and transparency, the channel ensures the confidentiality of the information reported and preserves the identity of the people involved.

Information confidentiality preserves the identity of those involved, ensuring a better environment for everyone. The Ethics Channel examines the reports received in a serious and impartial manner, seeking solutions for the situations presented.

Avibras does not tolerate retaliation against any individuals who use the Ethics Channel to report possible breaches of conduct in good faith. Any retaliation of this nature is subject to disciplinary measures ranging from a warning to termination of employment.

The Ethics Channel may be accessed by:

Website: www.canaldeetica.com.br/avibras
Telephone: 0800 741 0001



Corporate governance

Guidelines

| 102-13 |

The company's corporate governance structure has been established based on management models aimed at continually enhancing internal management mechanisms and controls, overseen by the Audit and Risk Committee and the Internal Audit area, as well as the Avibras management model. The Avibras por Excelência (AVPEX) programme oversees the dimensions of leadership, people, innovation, value chain, culture and customer which permeate the company's continuous improvement process.

The company's daily routines are based on its standards, its culture and its corporate identity, as well as the pursuit of alignment with best corporate governance practices.

Avibras is a member of industry associations in Brazil and overseas, such as:

- ABIMDE, the Brazilian defence and security industry association
- SIMDE, the national association of defence materials manufacturers
- AIAB, the Brazilian aerospace industries association

In addition to participating actively in these industry associations, the company has expanded its participation in associations and bodies that represent industry as a whole, such as the São Paulo State Federation of Industries (FIESP) and the São Paulo State Centre of Industries (CIESP), including effective participation in sector committees. With a focus on technological development and innovation, the company also initiated its effective participation in the Brazilian Society for Knowledge Management (SBGC), as well as participating in the meetings of the body Business Mobilisation for Innovation (MEI), promoted by the National Confederation of Industry (CNI).



Structure

| 102-18 |

In addition to its **Statutory Board and Board of Directors**, Avibras has a four-member Advisory Board, an **Audit and Risk Committee**, an **Ethics Committee** and a **Sustainability Committee**. Both the Advisory Board and the committees are linked with Avibras' CEO.

The role of the Audit and Risk Committee is to monitor and assess the internal control environment, the execution of internal and independent audits, track corporate risks and oversee the elaboration of the company's financial statements.

It is the responsibility of the Ethics committee to analyse all reports of corruption, bribery, fraud, illegal or anti-ethical conduct, damage to the environment, questionable accounting practices or records, the misuse of company assets, all types of harassment

and discrimination (gender, racial, social, religious etc). The Ethics Channel is managed by a third-party, ensuring full anonymity and confidentiality. Any stakeholder may make a report and monitor how it is being processed by means of a case number.

Complementing the governance structure, the Sustainability Committee has the mission of ensuring the materiality of the information and content in the Avibras sustainability report in line with Global Reporting Initiative (GRI) guidelines. The report addresses topics that are relevant for company management and may influence stakeholder assessments and decisions.

Avibras also has an independent **Internal Audit** structure reporting to the CEO, which supports the definition, elaboration and evolution of governance instruments.

Statutory Board

João Brasil Carvalho Leite
CEO

Leandro Villar
Commercial Vice President¹

Cynthia Benedetto
Financial Vice President²

Almir Miguel Borges
Chief Operating Officer

Board of Directors

Fábio Nakagawa
Industrial Director

Fernando Ranieri
Engineering Director

Marcelo Ramon Ferroni
Project Management Director³

Paulo G. Franklin de Abreu
Commercial Director⁴

Rodrigo Rosa
Financial Vice-President Director⁵

Advisory Board

João Brasil Carvalho Leite
Chairman

Jean Jacques Moacy Rochebois Campello
Member

Pedro Angelo Vial
Member

Marcelo Sayon Sáfiadi
Member

1. Retired in May 2020.

2. Left the company in May 2020.

3. In memoriam.

4. Took office in May 2020.

5. Took office in September 2020.

Committees

Audit and Risk Committee

This body identifies, evaluates and analyses risks related to the company's businesses, monitoring measures to mitigate these risks. It comprises internal and external consultants and is audited independently to ensure impartiality in the evaluation of processes.

Ethics Committee

This committee is responsible for ensuring the legitimacy, improvement, and compliance with the Code of Conduct and the set of processes, customs, policies, norms, regulations and guidelines that make up the Avibras Culture.

Sustainability Committee

The Sustainability Committee establishes tools to track company performance in the environmental, social and economic dimensions and to ensure compliance with international guidelines. It comprises employees from all company areas.

Operational committees – internal, reporting to the board

Procurement Committee

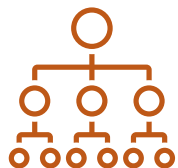
This body is responsible for establishing the real need for items included in the company budget.

Budget Committee

This committee validates budget planning, executing the measures necessary to ensure it is carried out.

Product Safety and Operations Committee

This body identifies, evaluates and analyses risks related to the company's businesses, monitoring measures to mitigate these risks.



Risk management

| 103-2 and 103-3: Anti-corruption | 205-3 |

In 2019, a new general risk analysis was conducted, updating the Avibras **risk map**.

The new analysis was encouraging. The updated risk map showed a reduction in the number (from 73 to 48) and criticality of the company's business risks, demonstrating improvements in management and greater knowledge and control over company processes and their inherent risks.

Avibras maintains a **structured risk assessment, monitoring and mitigation process**, essential for ensuring that the company is aware of its values, potential risks and vulnerabilities, in addition to increasing knowledge of the entire value chain and extending concern with integrity and transparency to partners, suppliers and other stakeholders. Avibras also complies rigorously with all labour legislation and the guidelines of institutions that promote the principle of respect for human rights.

Risk mitigation and monitoring plans are under control and are reported to and monitored by senior management.



The company has rigorously monitored the implementation of controls to mitigate business and regulatory risks as well as ones related to the operation and processes. Moreover, the Avibras por Excelência (AVPEX) Programme ensures the implementation and tracking of macro-process indicators.

The Audit, Compliance and Information Security area, in partnership with the Legal Department and the company's other business areas **manage compliance**.

The pillars of compliance are currently being implemented in the company and have already been established in the Code of Ethics and the anti-corruption due diligence process. They are complemented by the Ethics Committee and the Ethics Channel and an ongoing employee training programme in ethics and compliance-related areas.

In 2019, no corruption-related public lawsuits were brought against Avibras or its employees.

In 2019, a project was undertaken with an external partner to review the corporate governance structure and compliance measures. The **Avibras Compliance Programme** will be formally introduced during the course of 2020.

Sustainability as a cross-cutting element in company management

In its constant pursuit of business excellence, Avibras has developed measures aimed at promoting sustainable growth in accordance with global best practices.

This posture **implies a permanent commitment to sustainability**, encompassing changes in mindset, processes and operations and the ongoing introduction of innovations as part of the company's and employees' routines.

Sustainable development is aligned with the four Avibras priorities (safety and security, quality, on-time delivery and costs), as well as driving the perpetuation of the business, in which everyone gains from the improved results.

For this reason, the focus on sustainable development should permeate all management and business decisions, as well as day to day routines, ensuring company's constant evolution.

For Avibras, sustainability is a factor of competitiveness, just like innovation, compliance and quality. **The company understands that the way it conducts business and its behaviour towards its different stakeholder groups are just as important as its financial results and the quality of its products.**

Accordingly, since 2016 Avibras has had its **Sustainability Committee**, which adds value to its governance model to the extent that it promotes better management practices and favours interaction with customers, governments, suppliers, financial institutions, society, employees, partners and competitors.

The committee's attributions include supporting the Board in fostering sustainability strategies, including the establishment of corporate guidelines and actions, the mapping

of indicators and reconciling economic development with social and environmental responsibility. The company CEO sponsors the committee and is directly involved in its activities, providing the resources necessary to ensure it functions effectively.

The company has worked continuously to ensure that environmental, social, economic topics, as well as governance, focused on generating and distributing value, are incorporated into strategy and routine activities. This helps to strengthen the company's reputation in the market, generating financial value and greater confidence among strategic audiences. In parallel, this orientation to sustainability motivates the work force, attracts talent, helps measure and track performance, improve management systems, identify and manage risks and opportunities, as well as driving innovation.

The principles of sustainability and related practices are broadly disseminated via internal communication channels and by the actions of the Sustainability Committee, the Ethics Committee and the Audit and Risk Committee. Sustainable development is also incorporated into the company's strategic planning and action plans.



Main financial results

| 102-7 | 201-1 | 201-4 |

In 2019, Avibras posted significant **revenue growth**, with a 51% increase compared with the previous year.

Greater productivity, allied with efforts to boost efficiency and continuous improvement, together with effective financial management, were the main drivers of this growth in revenue, which also resulted in consistent increases in other financial indicators such as EBITDA, which grew almost 20%, and net income, with an increase of just over 10%.

The robust results for the year were boosted even further by optimised **cost management**. Operating expenses remained practically stable during 2019.

MAIN RESULTS	AMOUNT (R\$ MILLION)	GROWTH OVER 2018 (%)
Net revenue	950	51
EBITDA	189	19.9
Operating cash generation	236.5	-*
Gross profit	559	58.9
Net profit	101	10.6

* It is not possible to estimate growth precisely due to the fact that operating cash generation was negative in 2018.

OPERATING PERFORMANCE	2019	2018	2017*
Net operating revenue (R\$ thousands)	950,172	627,939	1,672,000
Net revenue per employee (R\$ thousands)	501	334	902
Net margin (%)	11	5	15
EBITDA (R\$ thousands)	188,933	19,870	460,934
EBITDA margin (%)	20	3	28
Economic value retained (R\$ thousands)	496,413	312,517	946,863
Added value distributed (R\$ thousands)	548,618	365,173	763,173

* The principle accounting practices adopted by the company were altered in 2018 with the adoption of IFRS 9/CPC 48 - Financial Instruments, IFRS 15/CPC 47 - Revenue from Contracts with Clients and IFRIC 22/ICPC 21 - Transactions in Foreign Currency, compared with those disclosed in the financial statements on December 31, 2017.

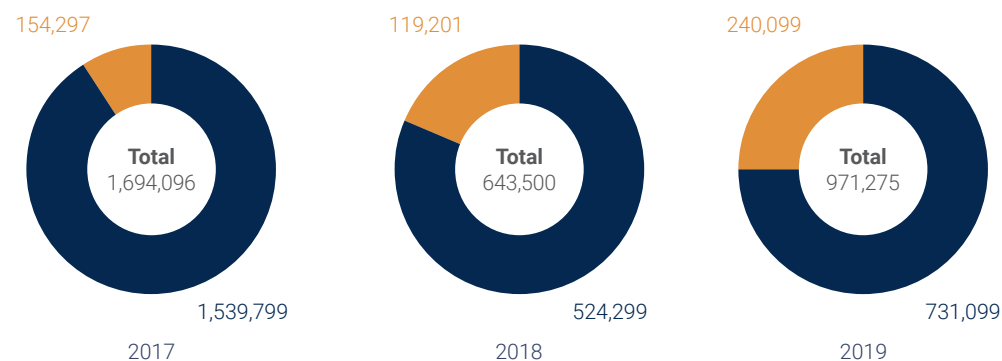
The norms adopted from the financial year beginning on January 1, 2018 were:

- a) IFRS 9/CPC 48 - Financial Instruments
- b.) IFRS 15/CPC 47 - Revenue from contracts with clients
- c) IFRIC22/ICPC 21 - Transactions in foreign currency

To improve the presentation and the comparability of the 2018 and 2017 balance sheets and income statements, the balance of the provision for business intermediation expenses in 2017 was adjusted.

