

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

AS OF JUNE 30, 2008

(Unaudited)

(In thousands of U.S. dollars)

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

AS OF JUNE 30, 2008

(Unaudited)

(In thousands of U.S. dollars)

C O N T E N T S

	<u>P a g e</u>
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Balance Sheets	2 - 3
Consolidated Statements of Income	4
Consolidated Statements of Changes in Shareholders' Equity	5 - 6
Consolidated Statements of Cash Flows	7 - 8
Notes to the Consolidated Financial Statements	9 - 11

#

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars (in thousands)

	June 30 2008	December 31, 2007
	(Unaudited)	(Audited)
CURRENT ASSETS:		
Cash and cash equivalents	\$ 395,090	\$ 362,802
Short-term bank deposits	31,411	10,068
Available for sale marketable securities	777	2,830
Trade receivables (net of allowance for doubtful accounts in the amount of \$4,027 and \$3,794 as of June 30, 2008 and December 31, 2007, respectively)	454,865	431,961
Other receivables and prepaid expenses	125,022	123,304
Inventories, net of customer advances	583,544	480,603
Total current assets	<u>1,590,709</u>	<u>1,411,568</u>
LONG-TERM INVESTMENTS AND RECEIVABLES:		
Investments in affiliated companies, partnership and other companies	68,454	66,161
Compensation receivables in respect of fire damages, net	-	15,530
Long-term bank deposits and trade receivables	26,875	20,747
Marketable securities	17,921	20,885
Deferred income taxes	17,864	19,323
Severance pay fund	274,626	238,083
	<u>405,740</u>	<u>380,729</u>
PROPERTY, PLANT AND EQUIPMENT, NET	<u>370,211</u>	<u>350,514</u>
INTANGIBLE ASSETS, NET:		
Goodwill	331,609	331,810
Other intangible assets, net	283,839	300,989
	<u>615,448</u>	<u>632,799</u>
	<u>\$ 2,982,108</u>	<u>\$ 2,775,610</u>

The accompanying notes are an integral part of the consolidated financial statements.

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars (in thousands, except share data)

	June 30 2008	December 31, 2007
	(Unaudited)	(Audited)
CURRENT LIABILITIES:		
Short-term bank credit and loans	\$ 567	\$ 10,418
Current maturities of long-term loans	6,107	18,659
Trade payables	331,850	272,627
Other payables and accrued expenses	506,120	424,783
Customers advances in excess of costs incurred on contracts in progress	471,381	510,562
Total current liabilities	1,316,025	1,237,049
LONG-TERM LIABILITIES:		
Long-term loans, net of current maturities	463,500	431,312
Customers advances	102,022	137,296
Deferred income taxes and tax obligations	87,014	88,473
Pension and termination indemnities	345,245	293,848
Other long-term liabilities	37,170	31,285
	1,034,951	982,214
COMMITMENTS AND CONTINGENT LIABILITIES		
MINORITY INTERESTS	46,769	20,085
SHAREHOLDERS' EQUITY:		
Share capital:		
Ordinary shares of New Israeli Shekels (NIS) 1 par value;		
Authorized – 80,000,000 shares as of June 30, 2008 and December 31, 2007 ;		
Issued 42,485,687 and 42,468,673 shares as of June 30, 2008 and December 31, 2007, respectively;		
Outstanding 42,076,766 and 42,059,752 shares as of June 30, 2008 and December 31, 2007, respectively		
	11,891	11,886
Additional paid-in capital	297,635	294,862
Treasury shares - 408,921 shares as of June 30, 2008 and December 31, 2007, respectively	(4,321)	(4,321)
Accumulated other comprehensive loss	(27,125)	(24,367)
Retained earnings	306,283	258,202
	584,363	536,262
	\$ 2,982,108	\$ 2,775,610

The accompanying notes are an integral part of the consolidated financial statements.