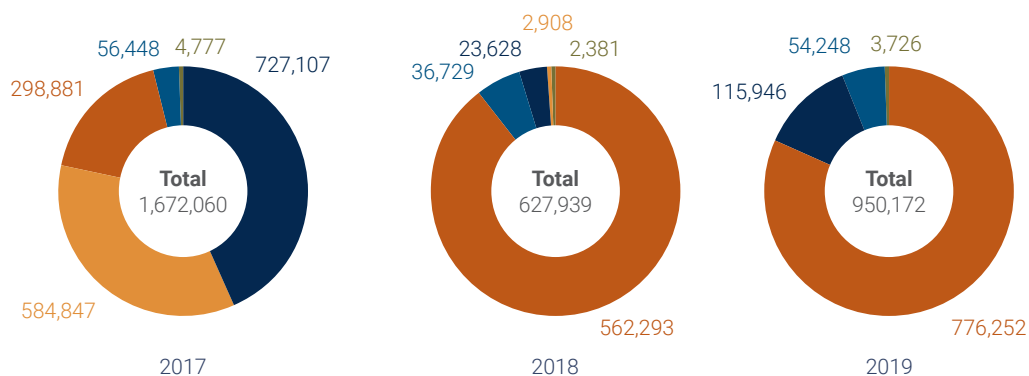
Gross revenue by market (R\$ thousands)

Exports Brazil



Net revenue by product line (R\$ thousands)

Vehicles Services Revenues by area – vehicles/munitions/engines
Munitions Electrophoretic painting



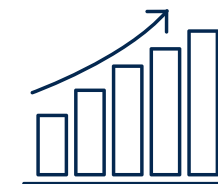
Note: In 2019 there were no direct munitions sales. The volume produced in 2019 will only be delivered and accounted for in 2020. It should be noted the revenue is calculated via measurement (POC system), which encompasses munitions production during the year.



In terms of **funding**, in addition to the funds Avibras raised from Banco Nacional de Desenvolvimento Econômico e Social (BNDES) and Finep aimed at product development and investment in the start up of construction of the new plant in the Lorena unit in São Paulo for the production of HTPB, the credit limits with traditional banking institutions were also extended.

The quality of the company's **indebtedness** improved in 2019 due to renegotiation and the elongation of due dates. Only 26.8% of the company's debts are short-term.

This enabled Avibras to increase the funds for **investment**, mainly in CAPitalEXpenditure (CAPEX) and infrastructure projects. The wealth generated by the company also increased.



Value generated/added, was as follows:



DISTRIBUTION OF ADDED VALUE	2019		2018		2017*	
	PERCENTAGE	R\$ THOUSANDS	PERCENTAGE	R\$ THOUSANDS	PERCENTAGE	R\$ THOUSANDS
Remuneration of labour	50	274,583	64	200,011	29	221,320
Remuneration of government (taxes, charges and contributions)	21	115,064	17	53,128	23	175,530
Remuneration of third-party capital	11	58,073	14	43,752	9	68,686
Remuneration of own equity	18	100,898	5	15,626	39	297,637
Total added value for distribution	100	548,618	100	312,517	100	763,173

* The principle accounting practices adopted by the company were altered in 2018 with the adoption of IFRS 9/CPC 48 – Financial Instruments, IFRS 15/CPC 47 – Revenue from Contracts with Clients and IFRIC 22/ICPC 21 – Transactions in Foreign Currency, compared with those disclosed in the financial statements on December 31, 2017.

GENERATION OF ADDED VALUE (R\$ THOUSANDS)	2019	2018	2017
Gross added value¹	560,509	368,822	777,067
Revenues	1,045,031	677,690	1,710,036
Inputs acquired from third-parties	484,522	308,868	932,969
Net added value produced by the business²	536,855	368,822	777,067
Depreciation and amortisation	23,654	17,576	16,663
Total added value for distribution ³	548,618	382,749	779,836
Added value received in transfer	11,763	13,927	2,769

1. Revenues less input costs.

2. Gross added value less depreciation and amortisation.

3. Net added value + value received in transfer.

Awards and recognition

The following were worthy of note in 2019:

In May 2019, at the Mercosur Suppliers' Meeting in Sorocaba (São Paulo), the Avibras Surface Treatment area, better known as KTL, received the **Excellence in Quality** award from Gestamp, a Spanish stamping and metallic component manufacturer and customer of Avibras since 2013. Around 60 companies competed for the award, which is biennial. This edition covered the period 2017 and 2018. Only ten companies received awards, including Avibras, attesting that KTL's performance in the service rendered to the customer was outstanding.

Avibras' KTL area has been in operation for 35 years, having pioneered the provision of protection services based on electrophoretic coating in Brazil. Currently, the area is also responsible for processes of electrostatic and powder coating, chemical nickel application and chemical conversion of aluminium alloys, meeting the needs of internal and external customers, mainly automobile manufacturers.



In November 2019, Avibras received the **Technology Exportation Distinction** trophy awarded by the Brazilian Space Agency (AEB). The award ceremony took place during the 2019 National Overseas Trade Meeting (ENAEX) in Rio de Janeiro. The award is for companies and institutions with outstanding performance in the international market, as well as for initiatives in support of product and service exports.



THE DEFENCE SECTOR

In Brazil

The Brazilian Defence sector consists of over 1,100 companies*, most of which are micro, small or medium-sized operations. The total business volume in 2014 was estimated at R\$8 billion, or around 0.15% of the country's Gross Domestic Product (GDP).

In 2019, Brazil was in 11th place in the global ranking of national expenditure on defence, with spending totalling US\$27.5 billion (1.48% of GDP).

The companies in this sector generate 285,000 direct jobs and 850,000 indirect ones – with remuneration higher than average for the transformation industry.

By way of example, the Brazilian government has the target of increasing arms exports to India, the second largest global importer of defence products, to US\$1 billion in five years. At the end of January 2020, Brazil and

India announced the signature of 15 bilateral commercial agreements.

In March 2020, the Brazilian government signed a bilateral agreement with the USA, with the intention of increasing Brazil's penetration in the US defence market, the largest in the world.

Federal government investment in the Ministry of Defence, which encompasses the Army, Navy and Air Force, reached R\$16.5 billion in 2019 – the highest amount in the historical series initiated in 2007, corresponding to around 29% of all federal investment in the period.

The percentage invested in the Brazilian Armed Forces (FAB) as a proportion of total federal investment was 89% higher than in 2016, from which time there has been a steady increase in the weight of this item in the investment budget. From 2018 to 2019, the weight of the Armed Forces in federal investments increased by 33%.

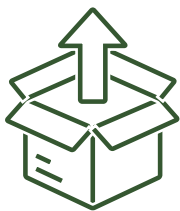


ITA (Aeronautics Institute of Technology) students visiting Avibras facilities

The national defence industry plays an important role in the country's industrial, scientific, technological and innovation policies. The products and services it offers have a high technological content, which has a positive effect on the country's economy.

As well as maintaining companies, industrial parks and jobs, the efforts in this area are aimed at developing new means of incorporating science, technology and innovation into the goods and services produced.

According to Brazil's Export and Investment Promotion agency APEX, the Defence sector in the country is strategic because it drives innovation, investments in technology and the development of new materials and systems. Additionally, the defence industry helps Brazil to be positioned internationally as a country that produces extremely high added value goods. This is important to ensure that countries that already acquire Brazilian products, such as footwear and textiles, know that the country has the capability to produce high density technology goods.



Historical revival

The eighth largest global exporter of defence products in the 1980s, Brazil has the potential to once again occupy a distinguished position in the international market – worth on average around US\$1.5 trillion per year.

To make this happen, the Ministry of Defence has developed initiatives such as the Articulation and Defence Equipment Plan (PAED) – to plan and execute the purchase of strategic products from the sector –, the incentive for the Industrial Defence Base (BID) and the promulgation of law No. 12.598/12, which established mechanisms to foster the Brazilian defence industry and created a broadly favourable legal framework for private investments in this sector.

More than just serving local markets, this thrust is designed to promote exports of defence products, with a positive impact on the country's trade balance.

Brazil Defence Team

In January 2019, the Ministry of the Economy's Overseas Trade Chamber (CAMEX) approved the formation of the Brazil Defence Team, aimed at coordinating, articulating and monitoring negotiations involving finance operations and the concession of guarantees for the exportation of Brazilian defence products.

The purpose is to formulate a specific commercial policy for the sector and to coordinate support measures for the exportation of defence products.

The team is responsible for coordinating and articulating the bodies responsible for official support for credit in all finance and guarantee operations for defence product exports, boosting the efficiency of Brazilian companies in negotiation processes and increasing their exports.

The Brazil Defence Team monitors and assesses the opportunity and convenience of granting official support for credit, proposing parameters for negotiation and compiling and taking into account diverse aspects of the country's foreign, defence and security policies.



Export of the ASTROS System in the 1980s

Industrial Defence Base

The Industrial Defence Base (**BID**) is the group of state or private companies that participate in one or more stages of the research, development, production, distribution and maintenance of strategic defence products – goods and services whose characteristics help contribute towards achieving Brazil's security or defence-related goals.

To ensure successful consolidation, the BID depends on a harmonious joint effort between the production sector, essentially concentrated in private initiative, and the development sector, the responsibility of the state.

The Ministry of Defence seeks to ensure conditions that leverage the Brazilian Defence Base, preparing the national companies in the sector to achieve autonomy in strategic technologies for the country. Fully aware of the magnitude of this challenge, the ministry also seeks to ensure ongoing budgetary support for strategic defence projects.

On February 20, 2020, the development bank BNDES (Banco Nacional de Desenvolvimento Econômico e Social) and the Ministry of Defence signed a protocol of intent to determine measures aimed at developing the Brazilian Defence Base. The initiative is aimed at fostering technological development and boosting Brazilian exports, in addition to strengthening national sovereignty.

The agreement is aligned with the country's **National Defence Industry Policy (PNID)**, the objective of which is to increase the competitiveness of the Brazilian industrial defence base, improve the sector's industrial capacity and boost exports.

The base's exports currently stand at around US\$1 billion a year, but the potential exists to expand this volume to US\$5 billion. The agreement is expected to leverage these operations, generating positive impacts for the trade balance and increasing foreign exchange earnings.



Vehicle production line

Countries that invested the most in Defense



Looking at the planet from the standpoint of the Defence sector, one characteristic immediately stands out. A characteristic that has two sides.

In 2019, global defence spending totalled US\$1.73 trillion, the largest amount in a decade, driven principally by the expenditures of two countries: The USA and China.

Investment in the sector increased by 4% compared with the previous year, according to a survey conducted by the International Institute for Strategic Studies (IISS).

Both the USA and China increased their spending by 6.6%. Last year, the North Americans invested four times more in arms purchases and research and development than all the European countries combined. The US defence budget totalled US\$684.6 billion. Of this amount, US\$275 billion went to the acquisition of arms and investments in the sector, more than China's total defence expenditures (US\$185.1 billion).

Another demonstration of the magnitude of the US military budget: the US\$53.4 billion that the country spent last year is almost the same as total investments in the United Kingdom

Europe increased its defence spending by 4.2%, but this increase was only enough to bridge the gap left after 2008, when budgets were cut amidst the global financial crisis.

The IISS study also underscored that the USA decreased financial aid for its allies' budgets. The increase in European spending may be in response to President Donald Trump's complaints that the member nations of the North Atlantic Treaty Organisation (NATO) in Europe – in particular Germany – were contributing little to the organisation.

Of the 15 countries with the highest investments in defence in 2019, the only change in position was between Italy (12th) and Australia (13th). Among the top ten, after the USA and China, are Saudi Arabia, Russia, India, United Kingdom, France, Japan, Germany and South Korea.

CUSTOMER RELATIONS

| 102-4 | 102-6 |

Avibras is one of the largest companies in Brazil's National Defence Base (BID), with an extensive overseas presence due to its high volume of product and service exports.

In Brazil, the company's major partners are the Brazilian Armed Forces (FAB), government agencies, security organisations, equipment manufacturers and integrators that use Avibras products and services. External customers are mostly government agencies and companies. The main overseas markets for Avibras are countries in the Middle East, Asia, Africa and Latin America.

In addition to the products, services and solutions commercialised, the company adds the differentials of quality and excellence in post-sale service.

In its professional and commercial relations with customers, Avibras complies with laws, standards and regulations in all its areas of activity and in its contracts with the Brazilian and overseas governments, as well as with private companies, suppliers and other institutions. Due to the nature of its business, the company is at times subject to specific laws and regulations, such as export controls. Avibras is fully compliant with such restrictions.



All the information supplied to governments and control authorities is complete and accurate. Violations of this directive are considered extremely serious and may result in the penalties provided for by law and by the company's Code of Ethics. All export contracts are duly reported to the competent Brazilian authorities, and the products involved are strictly those specified in documentation.

To ensure customers have broad access to up-to-date information on its products, Avibras promoted improvements in its processes, installations and work and management tools, by means of the Product Documentation area multidisciplinary team. The area seeks to

ensure full adherence to specifications and standards in technical publications, since these are used in customer training.

Customer relations are managed by the **Contract Administration** area, whose activities include the interpretation of commercial and legal clauses. After a contract has been signed, the area manages relations between the company's internal areas, acting as the interface with the customers.

In markets considered to be strategic, the company has **representation offices** with multidisciplinary teams that ensure full customer support in the manufacturing, logistics and maintenance areas.

In Brazil, Avibras participates in **strategic programmes with the three Armed Forces**, particularly worthy of note being an unprecedented project with the Brazilian Army, in which the army maintains a commission of highly qualified engineers – the Avibras Commission for Knowledge Absorption and Technology Transfer (CACTTAV) – installed on the company's premises. This function of this commission is to monitor research and development projects contracted between the parties.

For the Armed Forces, Avibras' strategic relevance is due to the fact that the company is genuinely Brazilian, has a reputation for ethics and integrity, with high quality, safe products that can be manufactured to exact specifications with a high degree of innovation and cutting edge technology, in line with the needs of the Navy, Army and Air Force.

Focus on customer satisfaction

All the products developed and produced by the company are assessed continually throughout the cycle of elaboration and planning up to delivery to the customer, with full guarantee of safety and quality.

The pursuit of customer satisfaction and the fulfilment of customer needs has also promoted internal improvements, with emphasis on the target of ensuring excellence in all phases of the company's operations.

Customer satisfaction is the driver of the Avibras businesses. Focus on the innovation process is an integral part of the company culture, designed to generate value through products and services that fulfil and/or exceed customer's needs and expectations, driving customer satisfaction and loyalty.

It should be stressed that one of the principles of the Avibras por Excelência Programme (AVPEX) is to guarantee customer satisfaction.



Technical assistance and services for customers

| 102-2 |

Avibras goes far beyond merely selling products and providing services. Company products and services are not restricted to the supply of equipment, systems or solutions. They add value with the inclusion of **technical assistance**, which encompasses tests, munitions supplies, operational maintenance and the upgrade of systems and equipment to the latest versions, as well as the training of local operators.

To ensure the excellent performance of its products and to meet the most demanding quality standards, Avibras has developed a robust **quality engineering** structure, which includes laboratories, test sites, specific equipment and optimised processes. The company also offers its facilities and specialist services to the Brazilian industrial market.

Moreover, Avibras ensures **personalised service** for its partners and customers, having the technical and operational capacity to meet the specific needs of each customer.

In the company's relations with the Brazilian Army, for example, military engineers track the entire research and development programme, enabling them to familiarise themselves with Avibras management and product manufacturing processes.

Furthermore, the Brazilian Army maintains a liaison officer within Avibras. This individual is a direct channel between the company and the Army, whose main responsibility is managing relations between the two parties. The liaison officer is not involved in commercial aspects. Instead he contributes to the evolution of the Defence Systems Employment Doctrine, as well as participating in product deliveries and quality and safety tests.

Logistics

| 102-2 |

Avibras has its **Integrated Logistics Support** (ILS) programme, which encompasses training, technical documentation, technical support for customers, the supply of simulators, equipment, replacement parts and special tools.



COMMUNITY RELATIONS

| 103-2 and 103-3: Local communities | 413-1 |

Relations with the communities surrounding its operations are of fundamental importance for Avibras in its capacity as a civic-minded company and a relevant social actor.

With the objective of promoting local development, the company has increasingly forged closer relations with the communities of São José dos Campos, Jacareí and Lorena in the state of São Paulo, as well as with local governments, organisations and associations in these regions.

Activity guidelines

To contribute to development and engage the communities close to its operations, the company does more than pay taxes and the generate employment and income. Avibras sponsors and supports actions and organisations in the areas of education, technology, innovation, safety, culture and sports, as well as social actions, with the objective of generating benefits for these communities.

Avibras' relations with its neighbouring communities were further strengthened in 2019 as a result of the company's heightened involvement with the local government Economic Development, Environmental and Innovation departments in response to the interest shown by the local business community in actions associated with the Avibras Technology and Innovation Space (EATI).



EVOLUTION OF COMMUNITY ENGAGEMENT PROGRAMMES PER OPERATION

	2019	2018	2017
Total company operations	3	3	3
Company operations that implemented community engagement programmes	3	2	2
Percentage of company operations that implemented community engagement programmes	100	66.67	66.67

Main actions/projects

In 2019, the main social and/or relationship projects with the communities supported by or associated with Avibras were:



Pink October Campaign

The cancer patient support groups GESTO, in São José dos Campos (SP), and ATO, in Lorena (SP) and Guaratinguetá (SP), received Pink October Movement donations on the company premises in November 2019.

The handkerchiefs, disposable cups, paper towels and toilet paper donated by the company and by employees were distributed equally among the institutions.



Winter Clothing Campaign

Between May 20 and June 14, the Avibras Sports Association conducted its "Our people warming others" winter clothing campaign in Installations 2 and 3 (Jacareí and Lorena). A total of 456 garments were collected. Avibras also participated in the campaign by donating 150 blankets.

The items were delivered to the Solidarity Social Funds in Jacareí, São José dos Campos and Lorena in the state of São Paulo for donation to charitable institutions and vulnerable communities.

The support of Avibras employees was essential for the success of the campaign.

Social actions



Goodwill Dinner

Avibras supported the fourth Goodwill Dinner in September 2019. This event is in benefit of the cancer support group GACC, which has provided treatment for children and adolescents with cancer in São José dos Campos (SP) for over 20 years.

Donation of sweets for the Children's Day party at the municipal school Dr. João Leite Vilhena, located close to Installation 2 (Jacareí)

In 2018, Avibras provided support for this school with the maintenance and installation of computers and ventilators in the computer room, as well as in painting, lighting and furnishings.

Adult nappy campaign

The Avibras Sports Association (ADC) mobilised employees to collect adult nappies for the home for the elderly Lar Vicentino de Paraibuna, run by the Sociedade São Vicente de Paulo (SSVP). The institution, created in 1970, provides support for some 20 elderly people. It uses 1,120 nappies a month, or 280 a week.

Support for scientific events and congresses

Symposium on Defence Area Operational Applications

Avibras participated in another edition of the Symposium on Defence Area Operational Applications (SIGE) held in September 2019 at the Aeronautics Technological Institute (ITA). This was an excellent opportunity for the company to forge closer relations with the academic community, with the Brazilian Air Force (FAB), as well as to interact with one of the best universities in the country.



Science Days Brazil

The third edition of Science Days Brazil took place in 2019. The event was held on April 5 and 6 in São José dos Campos (SP). It stimulates the interest of fundamental and secondary education students in STEM (Science, Technology, Engineering and Mathematics) disciplines.

The 2019 edition was organised by the Instituto Alpha Lumen, by the National Aeronautics and Space Administration (NASA) and by the Brazil Florida Chamber of Commerce (BFCC), in São José dos Campos (SP), in addition to the Aerospace Forum promoted by the Federal University of Rio Grande do Norte (UFRN).



EATI Xperience Day

See the chapter Innovation and technology for further details on EATI.

9th Symposium on Remote Sensing in Defence Applications

The Symposium on Remote Sensing in Defence Applications (SERFA) was held in November 2019. This has been organised by the Institute for Advanced Studies (IEAv) since 1996. Since 2006, the event has been held every two years. SERFA has consolidated its status as the major forum for defence-related remote sensing in the Southern Hemisphere, as well as the largest ecosystem for decision making and the generation of business in this area.

Further information at:
www.serfa.com.br/quem-somos

SAE Brasil Formula Drone Competition

In August 2019, Avibras once again sponsored the Formula Drone Competition, an educational initiative organised by SAE BRASIL and held in the installations of the Federal University of Itajubá (UNIFEI), in Itajubá (Minas Gerais) from August 2 to 4.

The Formula Drone project is aimed at the dissemination and exchange of systems engineering techniques and knowledge applied to drone-type rotary wing aircraft by means of practical applications and a competition between teams.

Teams of up to 15 students, supervised by lecturers from the institution they represent develop onboard systems for drones. The objective is to undertake missions established by the competition in accordance with the requirements set forth in its regulations.

12th Brazilian Congress on Product Development Innovation and Management (2019)

Avibras was one of the sponsors of the 12th Brazilian Congress on Product Development Innovation and Management (CBGDP), held from September 11 to 13 at the University of Brasília (UnB).

The congress is attended by representatives of academia, researchers, teachers, students, the business community, consultants, engineers, administrators, designers and other professionals involved in managing innovation and product development.

Innovation Brazil Leaders Forum 2019, held in the São José dos Campos Technological Park

Represented by EATI, Avibras attended and had a stand at the Innovation Brazil Leaders Forum, an event held from September 15 to 17 at the Parque Tecnológico de São José dos Campos (PqTEC). The objective of the event was to recognise and value companies and individuals that deliver results through innovation in products, processes and people.

The company also participated in the panel on innovation, which discussed new trends in technological innovation.

**3rd Space Industry Forum and participation in the Space Challenge organised by the Brazilian Space Agency**

On November 19 and 20, 2019, Avibras participated in the 3rd Space Industry Forum in the PqTEC. This event is a joint initiative involving the Brazilian Space Agency (AEB), the Ministry of Science, Technology, Innovation and Communication (MCTIC), the General Secretariat of the Presidency of the Republic, the Special Department of Strategic Affairs (SAE), the Brazilian Industrial Development Agency (ABDI) and PqTEC.

The purpose of the forum was to promote the exchange of ideas and boost business opportunities for the development of the Brazilian Space sector. The forum is commercially oriented and was designed to promote interaction between private enterprise and government bodies, development institutions, research institutes, universities and start-ups.

The theme of this edition was the Space Economy and Business and was designed to stimulate discussion of the social and economic benefits of the Space sector, its applications, means of development for new companies and models for the commercial use of launch centres.

Avibras participated in the panel discussion "Outlook for the Brazilian Space Industry."

SUPPLIER MANAGEMENT/ SUPPLIES

| 102-9 | 102-10 |

In 2019, the most salient characteristics in Avibras' relations with its supply chain were rationalisation and improvements in management.

The final objective is to drive continuous evolution in an integrated manner, ensuring satisfaction for the end customer by means of quality assurance in supplies and throughout the supply chain.

Enhancements to management

The following initiatives are worthy of note among the improvements in managing supplies and suppliers in 2019:

- In a process of constant assessment and evolution, the structure for managing supplies and the supplier chain was improved. A **committee comprising representatives of the Supply, Quality, Engineering and Manufacturing areas** assumed management responsibility. This committee assesses supplier performance on a weekly basis, acting opportunely when necessary, with visits, meetings, adjustments to processes and documents, alignment of requirements, etc.



- **The Product and Service Supplier Development and Qualification (national and international) area was created** to guarantee the quality of processes and the qualification of suppliers, as a means of ensuring full capability to meet Avibras technical and standard requirements. This measure established a new partnership model in which Avibras and its suppliers work together in pursuit of intelligent, innovative solutions.

- **A renegotiation process was established with production material suppliers involving the signature of new contracts.** This will be extended throughout 2020 and 2021. This initiative has promoted closer relations between the Procurement team and the supplier chain.

- Furthermore, a supplier portal will be implanted in 2020 or 2021.