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

U.S. dollars (in thousands, except share and per share data)

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2008	2007	2008	2007	2007
	(Unaudited)		(Unaudited)		(Audited)
Revenues	\$ 1,269,230	\$ 871,758	\$ 653,167	\$ 468,158	\$ 1,981,761
Cost of revenues	903,474	641,266	455,764	341,204	1,454,913
Restructuring expenses	-	10,482	-	10,482	10,482
Gross profit	<u>365,756</u>	<u>220,010</u>	<u>197,403</u>	<u>116,472</u>	<u>516,366</u>
Research and development expenses, net	76,124	53,074	38,089	28,981	126,995
Marketing and selling expenses	103,303	71,577	53,639	39,206	157,411
General and administrative expenses	77,841	44,418	45,692	24,100	107,447
Acquired in-process research and development ("IPR&D")	-	16,560	-	16,560	16,560
	<u>257,268</u>	<u>185,629</u>	<u>137,420</u>	<u>108,847</u>	<u>408,413</u>
Operating income	108,488	34,381	59,983	7,625	107,953
Financial expenses, net	(16,973)	(7,962)	(12,373)	(5,034)	(19,329)
Other income (expenses), net	4,213	95	117	(18)	368
Income before taxes on income	<u>95,728</u>	<u>26,514</u>	<u>47,727</u>	<u>2,573</u>	<u>88,992</u>
Taxes on income	11,684	12,122	3,762	5,389	13,810
	<u>84,044</u>	<u>14,392</u>	<u>43,965</u>	<u>(2,816)</u>	<u>75,182</u>
Equity in net earnings of affiliated companies and partnership	5,946	5,773	3,381	2,373	14,565
Minority interests in earnings of subsidiaries	(26,682)	(1,757)	(16,191)	(248)	(13,038)
Net income	<u>\$ 63,308</u>	<u>\$ 18,408</u>	<u>\$ 31,155</u>	<u>\$ (691)</u>	<u>\$ 76,709</u>
Earnings per share					
Basic net earnings (loss) per share	<u>\$ 1.50</u>	<u>\$ 0.44</u>	<u>\$ 0.74</u>	<u>\$ (0.02)</u>	<u>\$ 1.82</u>
Diluted net earnings (loss) per share	<u>\$ 1.48</u>	<u>\$ 0.43</u>	<u>\$ 0.73</u>	<u>\$ (0.02)</u>	<u>\$ 1.81</u>
Number of shares used in computation of basic net earnings per share	<u>42,071</u>	<u>42,029</u>	<u>42,074</u>	<u>42,034</u>	<u>42,041</u>
Number of shares used in computation of diluted net earnings per share	<u>42,872</u>	<u>42,402</u>	<u>42,868</u>	<u>42,629</u>	<u>42,342</u>

The accompanying notes are an integral part of the consolidated financial statements.

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars (in thousands, except share and share data)

	Number of outstanding shares	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Treasury shares	Total shareholders' equity	Total comprehensive income
Balance as of January 1, 2007	42,016,674	\$ 11,876	\$ 289,026	\$ (16,746)	\$ 213,749	\$ (4,321)	\$ 493,584	
Cumulative impact of change in accounting for uncertainties in income taxes (FIN 48)	-	-	-	-	(4,846)	-	(4,846)	
Exercise of options	43,078	10	417	-	-	-	427	
Tax benefit in respect of options exercised	-	-	46	-	-	-	46	
Stock based compensation	-	-	4,778	-	-	-	4,778	
Gain resulting from affiliated company's IPO	-	-	595	-	-	-	595	
Dividends paid	-	-	-	-	(27,410)	-	(27,410)	
Other comprehensive income, net of tax:								
Unrealized loss on derivative instruments	-	-	-	(9,562)	-	-	(9,562)	\$ (9,562)
Foreign currency translation differences	-	-	-	605	-	-	605	605
Unrealized pension income	-	-	-	2,037	-	-	2,037	2,037
Unrealized loss on available for sale marketable securities	-	-	-	(701)	-	-	(701)	(701)
Net income	-	-	-	-	76,709	-	76,709	76,709
Total comprehensive income								<u>\$ 69,088</u>
Balance as of December 31, 2007	42,059,752	11,886	294,862	(24,367)	258,202	(4,321)	536,262	
Exercise of options	17,014	5	204	-	-	-	209	
Stock based compensation	-	-	2,569	-	-	-	2,569	
Dividends paid	-	-	-	-	(15,227)	-	(15,227)	
Other comprehensive income (loss), net of tax:								
Unrealized loss on derivative instruments	-	-	-	(4,704)	-	-	(4,704)	\$ (4,704)
Foreign currency translation differences	-	-	-	1,175	-	-	1,175	1,175
Unrealized pension income	-	-	-	933	-	-	933	933
Unrealized loss on available for sale marketable securities	-	-	-	(162)	-	-	(162)	(162)
Net income	-	-	-	-	63,308	-	63,308	63,308
Total comprehensive income								<u>\$ 60,550</u>
Balance as of June 30, 2008 (Unaudited)	<u>42,076,766</u>	<u>\$ 11,891</u>	<u>\$ 297,635</u>	<u>\$ (27,125)</u>	<u>\$ 306,283</u>	<u>\$ (4,321)</u>	<u>\$ 584,363</u>	