- With a view to optimising efforts and achieving greater gains in scale, **operations were concentrated in a smaller number of suppliers.**

- During the year, the company worked with around 480 suppliers (of which 90% are Brazilian). This represents a 31% reduction in supplier numbers compared with the previous year.

■ A production parts **approval process was established** to define approval documents and control of product quality levels at the supply development phase.

■ A number of **kaizens** were undertaken to improve company processes and enable higher internal client service levels and greater agility. Moreover, a process to manage key performance indicators (KPIs) on a monthly basis was implanted.

■ The processes involving **supplier risk management** were enhanced in order to mitigate any such risks and avoid impacts for the Avibras business.

■ **Communication** with the Avibras supply chain was **enhanced**; in parallel the **Supplier Quality Manual** was reviewed and sent to all suppliers.

This led to significant cost reductions and the implantation of new parameters for key supply and service contracts, resulting in the establishment of a new partnership between Avibras and its suppliers with a focus on driving improved results.

Quality assurance

| 103-2 and 103-3: Customer health and safety | 416-1 |

Avibras has structured processes for assessing and qualifying suppliers, as well as for the approval of parts and inputs. These use assessment questionnaires, qualification and product approval audits based on the tool Advanced Product Quality Planning (APQP) – Production Part Approval Process (PPAP). All Avibras contracts contain social and environmental protection clauses. Suppliers are also subject to constant analysis of social and environmental questions to ensure compliance.

The method established for **quality assurance** is based on Engineering or Procurement area demands and comprises the following points:

1.

Identification and classification of new suppliers or the need for requalification:

the supplier selection and qualification process originates with the demands of the Supply Chain and Engineering areas.

2.

Analysis: by means of the Supplier Technical Assessment Report, the supplier's installed capacity is evaluated in terms of engineering, logistics, supply and quality.

3.

Assessment: based on weights attributed according to compliance with the items in the assessment reports, an IQS rating is generated. This establishes classes of qualification and classes of qualification conditional on action plans, which are generated either to increase or maintain the ratings determined.

4.

Approval: a production parts approval process to define approval documents and control of product quality levels at the supply development phase.

5.

Monitoring: when supply is initiated, IQL (quality) and IP (on-time) delivery monitoring indexes are generated. Based on these indexes, integrated quality, engineering and supply chain measures are taken in conjunction with the supplier with a view to promoting improvements and continuous evolution. The monitoring period also incorporates the demand for re-qualification when the supplier's approval process expires.

This process is ongoing and is managed by the Quality area. The objective is to ensure the continuous improvement of the company's products and services as determined by customer needs and requirements.



INNOVATION AND TECHNOLOGY

Avibras believes it is essential to stimulate technological development and pursue innovation, be it in product and service development or in marketing, business models and people management.

Technology and innovation are in the company's DNA and are essential for its growth and perpetuation.

Research and development

Aimed at fostering permanent research initiatives, Avibras has a **Pre-Competitive Research and Development Programme (PDPC)**.

The formulation and definition of the company's technological development projects in the PDPC are based on the directives set forth in the company's strategic planning and follow a hierarchy of key technologies necessary for Avibras' success.

This functions as if it were a major pre-preparation for determined developments, ensuring the company is strong and well prepared in advance in order to facilitate the path ahead.

By means of this programme, the company seeks to master differentiating technologies, elevating its Technology Readiness Level (TRL) to apply this knowledge in new company products by means of major



innovations and technological leaps. The objective is also to minimise risks related to these new projects.

The development and implantation of the Avibras Technology and Innovation Space (EATI in the Portuguese acronym) described ahead, originated in the Pre-Competitive Research and Development programme. The pursuit of mastery of differentiating technology would be limited if it were restricted to Avibras' own resources and internal environment. This is the reason why the EATI was created in the São José dos Campos Technology Park (PqTEC).

Avibras Technology and Innovation Space

| 103-2 and 103-3: Economic performance | 201-4 |

Inaugurated in December 2018, **EATI** has the mission of driving leading edge technological knowledge to ensure the evolution of the company through the development of strategic new technologies for products, businesses and solutions, with proprietary know-how and appropriate processes and tools to guarantee the perpetuation of the business.

In other words: EATI is the gateway for debating and fermenting new ideas, an incubator for new and/or innovative technological developments and a window for the dissemination and sharing of knowledge and projects.

■ Why was EATI created?

Among other reasons, EATI was created to act as an embassy for Avibras to drive research, development and innovation in products and solutions in the areas of defence, space and public security. It is an environment aimed at partnerships and collaboration with universities, research institutes, government agencies and companies with similar technological bases. As such, it reinforces the “triple helix” concept of joint action involving the company, academia and government.

In EATI, professionals from the company and from diverse institutions and organisations come together to research, test and validate ideas, as well as to develop and drive the maturity of advanced technological knowledge in areas of interest to Avibras. This process results in new products and in innovative, competitive processes for the market.

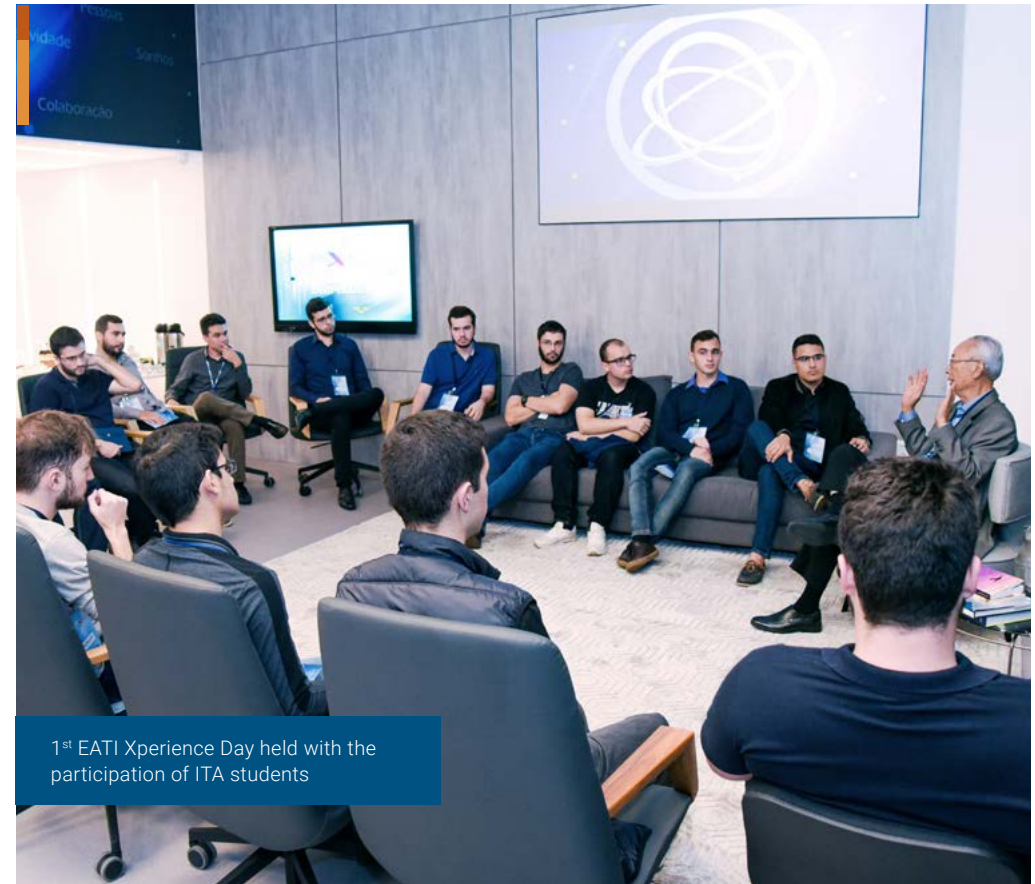
■ Where is EATI located?

The space is located in the PqTEC, in the state of São Paulo.

■ How are ideas circulated and transformed into projects, solutions, initiatives or knowledge?

This drive for technological knowledge occurs mainly through partnerships already established with renowned educational and research institutions in the country.

Among the partnerships and cooperation agreements already in place, worthy of note are the following institutions: Aeronautics Technological Institute (ITA), Federal University of Santa Maria (UFSM), Federal University of Rio Grande do Sul (UFRGS) and the Fundação Casimiro Montenegro Filho (FCMF). Other partnerships are currently being negotiated.



1st EATI Xperience Day held with the participation of ITA students

In addition to fostering technological development and innovation, EATI promotes a permanent forum for presentations and debates on specific subjects, with the participation of renowned researchers and key figures on the national and international scene.

It should also be noted that with the creation of EATI, Avibras intensified its partnerships with the Armed Forces technology centres – the Army Technology Centre (CTEx), the Navy Research Institute (IPqM) and the Aeronautics Aerospace Science and Technology Department, with a view to developing diverse new products and services for national defence.

■ Avibras participates in the Innovation Brazil Leaders Forum

Represented by EATI, Avibras attended the Innovation Brazil Leaders Forum, held from September 15 to 17 in the PqTEC. The objective of the event was to recognise companies and value individuals that deliver results through innovation in products, processes and people.

The company participated in the discussion panel on innovation, in which representatives of companies discussed new trends in technological innovation. Avibras was represented by its Engineering Director, Fernando Ranieri.

EATI also had a stand at the event.



Launch of EATI Xperience Day

| 103-2 and 103-3: Indirect economic impacts | 203-3 |

2019 saw the launch of the EATI Xperience Day, an experience that provides young students from universities all over Brazil with the opportunity to interact with highly regarded professionals, both in Avibras as well as external guests, and to observe the application of technology and innovation in the company's products and solutions. The objective is to promote knowledge.

This vibrant movement will certainly boost the continuous generation of knowledge.

There were two editions of the EATI Xperience Day in the year. These were attended by students from the ITA and the FACENS University Centre in Sorocaba (SP). During the visits, the students also toured the Avibras facility in Jacareí (SP).



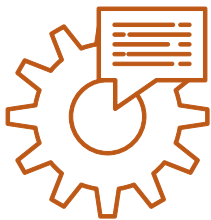
Knowledge Management Project

To stimulate knowledge sharing internally among its teams, the Avibras Engineering area has launched its **Knowledge Management** Project, currently in the pilot phase.

The project has advanced significantly, sharing knowledge related to the diverse technologies applied in the company's product engineering area, in addition to the technical management of company programmes. With this initiative, employees exchange knowledge with a focus on solving problems.

Further knowledge management practices are scheduled for 2020 with a view to sharing and preserving the Avibras knowledge base and extending the project to other areas of the company. Workshops have already been initiated to define technologies in the Industrial, Quality, Technical Support and Supply Chain areas to conduct the first cycle of readiness mapping in these areas. Workshops to apply the lessons learned are scheduled for 2020.

It should be noted that the objective of this project is to perpetuate the knowledge generated or acquired by the company, record the lessons learned and reuse this legacy whenever necessary, for example, in the development of new products.



AVIBRAS CULTURE IN CONSTANT EVOLUTION

The Avibras Culture, underpinned by a series of processes, policies, standards, regulations and guidelines, is a moving organism undergoing constant evolution.

The Avibras way of being is unique and represents the company's culture, which is oriented to putting the company's four priorities -safety and security, quality (focus in 2019), on-time delivery and costs – into practice, in a healthy, collaborative and productive workplace which fosters innovation, based on the principles of ethical and sustainable conduct.

This set of guidelines and orientations differentiates Avibras in the market. It is reflected in the company's products and services and generates positive results for all the organisation's stakeholder groups.



The Avibras por Excelência Programme

The dimensions of the Avibras por Excelência (AVPEX) Programme are essential for the company's development. The programme is continuous and strengthens the company's identity.

Launched in 2017, **AVPEX** is the company's management model. It addresses a set of dimensions and work philosophies that involve aspects such as leadership, people, innovation, value chain, culture and positioning the customer at the centre of the company's actions.

The company culture embraces a focus on the innovation process to generate products and services that will fulfil customers' needs and expectations. AVPEX permeates this entire process, with an approach aimed at driving continuous improvement, a mindset oriented to change and the elimination of wastage.

The programme involves the participation of leaders from all areas and is reinforced by the adoption of the **Kaizen programme**, which concentrates efforts on optimizing processes and opportunities for continuous improvement, focused on the four Avibras priorities: safety and security, quality, on-time delivery and costs.

In existence for two years, the programme has been contributing to the formation of a foundation of excellence. The results are evident in each area, optimising processes and bringing people closer together, in addition to demonstrating that team work is essential for Avibras to achieve its results.

With this management model, the company is consolidating and integrating all its efforts in pursuit of excellence, fully aligned with its corporate identity, its fronts of activity and its strategic planning.



Quality

In its daily routines, Avibras seeks to drive and maintain awareness of the importance of quality, at all levels and in all areas of the company.

2019 was the year of the Priority Quality.

During the year, all quality-related activities in the company were undertaken by a multidisciplinary group known as the Culture Group.

It should be noted that one of the four Avibras priorities has been highlighted each year. In 2019, it was the turn of Quality. And this does not mean that initiatives related to quality came to a close at the end of the year. The drive for awareness is permanent. It does mean that actions were intensified during 2019.

Accordingly, the company organised and held internal and external talks, workshops and training sessions encompassing five work fronts – customer satisfaction, process improvement and innovation, people development, partnerships with external providers and the continuous improvement of the Quality Management System (QMS) –, aligned with Avibras **Quality Policy**.

What may be noted as the main result of this work is employee **engagement and awareness of the importance of quality** at all levels of the company. This is clearly demonstrated by the results of the two internal audits conducted per year, as well as the audits undertaken by certifying bodies.

This led to the conclusion of the first development cycle of the Quality Priority, with work fronts aimed at customer satisfaction, process improvement, innovation, people development, partnerships with external providers and continuous improvement in the QMS.

Other measures worthy of note in 2019 were:



Maintenance of AS9100 and ISO9001 certification and Recertification in AQAP2110

With a significant reduction in non-conformances, demonstrating the robustness of the internal audit process and the commitment of those responsible for the processes. This progress includes the company's preparation for InAvEx1002 Recertification, which should occur in 2020.

The certifications demonstrate the implantation of a robust quality management system focused on fulfilling customers' requirements, thus increasing their satisfaction. In addition to the customers who require these certifications for the company to participate in business processes, they also guarantee fulfilment of customers' specific demands.



Organisation of the first Avibras Quality Week

Aimed at engaging employees in talks, workshops and training courses on the Quality Policy. This took place from December 2 to 6, 2019, with a focus on: Customer Service; Processes; People Development; External Providers; and the QMS.



Developing processes and the organisational dynamics of quality

Reinforcing the focus on customer service.



Some specific necessities were also identified, including:

- The need for greater synergy and integration between the areas responsible for the processes, with the redesign of the QMS modus operandi, increasing understanding of standard-related requirements in the system.
- Improvements in the qualification of suppliers, with the restructuring of the Quality area and the creation of specific supervision for this process.
- Improve even further the quality of the end product, with the creation of a Product

and Process Integrity Programme and a Process Audit System in 2019 to be effectively implanted during the course of 2020.

The process of driving awareness of quality is permanent. Historically, the high levels of quality of Avibras products and services have been essential for the company's reputation and for ensuring customer satisfaction and loyalty. In the markets in which the company operates, the guarantee of product and service quality is essential, constituting a competitive differential that generates new business. Tools such as matrix management and kaizen contribute towards improving the quality of the company's products and services.

Matrix management ensures the deployment of the right person at the right time, in other words, it guarantees the timely allocation of the specific knowledge necessary in determined development or production phases, focusing efforts on the most effective fulfilment of product and service requirements.

Kaizen is more than just a tool, it is a work method based on a philosophy of constant evolution, in which the next level of quality and productivity is sought based on critical analysis of the process involved.

In 2019, the Local Kaizen was launched during the commemorations of the second anniversary

of AVPEX in October. This initiative spurred many employees to identify opportunities for improvements to processes in their areas, resulting in proposals to implement changes focused on the company's four priorities: safety and security, quality, on-time delivery and costs.

A number of opportunities for local kaizens were identified in the most diverse areas, all of them focused on eliminating wastage in the movements of people and materials, organisation of work, ergonomics and others, driving increases in productivity, improvements in quality and cost reductions.

Safety and Security

Safety and security, in all aspects, are **Avibras' first priority**, fundamental for the company's businesses and daily routines.

The company adopts the **precautionary principle** as a model in initiatives associated with occupational health and safety, the environment, products and information.

| 102-11 |



The Safety, Health and Environment (SHE) team is always involved in decisions related to installations (construction and demolition), processes, equipment, raw materials and waste, either through meetings with multidisciplinary teams, audits, inspections or requests for technical support made by the most diverse company areas. On these occasions, both the means of complying with legal and regulatory requirements are defined and opportunities for making the company safer and more sustainable are identified.

The most critical areas from an occupational health and safety standpoint are the active areas, where raw materials and classified products, such as explosives, are manufactured, handled and stored. These areas are insulated against

risks and incorporate passive protection into the construction of buildings, which are located strategically and comprise non-inflammable components and materials.

The company monitors, assesses and develops safety practices and processes on a broad front, encompassing:

Occupational health and safety

In 2019, Avibras launched the **You in Action Programme! – Your Mindset is the Key to Excellence**, which underscores the importance of preventive behaviour in health, safety and the environment at both the individual and the group level, stressing its contribution to people's well-being and the sustainability of the company's business.

The programme incorporates development measures in the areas of Occupational Health, Work Safety and the Environment that benefit the entire work force, driving awareness and encouraging employees to modify their habits and behaviours inside and outside the company.



Occupational health

| 103-2 and 103-3: Occupational health and safety | 403-3 |

In occupational health, the focus is on prevention and monitoring high risk situations.

The Occupational Health area works to promote the health and physical and psychological integrity of employees, with a focus on preventing accidents and occupational diseases.

The area's main activities include: analysis of incidents and work posts, the elaboration and execution of the Occupational Health Control Programme (which, among other measures, includes periodic examinations and changes in function) and support for the Human Resources and Legal areas.

The team comprises doctors and nursing staff, who work in partnership with the Occupational Safety team in the analysis of incidents and work posts, in support of the company's Health Plan, in the input and management of doctors' certificates and in the analysis and development of preventive and protective measures to safeguard the health of employees.

Within the scope of the You in Action Programme! – Your Mindset is the Key to Excellence there is a series of specific measures that are generating positive impacts on people's lifestyles:



Healthy Weight

The goal is to prevent diseases and weight gains for employees with a body mass index of between 35 and 40 (2nd and 3rd degree obesity), as well as encouraging the adoption of healthy eating habits and regular physical exercise.



Controlling Hypertension

This programme is for employees who suffer from alterations in arterial blood pressure. Hypertension is a risk factor for cardiovascular diseases and is responsible for 65% of the deaths of the adult population aged between 30 and 69 years.



Controlling Diabetes

A programme aimed at employees with high blood glucose levels (diabetics and pre-diabetics). This is a chronic disease that can be avoided with the adoption of healthy habits, such as an appropriate diet and regular physical exercise.

Each programme has a target public pre-determined by the Occupational Health area, which is responsible for providing systematised services and support, as well as for monitoring the participants.



Activities of the "Você em Ação" Program, your attitude is the key to excellence



The healthcare programmes encompass consultations and monitoring by the Avibras Healthcare team, as well as monthly meetings at the Occupational Health Centre in each company facility. In these meetings, employees receive instructions, referrals and orientations in accordance with their requirements. The programme also involves examinations and consultations with specialists.

In 2019, the Occupational Health Centre at Installation 2 (Jacareí – SP) was remodelled and expanded to improve services and ensure greater comfort for patients. Each activity undertaken has a dedicated space with specific infrastructure. Rooms for conducting examinations and specific activities were provided, as well as spaces for meetings, training and storing files.

Occupational safety

| 103-2 and 103-3: Occupational health and safety | 403-2 |

In occupational safety, the goal is always to ensure the best and safest workplace conditions. For Avibras, safety “is everyone’s right and everyone’s responsibility.”

In the Safety area, the company underscores the importance of a **preventive mindset**. The company is fully aware of the risk generation capacity related to its principal activity (Defence).

For this reason, safety permeates all activities. The company is in a state of permanent alert, with support from regular safety drills and training, as well as prevention campaigns.

Safety and security practices are planned and discussed on a daily basis and are applied in every aspect and at every level of the company, encompassing people, property and intellectual property. The company has also engaged actively in reducing all types of commuting accidents since its foundation.

Avibras preventive and awareness programmes and initiatives include:

- Defensive driving course
- Sun protector dispensers at specific locations in the facilities
- Internal Accident Prevention Committee (CIPA)
- Occupational Medicine and Safety service – complementing the Environmental Risk Prevention Programme (PPRA)
- Hearing Conservation Programme (PCA)
- Respiratory Protection Programme (PPR)

On a weekly basis, the areas and teams promote a **Weekly Safety Dialogue**, aimed at encouraging employees to adopt preventive behaviour in their daily routines. This has resulted in greater integration and communication between work teams, an important factor of success in ensuring safety.

In 2019, the efforts to drive occupational safety resulted in a significant reduction in the number of accidents as demonstrated below:

BY EMPLOYEE AND GENDER	2019		2018		2017	
	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN
Injury rate (%) ¹	6.75	0	10.72	3.61	13.87	3.16
Occupational disease rate (%)	0	0	0	0	0	0
Total days lost ²	112	0	938	0	966	3
Absenteeism rate (%)	2.41	2.30	1.58	1.80	1.55	1.70
Total fatalities	0	0	0	0	0	0

EMPLOYEES AND THIRD-PARTY WORKERS (BY UNIT)	2019			2018			2017		
	SÃO JOSÉ DOS CAMPOS	JACAREÍ	LORENA	SÃO JOSÉ DOS CAMPOS	JACAREÍ	LORENA	SÃO JOSÉ DOS CAMPOS	JACAREÍ	LORENA
Injury rate (%) ¹	0	6.1	14.77	0	8.81	12.68	0	14.30	16.80
Occupational disease rate (%)	0	0	0	0	0	0	0	0	0
Total days lost ²	0	105	7	0	923	15	0	966	9
Absenteeism rate (%)	0.67	2.44	1.86	0.65	1.70	1.70	0	1.90	0.40
Total fatalities	0	0	0	0	0	0	0	0	0

¹ Injury rate: considering accidents with and without leave. The injury rate does not include first aid attendance. The calculation of the injury rate is aligned with the International Labour Organisation (ILO) formula, that is, the number of accidents per man hours worked x 1,000,000.

² The days lost calculation is based on the calendar days, starting from the day after the accident.

The directives of the You in Action Programme! – Your Mindset is Key for Excellence, launched in 2019, also encompass occupational safety guidance, practices and campaigns.

A practical example of the application of this alignment is the work on road safety awareness in Installation 3 (Lorena – SP). Since the beginning of 2019, guidance has been provided for employees transported by the company buses. The initiative has produced results, with employees ensuring that their colleagues wear their seat belts, in addition to other road safety best practices.

Product safety

| 103-2 and 103-3: Customer health and safety | 416-1 | 416-2 |

In product development, improvement and maintenance processes, Avibras also conducts monitoring and applies safety practices, analysing the overall product life cycle.

With the **QMS**, the company assures **product quality** for its customers by means of internal project, development, manufacturing, integration and maintenance programmes certified in accordance with the AS9100D:2016, ISO 9001:2015 and AQAP-2110D:2016 international standards.

These certifications are guaranteed by:

- First, second and third-party audits of the QMS, processes and products in accordance with specified requirements.
- Internal product approval.
- Certification by external bodies, when applicable.
- Acceptance and technical demonstration of compliance with contractual requirements.

In 2019, there were no cases of non-compliance concerning the health and safety impacts of Avibras products and services.

In the event of any non-conformance, the treatment process in place in the company meets all the QMS certification requirements, focused on driving continuous increases in customer satisfaction levels. The process is based on the Plan, Do, Check, Action (PDCA) continuous improvement methodology which

establishes that coordinated measures in all areas of the company be executed when any non-conformances are identified.