The accompanying notes are an integral part of the consolidated financial statements.

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars (in thousands, except share and share data)

	<u>Number of outstanding shares</u>	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Accumulated Other Comprehensive loss</u>	<u>Retained earnings</u>	<u>Treasury shares</u>	<u>Total shareholders' equity</u>	<u>Total comprehensive income (loss)</u>
Balance as of April 1, 2007 (Unaudited)	42,027,211	\$ 11,878	\$ 290,206	\$ (17,704)	\$ 221,264	\$ (4,321)	\$ 501,323	
Exercise of options	14,878	4	121	-	-	-	125	
Tax benefit in respect of options exercised	-	-	37	-	-	-	37	
Stock based compensation	-	-	1,168	-	-	-	1,168	
Dividends paid	-	-	-	-	(6,314)	-	(6,314)	
Other comprehensive income (loss), net of tax:								
Unrealized loss on derivative instruments	-	-	-	(1,164)	-	-	(1,164)	\$ (1,164)
Foreign currency translation differences	-	-	-	1,117	-	-	1,117	1,117
Unrealized pension income	-	-	-	1,163	-	-	1,163	1,163
Unrealized gain on available for sale marketable securities	-	-	-	426	-	-	426	426
Net loss	-	-	-	-	(691)	-	(691)	(691)
Total comprehensive income								<u>\$ 851</u>
Balance as of June 30, 2007 (Unaudited)	<u>42,042,089</u>	<u>\$ 11,882</u>	<u>\$ 291,532</u>	<u>\$ (16,162)</u>	<u>\$ 214,259</u>	<u>\$ (4,321)</u>	<u>\$ 497,190</u>	
Balance as of April 1, 2008 (Unaudited)	42,071,973	\$ 11,889	\$ 296,274	\$ (28,341)	\$ 282,784	\$ (4,321)	\$ 558,285	
Exercise of options	4,793	2	42	-	-	-	44	
Stock based compensation	-	-	1,319	-	-	-	1,319	
Dividends paid	-	-	-	-	(7,656)	-	(7,656)	
Other comprehensive income (loss):								
Unrealized gains on derivative instruments	-	-	-	422	-	-	422	\$ 422
Foreign currency translation differences	-	-	-	639	-	-	639	639
Unrealized pension income	-	-	-	(244)	-	-	(244)	(244)
Unrealized gain on available for sale marketable securities	-	-	-	399	-	-	399	399
Net income	-	-	-	-	31,155	-	31,155	31,155
Total comprehensive income								<u>\$ 32,371</u>
Balance as of June 30, 2008 (Unaudited)	<u>42,076,766</u>	<u>\$ 11,891</u>	<u>\$ 297,635</u>	<u>\$ (27,125)</u>	<u>\$ 306,283</u>	<u>\$ (4,321)</u>	<u>\$ 584,363</u>	

The accompanying notes are an integral part of the consolidated financial statements.