The company's products come with manuals containing information about transportation, use and maintenance throughout their working life, as well as recommendations on periodic inspections, revalidation, refurbishment and disposal, when applicable.

For example, the Artillery Saturation Rocket System for Area Saturation (ASTROS) is accompanied by integrated logistics support that includes an initial batch of replacement parts, a tool kit developed especially for maintenance of the system, operational and maintenance training programmes with special devices to facilitate learning and a set of technical documents consisting of operating and maintenance manuals. The company also sends a team to provide orientation on the customers' premises. The integrated logistics support activities are aimed at ensuring the correct use of the system and the safety of the product, its users and society in general.

2019 saw the establishment of the **Product and Process Integrity Programme** and the launch of the **Product Safety and Integrity Committee**, with the attributions of identifying, assessing and analysing risks related to the company's products, services and processes, as well as monitoring measures to mitigate these risks. It comprises Board members and the managers involved in the company's products, services and processes.

To provide support, on July 24 and 25, 2019, employees from diverse areas participated in the



Product Safety and Integrity Workshop, with the participation of the external specialist Umberto Irgang.

The goal was to initiate the groundwork for the development of the product safety and integrity programme to drive business sustainability for Avibras, with a focus on the customer.

Information security/cybersecurity

Information security is a subject which has come under increasing discussion and debate.

Avibras has sought to address this question with a great deal of care.

In 2019, diverse initiatives were undertaken to reinforce the importance of information security, such as:

■ **Enhancements and updates to information security-related policies, processes, tools, monitoring and services.** The company's Information Security policies have incorporated guidance which has provided employees and the parties involved with greater clarity regarding the handling of information, in particular when it is critical for the business.

■ During the year the company also invested in **ongoing education and awareness of information security** for employees. These measures included talks, campaigns, training courses, the publication of guidance, as well as articles in the internal newsletter "NossaGente", etc. The main purpose was to train people to identify risks and adopt appropriate preventive measures.

Normally attacks are aimed more at people rather than directly at systems and equipment. The best way to deal with this is to provide people with effective guidance in dealing with the techniques of social engineering employed by wrong doers in attempts to obtain information illegally, particularly in the digital world. Another point that needs to be considered and which is not uncommon in companies is internal threats, which may be intentional or accidental.



Information security awareness lecture

The company's measures were extended to the **event management and security incident monitoring system**, which underwent significant improvements. In addition to enabling the minimisation of damage by detecting attacks in their initial phases, this improvement permits the company to maintain high levels of security, identifying and blocking attacks, as well as reducing the risk of revenue loss that a successful attack could cause.

■ Aware of the importance of privacy, in 2019 Avibras initiated a project to **adapt to Brazil's Data Protection Law – LGPD** (Law No.13.709/18). The first phase, concluded last year, consisted of the mapping of personal data, the elaboration of a diagnostic report and the definition of measures to be undertaken in 2020. The second phase is currently in progress and comprises the review of processes and contracts that include the gathering, treatment and maintenance of personal data, with a view to ensuring they are fully compliant with the legislation.

■ Another important initiative is the company's partnership with Brazil's ABIN intelligence agency (Agência Brasileira de Inteligência) in the **Formation of Counter-intelligence Sensors Project**. This is an unprecedented measure in Brazil, which Avibras was selected to pilot due to its maturity and robust practices in protecting sensitive business information. The purpose is to train employees with access to strategic information and who are more exposed to identify attempts at espionage and to adopt measures to prevent information leaks.

■ In 2019, the company trained 40% of its employees in **ethics and compliance**. The remainder of the work force is being trained in the first half of 2020. During the year, tips on compliance were published on a monthly basis for all employees, reinforcing the items addressed in the Code of Ethics. Information security is among the subjects included in the code.

■ In **Avibras' relations with the Brazilian Armed Forces (FAB)**, the company follows the protocols established in the legislation in force where information classified as sensitive is concerned. Avibras is a federal government approved check point for handling classified information in accordance with decree no. 7.845 and related standards. To obtain and maintain this qualification, the company is submitted to a biannual inspection conducted by the Air Force Intelligence Centre (CIAER), which verifies the conditions under which sensitive information is handled and attests to the company's capacity to handle and store classified information.



Cybersecurity in evidence

As a result of the Avibras Culture and to reinforce the company's priority of security, the talk New Technologies, Old Risks was delivered in Installations 2 and 3 in September and October. The company has been paying increasing attention to questions related to cybernetic security.

The talk presented examples of cyber-attacks, addressed the risks presented by new technologies and provided a series of instructions and tips on how to protect personal and company information.

Renoir Reis, an external specialist in this area, reinforced important concepts addressed by the Information Security team during the course of 2019, by means of actions aimed at raising awareness, and underscored the point that both corporate and personal information is valuable and needs to be protected.

PEOPLE MANAGEMENT

Management guidelines

| 103-2 and 103-3: Employment | 102-7 | 102-8 | 401-1 |

In Avibras, people are the drivers of change, they are professionals who believe and who make things happen.

The path to excellence requires continuous transformation which, in turn, imposes innumerable challenges. This is why the team needs to be prepared to address new trends, be it in situations of uncertainty or in evolving environments.

The work done by the company's teams is fundamental in this context. Adding value to the company's products and services, innovating with ideas that are well executed and achieving and/or exceeding targets and results, Avibras employees exercise their creativity and work together as a team.

Valuing and continuously developing Avibras employees is integral to the company's growth strategy, which is driven by excellence with a view to guaranteeing its goals and results.

The company's success depends essentially on its people, whose knowledge, experience and talent contribute to its competitiveness.

Avibras ended 2019 with 1,895 employees.



Number of employees
on January 1, 2019

1,880

Employees on
December 31, 2019

1,895



Avibras **People Management Policy** is aimed at generating value, motivation, professional growth, as well as strengthening the organisational culture. This is why the company invests in training and in ongoing education to develop its human capital.

The Training and Development area conducts an annual diagnosis of managers to map training needs, with a view to identifying gaps in the organisation's competencies for the coming year.

Avibras invests in the continuous development of its leaders, focused on people management and results. This policy is based on the understanding that the company's employees are essential for business growth and development, particularly where innovation and technological excellence are concerned.

EMPLOYEES BY FUNCTIONAL LEVEL	2019		2018		2017	
	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN
Directors	7	1	7	1	6	1
Management	40	0	39	0	40	0
Coordination	28	2	35	4	42	5
Supervision	44	11	35	9	30	7
Engineering/Technical	487	78	480	79	468	71
Operational	744	48	766	43	847	25
Administrative	198	129	192	120	158	120
Apprentices	37	17	40	14	15	7
Interns	11	13	15	1	5	4
Total	1,596	299	1,609	271	1,611	240

EMPLOYEES BY TYPE OF WORK CONTRACT	2019		2018		2017	
	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN
Fixed term*	36	27	112	26	24	17
Permanent	1,560	272	1,497	245	1,587	223
Total	1,596	299	1,609	271	1,611	240

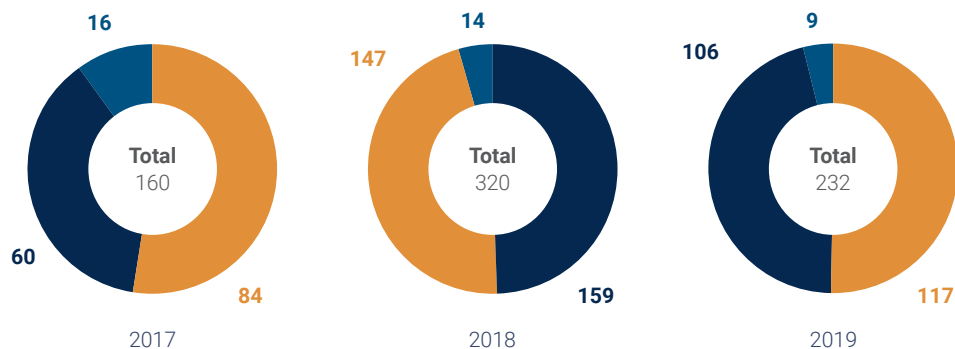
* Employees on fixed term contracts are hired in accordance with the needs of specific projects. At the end of the project, if the employee has demonstrated outstanding performance and if there are vacancies in the company, he/she may be hired on a permanent basis.

EMPLOYEES BY TYPE OF EMPLOYMENT	2019		2018		2017	
	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN
Full-time	1,521	258	1,594	270	1,605	233
Part-time	75	41	15	1	6	7
Total	1,596	299	1,609	271	1,611	240

THIRD-PARTIES	2019	2018	2017
Men	576	634	389
Women	174	125	94
Total	750	759	483

Number of hires by age group

Under 30 years Between 31 and 50 years Over 51 years

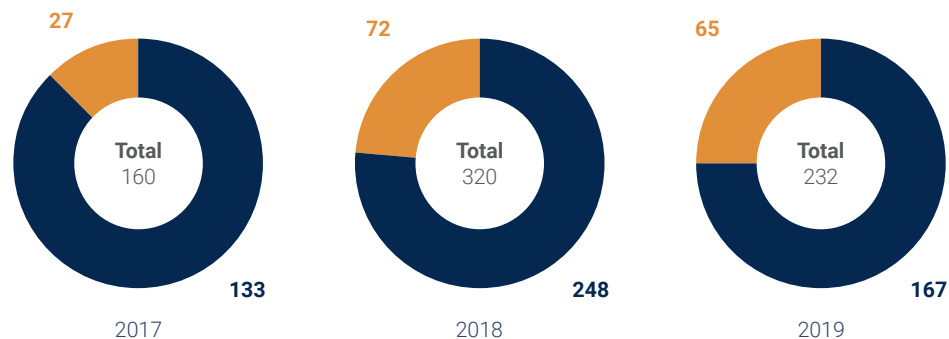


New hires rate by gender

	2019	2018	2017
Under 30 years	6	8	3
Between 31 and 50 years	6	8	5
Over 51 years	0	1	1

New hires rate by gender

Men Women

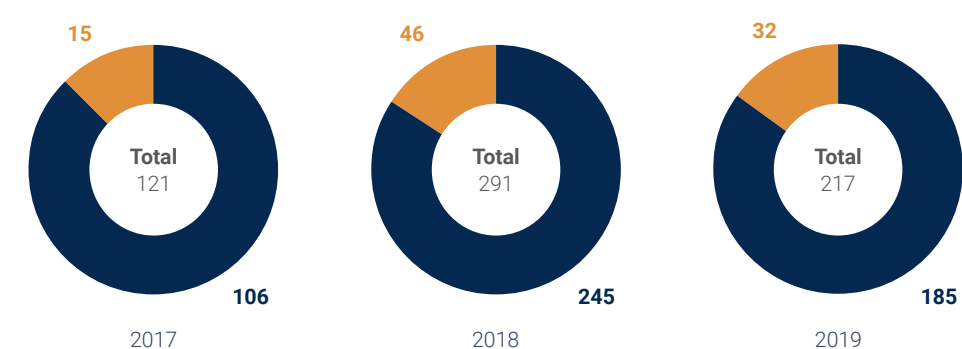


New hires rate by gender (%)

	2019	2018	2017
Men	9	13	7
Women	3	4	1

Number of terminations by gender

Men Women

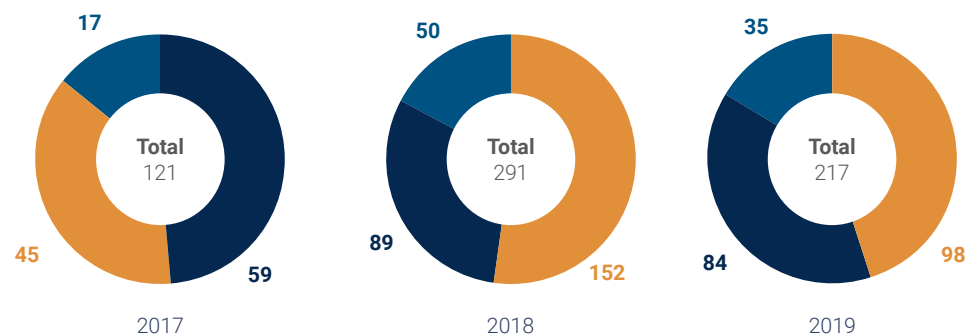


Turnover rate by gender (%)

	2019	2018	2017
Men	10	13	6
Women	2	2	1

Number of terminations by age group

Under 30 years Between 31 and 50 years Over 51 years



Turnover rate by age group (%)

	2019	2018	2017
Under 30 years	4	5	3
Between 31 and 50 years	5	8	2
Over 51 years	2	3	1

Dedicated HR

Avibras has its Dedicated HR area, a model aligned with the company's strategic planning and the action plans of each business.

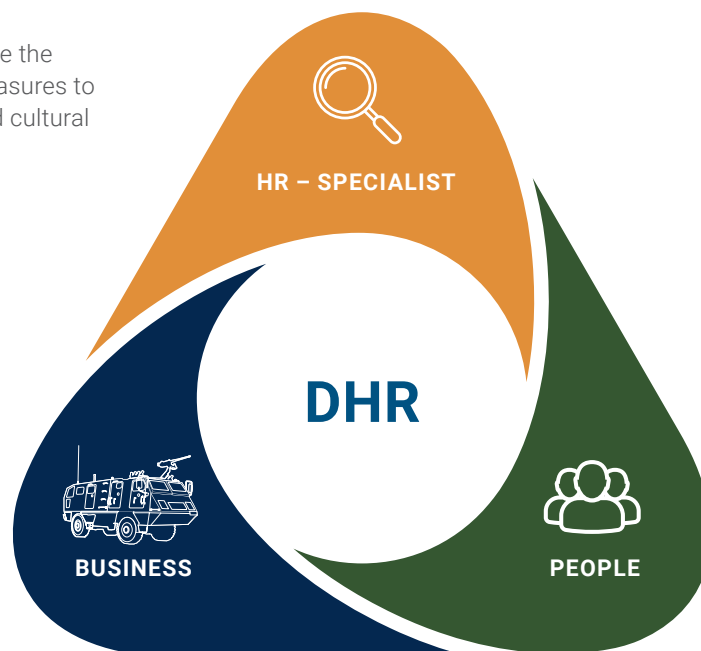
In 2019, the role of Dedicated HR was restructured with the objective of redefining the roles and responsibilities of the Specialist Human Resources and Dedicated HR areas. The new model was implemented in the Engineering and Industrial areas with a view to making Dedicated HR a strategic business partner and providing support for managers by meeting their strategic personnel demands in line with Specialist HR.

Dedicated HR seeks to ensure the deployment of corporate measures to guarantee organisational and cultural

alignment and promote the development of people. Moreover, it is engaged in the diagnosis and identification of strengths, critical points and the actions necessary to leverage business results.

The new Dedicated HR model is scheduled to be extended to the other areas of the company during the course of 2020 and 2021.

The following model illustrates the positioning of Dedicated HR:



HR practices

| 103-2 and 103-3: Employment | 103-2 and 103-3: Market presence | 202-1 | 401-2 | 404-2 |

On a day to day basis, Avibras takes care of its professionals in all the dimensions of their activities as employees.

The **recruitment, selection and talent hiring** process involves publicising job vacancies in internal communication channels and on the company's website. For candidate selection, the People Management area works in partnership with the requesting manager, employing assessment and behavioural techniques to support the selection process.

Before resorting to the market, the company assesses the possibility of **internal recruitment**. The Avibras Internal Recruitment Programme gives employees the opportunity to encounter new challenges within the company.

Employees who are qualified for the position may apply for the selection process and participate in the interview and/or group dynamics phases. All candidates, whether they are selected or not, receive personal feedback from the People Management area, which contributes towards ongoing employee development.

In terms of **remuneration and benefits**, Avibras seeks to remain at par with best market and sector practices.

Avibras conducts regular salary surveys, and the salaries paid by the company are aligned with the market and, in specific cases, exceed it.



VARIATION BETWEEN LOWEST SALARY AND THE MINIMUM SALARY (R\$)	LOWEST SALARY		MINIMUM SALARY		VARIATION (%)	
	2,466.61		1,163.55		112	

VARIATION BETWEEN LOWEST SALARY AND CATEGORY FLOOR (R\$)	2019		2018		2017	
	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN
JACAREÍ UNIT (SP)						
Lowest salary	2,468.40	2,466.61	2,307.80	2,307.80	2,226.88	2,355.35
Category floor ¹	2,466.52	2,466.52	2,307.80	2,307.80	2,226.88	2,226.88
Variation (%)	100	100	100	100	100	106
LORENA UNIT (SP)²						
Lowest salary	2,024.00	2,545.62	1,907.40	N.A.	1,971.20	N.A.
Category floor	1,939.01	1,939.01	1,814.26	N.A.	1,750.54	1,750.54
Variation (%)	104	131	105	N.A.	113	N.A.

1. Determined by federal/state legislation or union agreement.

2. No women were employed at the Lorena unit in previous years.

Worthy of note among employee benefits are:

-  **Medical and dental assistance**
-  **Life insurance**
-  **Company bus**
-  **Complementary private pension plan (in partnership with Brasilprev)**
-  **Restaurant**
-  **Agreements with pharmacies and opticians**
-  **Sports association**
-  **Credit cooperative**

These benefits are offered to all employees.

After specific analysis, 42% of the employees also receive a basic food basket.

In terms of career transition, the company launched the **Life Plan Programme**, aimed at preparing employees for retirement. The objective is to support employees in the transition phase from corporate life and prepare them to make the most of the benefits at this new stage of their life.

Employee development and training

| 103-2 and 103-3: Training and education | 404-1 | 404-2 |

The company shapes its employees' professional growth by means of training and development policies and strategies aligned with business objectives.

In 2019, company leaders were encouraged to develop their teams in line with the **70/20/10 learning model** in the development of each competency: 10% theory, 20% shared knowledge and 70% application of content in practice.

For its employees in general, and in line with best market practices in investment in training and development, **in 2019 Avibras invested over 50,000 hours in employee training**. This involved 8,176 employee participations in training, with a total of 608 groups formed and distributed among the particular functional and mandatory training requirements during the year.

AVERAGE HOURS TRAINING PER EMPLOYEE	2019	2018	2017
BY PROFESSIONAL CATEGORY			
Directors	17.43	11.08	15.43
Management	107.19	43.34	9.10
Coordination	19.14	35.52	8.74
Supervision	89.05	43.69	9.92
Engineering/Technical	25.06	22.04	5.97
Operational	19.38	12.40	16.01
Administrative	27.59	19.15	16.53
Apprentices	600.00	600.00	720.00
Interns	41.76	18.46	26.89
Total	946.60	805.67	830.59
BY GENDER			
Men	39.19	32.01	21.66
Women	64.53	54.31	21.73



Avibras supports ongoing academic education, by means of a postgraduate programme focused on enhancing employee skills for their specific function and/or for future projects. The company also has a language training programme for employees.

Moreover, employees who are on master's or doctoral programmes offered by institutions recognised by the market may attend their course or specific disciplines during working hours once a week.

For **newly hired employees**, the company has the **Avibras Journey Induction Programme: The Path to Success Starts Here**, which was improved in 2019 with a view to reducing the time it takes the new employee to adapt, establishing a connection and relations based on trust with the company. This constitutes a complete and engaging experience for the new members of the Avibras team.

The company **offers young people a chance** to start a professional career by means of its **Industry Apprenticeship Programme**.

This occurs in a partnership between Avibras and SENAI (Serviço Nacional da Indústria), in which young people aged between 14 and 21 years are developed by a combination of theoretical training and practical experience in the company.

The programme was enhanced in 2019. This involved the introduction of workshops to prepare participants for the labour market. The programme has also been transformed into a source for retaining talents. During the course of 2020, quarterly workshops aligned with the company culture will be implemented, representing another means of strengthening the Avibras brand by forging closer relations with these young people and with educational institutions.

During the year, the Avibras **Intern Programme**, aimed at developing students in alignment with the company culture and goals, was improved. The programme is conducted in three stages: attraction, selection and development. The students have the opportunity to experience the day to day routines of a professional by participating actively in the company's processes and projects.

Each intern has a development plan aligned with his/her area of activity. This enables them to develop the key competencies necessary for the career they intend to follow. They also participate in technical and behavioural training programmes and are monitored constantly by the manager responsible and by the People Management

area. In 2019, more than 30 interns benefited from the programme. Of this total, 19% were hired by the company. A new cycle of the Intern Programme is scheduled for 2020, with the inclusion of new subjects in the development schedule.



Leadership Development Programme

| 103-2 and 103-3: Training and education | 404-1 | 404-2 |

The **Leadership Development Programme** is aimed at developing the essential competencies to ensure ethical and inspiring leadership, with a focus on People Management and promoting the Avibras Culture as a means of optimising results. The programme enables discussion of the roles and responsibilities of leaders, promoting the transition in behaviour necessary to drive employee engagement.

The programme was enhanced in 2019. The partnership with the Fundação Dom Cabral (FDC) was formalised during the year. The programme comprises five modules, focused on the following pillars: Culture, People, Processes, Projects and Finance.

A number of complementary modules were also included during the year, such as: Situational Leadership, Results Oriented People Management, Lean Management, Preparing Leaders to Conduct Career Transition, and Labour and Union Relations.

In 2019, 101 leaders received a total of more than 6,500 hours of training. Participant satisfaction with the modules studied was 93%



Length of Service

The **Length of Service** tribute, in addition to **recognising and valuing the longest serving employees** in the company, underscoring attributes such as dedication, partnership and commitment, is aimed at **strengthening the Avibras Culture**. This tribute takes place in a dedicated annual event.

In 2019, the Length of Service event was held on August 15, at the company's Installation 2 (Jacaref). Tribute was paid to **180 employees**, who had **completed 10, 20, 30, 35, 40 and 45 years working with the company** up to July 31, 2019.



"We are commemorating a definitive choice. Our employees seek to grow with the company, learning every day, developing and preparing to make the most of opportunities and to overcome challenges. My congratulations to all of you," said the company CEO João Brasil at the event. He pointed out that Avibras is a company that spans generations, because the work force includes fathers, sons and grandchildren who work together in the company.

Life Plan Programme

[404-2]

In 2019, the company launched the **Life Plan Programme**, aimed at preparing employees for a new stage in life -- retirement. The objective is to support employees in this transition phase from corporate life, preparing them to make the most of the benefits in this new stage of their life.

This initiative is based on the principle that Avibras takes care of its employees from the moment they enter the company, through their professional development up until their retirement, another key phase in people's lives.

The programme is aligned with the Avibras por Excelência Programme (AVPEX). Those eligible to participate in the programme are employees who have already retired or are within three years of retirement. Participation in the programme is optional and voluntary.

It comprises six workshops conducted by specialised consultancies and by Avibras. The subjects covered include: phases of life, vision of retirement, personal and family financial planning, possibilities of applying competencies, transfer of knowledge acquired, understanding Avibras policies and practices, as well as support in developing new life plans.

In addition to the workshops, there are six complementary modules with predefined themes involving the main topics addressed in the Life Plan Programme.

The duration of the programme is nine months. In this first cycle, 150 employees signed up for the program.



Diversity

With the purpose of guaranteeing quality relations based on trust with its employees, Avibras respects and promotes diversity, combating all forms of prejudice and discrimination and valuing complementary ideas and beliefs, as well as different ways of thinking.

It is the company's understanding that all employees should place value on equality and

justice, constituting a safe and dignified work environment, free from any discrimination and harassment.

The company ensures the social inclusion of persons with disabilities and complies with the legal requirements and the development programmes determined for these professionals.

Breakfast with the CEO

The Breakfast with the CEO is organised on a monthly basis. It is attended by 20 employees who have their birthday in the month and who are selected by means of a draw.