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars (in thousands)

	Six months ended		Year ended
	June 30,		December 31,
	2008	2007	2007
	(Unaudited)		(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 63,308	\$ 18,408	\$ 76,709
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	61,262	38,470	99,414
Acquired IPR&D	-	16,560	16,560
Marketable securities fair value adjustment	2,964	-	10,027
Stock based compensation	2,569	2,161	4,778
Deferred income taxes	(4,293)	(24,075)	(30,955)
Accrued severance pay, net	15,787	(1,300)	(3,171)
Gain on sale of property and equipment	1,165	(499)	(1,120)
Minority interests in earnings of subsidiaries	26,682	1,757	13,038
Equity in net losses (earnings) of affiliated companies and partnership, net of dividend received (*)	1,001	3,040	(2,182)
Changes in operating assets and liabilities:			
Decrease (increase) in short and long-term receivables and prepaid expenses	(2,781)	15,585	(68,129)
Increase in inventories	(137,052)	(46,368)	(124,381)
Increase in trade payables, other payables and accrued expenses	139,474	44,070	151,283
Increase (decrease) in advances received from customers	(40,273)	61,868	120,814
Other adjustments	(5)	-	2
Net cash provided by operating activities	<u>129,808</u>	<u>129,677</u>	<u>262,687</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(64,923)	(44,742)	(106,269)
Acquisition of a subsidiary (Schedule A)	(2,685)	(322,765)	(353,175)
Investments in affiliated companies	(602)	(293)	(916)
Proceeds from sale of property, plant and equipment	3,252	2,883	4,364
Proceeds from sale of investment	-	-	1,431
Investment in long-term bank deposits	(9,550)	(270)	(12,216)
Proceeds from sale of long-term bank deposits	2,261	1,983	8,839
Short-term bank deposits, net	(19,452)	(5,756)	193,263
Net cash used in investing activities	<u>(91,699)</u>	<u>(368,960)</u>	<u>(264,679)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of options	209	287	427
Repayment of long-term bank loans	(63,969)	(118,183)	(150,310)
Receipt of long-term bank loans	83,561	403,778	464,878
Dividends paid	(15,226)	(13,052)	(27,410)
Tax benefit in respect of options exercised	-	64	46
Change in short-term bank credit and loans, net	(10,396)	(5,977)	(7,401)
Net cash provided by (used in) financing activities	<u>(5,821)</u>	<u>266,917</u>	<u>280,230</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	32,288	27,634	278,238
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>362,802</u>	<u>84,564</u>	<u>84,564</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 395,090</u>	<u>\$ 112,198</u>	<u>\$ 362,802</u>
* Dividend received	<u>\$ 6,947</u>	<u>\$ 8,556</u>	<u>\$ 12,383</u>

The accompanying notes are an integral part of the consolidated financial statements.

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars (in thousands)

Six months ended	Year ended
June 30,	December 31,
2008	2007
(Unaudited)	(Audited)

SUPPLEMENTARY CASH FLOW ACTIVITIES:

Cash paid during the period for:

Income taxes	<u>\$ 16,621</u>	<u>\$ 6,791</u>	<u>\$ 23,282</u>
Interest	<u>\$ 14,591</u>	<u>\$ 6,218</u>	<u>\$ 20,949</u>

SCHEDULE A:

Acquisitions of subsidiaries (*)

Estimated net fair value of assets acquired and liabilities

Working capital, net (excluding cash and cash equivalents)	\$ (363)	\$ 36,085	\$ 40,540
Property, plant and equipment	83	17,954	25,175
Other long-term assets	-	63,063	63,063
Goodwill and other intangible assets	3,013	507,243	530,536
IPR&D	-	16,560	16,560
Deferred income taxes	-	(67,360)	(71,919)
Long-term liabilities	(48)	(76,910)	(76,910)
Equity investment in Tadiran	-	(173,870)	(173,870)
	<u>\$ 2,685</u>	<u>\$ 322,765</u>	<u>\$ 353,175</u>

- (*) In 2007, the shares of Tadiran Communications Ltd. ("Tadiran") and Ferranti Technologies Group Ltd.
 In 2008, the shares of Bar-Kal Systems Engineering Ltd. and