This promotes integration among employees, who have the opportunity to talk to the CEO João Brasil and to interact with people from diverse areas.



Special edition of Breakfast with the CEO

On December 5, 2019, there was a slightly different version of the event, **Breakfast with the CEO – AVPEX EDITION**. There was a draw among employees based on their participation in the interactive game organised during the commemoration of the second anniversary of AVPEX in October, 2019.

In this edition, 20 employees had the chance to spend the morning interacting, talking and sharing their experiences in the programme.

The Organisational Development manager, Luiz Gentil, initiated the chat underscoring the importance of AVPEX and how the areas it covers are essential for the company's development. After this, the CEO João Brasil emphasized that the programme is ongoing and is fundamental for the construction of Avibras' identity. "The two years of the AVPEX programme have provided the basis for driving excellence in the company. We are progressing from the initial process to a new one which is going to further improve and facilitate our daily routines in the company, as well as identifying who we are and who we want to be on this journey," he finalised.

During the meeting, participants commented on how evident the results of the programme have been in each area, optimising processes and drawing areas and employees closer together, in addition to demonstrating that team work is essential for the company to reach the results it is targeting.

ENVIRONMENTAL MANAGEMENT

Avibras maintains a permanent focus on environmental questions in the company's industrial and administrative activities.

The organisation has an **Environmental Policy** – currently being improved – which provides guidance on sustainable development related to the environment and compliance with environmental legislation.

In 2019, Avibras implanted its **Cleaner Production** tool, aimed at increasing efficiency in the use of raw materials, in water consumption and in the use of alternative energy sources, driving awareness of the need for sustainability throughout the production chain.

The objective of the Cleaner Production programme is to develop metrics and principles for saving water and energy, as well as reducing waste, in line with the Avibras por Excelência Programme (AVPEX).

Environmental Management System

At Avibras, environmental principles, practices and procedures are supported by the **Environmental Management System (EMS)**.

In the company's routine activities and operations, the EMS supports consistent planning of environmental management, control and preventive measures and risk management, promoting continuous improvement in the company's environmental performance and in sustainable productivity.

The EMS cuts across all company areas and activities and is fully supported by the company's senior management.

Within its installations, the company is intent on complying with all municipal, state and federal standards and regulations. Actions in this area use the ISO 14001:2015 standard as a reference.



Avibras has an **Environmental Engineering** area which acts as a consultant to the other company areas, providing guidance on environmental requirements and monitoring diverse processes and activities, with a view to promoting improvements.

These initiatives include environmental inspections, guidance on the technical requirements for environmental licensing, the monitoring of new legislation and its application, as well as assessing the major impacts in each area of the company in order to adopt measures to reduce them, as well as providing support for awareness campaigns and other measures.

To engage employees, the company organises constant communication and awareness measures via its internal communication channels, as well as promoting events and other activities on environment-related topics on commemorative dates such as: Atlantic Rainforest Day, Environment Week, World Water Day.

Water management

| 103-2 and 103-3: Anticorruption | 303-5 |

Avibras withdraws surface and ground water for consumption at its facilities, because it is not supplied by public utilities. The company generates diverse types of industrial and sanitary effluent, which is treated using physical, chemical and biological processes – the latter in the case of domestic effluent.

Since 2017, the company has had a water recirculation system in place in one of the buildings of the Jacareí plant. It also has a rainwater harvesting system to supply the restrooms at the vehicle plant in the same location.

Other projects are in place or are being studied to recirculate water in production processes.

In 2019, total water consumption decreased slightly compared with the previous year (82,220 m³ against 85,819 m³) due to lower demand in the Surface Treatment sector - KTL.



WATER CONSUMPTION (M³)

2019	Total consumption		
	SÃO JOSÉ DOS CAMPOS	JACAREÍ	LORENA
	6,313	59,984	15,923
2018	4,430	64,627	16,762
2017	5,700	53,597	25,100

The implantation of the water recirculation projects in the building housing the rocket leaching process is still in progress in Jacareí, as are the studies to adopt the same system in the electrophoretic coating area (Avibras Surface Treatment area – KTL).



Energy management

| 103-2 and 103-3: Energy | 302-1 |

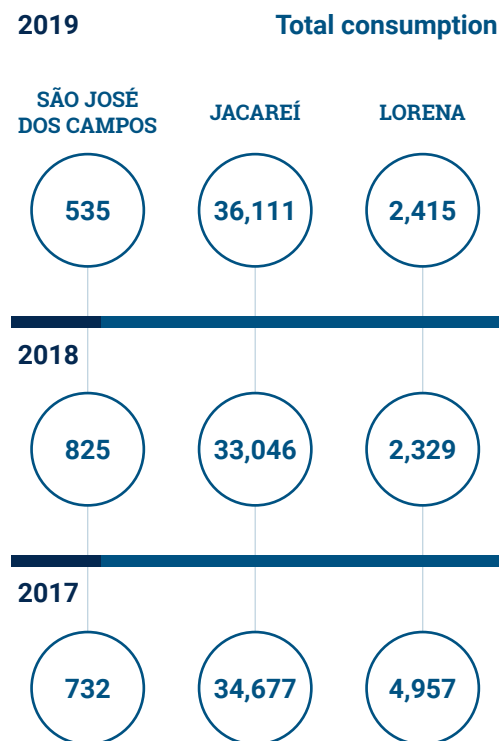
Avibras pays constant attention to energy consumption, continuously pursuing means of using this resource more rationally and efficiently.

Every year the company undertakes measures to modernise equipment, substitute materials and optimise operational and administrative processes, aimed at reducing energy consumption and its environmental impacts.

A recurring problem is energy blackouts at the Jacaré plant, the result of the fragility of the transmission lines serving the plant. To counter this, the company conducted studies of its energy matrix, seeking alternatives to meet the demand and eliminate the risks associated with power outages, for example, with the use of photovoltaic energy.



ENERGY CONSUMPTION (GJ)



Total energy consumption in 2019 was 39,061 GJ, around 8% higher than in 2018 (36,200 GJ).

This increase was due to increase in production compared to the previous year.

Waste management

| 103-2 and 103-3: Effluents and waste | 306-2 |

The Avibras **Total Waste Management Project** establishes procedures to manage the waste produced in the company's installations, ranging from generation to final disposal, fully aligned with environmental legislation requirements.

Waste disposal information is reported to the competent authorities, such as CETESB and the national environmental agency Ibama (Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis). The collection and transportation of all waste material to recycling centres and hazardous waste disposal units is undertaken by a third-party.

In 2019, a total of 212 tons of hazardous waste was collected and correctly disposed of with support from a third-party company. This corresponds to a total reduction of 13.5% compared with 2018.



TOTAL WEIGH TO WASTE GENERATED(T)*

2019			2019		
Hazardous waste (t)			Non-hazardous waste (t)		
SÃO JOSÉ DOS CAMPOS	JACAREÍ	LORENA	SÃO JOSÉ DOS CAMPOS	JACAREÍ	LORENA
212			1,050		
2018			2018		
245			828		
2017			2017		
537			934		

* Refers to all units.

The company has been implanting measures to minimise waste generation and disposal rates. One of these is the provision of guidance for employees on techniques to minimise generation or to reduce the potential for pollution, as a means of decreasing impacts on the environment and on human health.

Under the You in Action! programme, a **selective collection** process already implanted in the vehicle factory at the Jacareí unit was extended to other Avibras units, including the other buildings in Installation 2 (Jacareí), the Avibras Technology and Innovation Space (EATI), located in the São José dos Campos Technological Park (PqTEC), and Installation 3 in Lorena.

The waste bins were installed between September and December 2019. Bins of five different colours are available in accordance with the waste generated in each sector.

Biodiversity

Avibras seeks to respect and conserve the environment in the areas surrounding its manufacturing installations, which house diverse vegetable and animal species and contain springs, streams, rivers and lakes.

The concern is not merely to comply with legislation but to ensure a perfectly harmonious coexistence between the company's industrial activities and the environment. Accordingly, the focus is on eliminating or minimising any operational impact on biodiversity, investing in increasingly effective processes that benefit the environment.

There are extensive green areas inside and close to the company's units. With two facilities located in the Atlantic Rainforest biome, which is home to a large variety of vegetable and animal species, as well as springs and rivers, Avibras protects, reclaims and conserves the areas surrounding its plants. The protection of legal reserve (ARL) and permanent preservation areas (APP) involves investments in effective processes and procedures that benefit the environment.

The Jacaré plant has an area of 2,700 square kilometres bordering the Santa Branca Reservoir. The Lorena facility occupies an area of 9,722 square kilometres, with lakes that contain a wealth of fish species.

Located in rural zones, the Jacaré and Lorena plants are registered in Brazil's Rural Environmental Register (CAR). Their respective legal reserve areas have ecological corridors which ensure greater security for the resident species, enabling them to survive, move around and reproduce in safety. Whenever possible, Avibras promotes the planting of trees in its manufacturing units.

The company also has an area of 17,922 square kilometres of land in Ubatuba on the north coast of São Paulo state, of which 17,610 square kilometres is listed as a permanent preservation area.

Any animals found in the manufacturing areas of the plants are collected by the company's fire brigade and returned to their proper habitat. In 2019, in negotiations with the Jacaré local government, the company studied the creation of a plan to collect, shelter and donate domestic animals.

Employees plant seedlings

On October 10, 2019, eight employees, with 35 years of service with Avibras, planted pink, yellow, white and purple ipê and Brazilwood tree seedlings at Installation 2 (Jacaré). The gesture was a way of recognising the workers' dedication and engagement and underscoring the importance of the employees' contribution to the company's growth, in addition to contributing to reforestation.

Environmental safety

The company has an **Environmental Risk Prevention Programme** to continuously assess the risks the Avibras operations may present to the environment.

Assessments for the licensing of activities and projects take into account all the stages and company areas involved, considering the organisation as a whole.





Fire fighting

The Avibras Fire Brigade is manned by qualified professionals ready to deal with diverse emergency situations. These employees are trained to prevent and combat fires, to provide first aid services and to evacuate the installations in the event of emergencies.

The support of the brigade is important, enabling adequate first responder action when necessary.

Aligned with the AVPEX programme and safety, a company priority, the training of the brigade was reformulated in 2019.

Given by the company's team of firemen, the training addresses techniques that are applicable both inside and outside the company. With both theoretical and practical components, employees participate in practical drills which prepare them to deal with emergency incidents. The number of brigade members depends on the risk involved and the number of employees in each building and on each floor in the company's installations. More than 200 employees at Jacareí and Lorena took the new training course.



OUTLOOK FOR THE FUTURE

Undoubtedly, the world is undergoing a period of uncertainty in 2020. A series of adaptations and adjustments are taking place, even though it is currently impossible to know what the impacts of the COVID-19 pandemic will be on political, economic and social structures in Brazil and the rest of the world.

It is evident that during the course of 2020 the planning of future actions and targets will need to be adjusted in accordance with the general situation at the end of the pandemic.

Irrespective of the pandemic, Avibras' main short and medium-term goals for 2020 and the coming years are listed below:

- Reinforce the company's activities in the Defence sector.
- Expand activities in the Space sector.
- Increase the size of the sales force (both in Brazil and abroad).
- Discover new markets.
- Establish commercial partnerships to generate new market offerings.
- Pursue partnerships for new product development processes.
- Expand the scope of the activities of the Avibras Technology and Innovation Space (EATI).



The EATI question is emblematic. The EATI structure and way of working generate leading edge technological knowledge and foster an environment based on partnership, sharing and collaboration – with companies, government bodies in Brazil and abroad and teaching and research institutions –, resulting in innovative products and services. EATI can make a decisive contribution to ensuring the development of strategic technologies for new products and businesses whatever the future conjuncture, with proprietary know-how and processes and tools that will ensure the perpetuation of Avibras.

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MATERIALITY, CONSULTING, EDITORIAL COORDINATION, DESIGN AND REVISION OF TEXT

TheMediaGroup

PHOTOS

Avibras Archive



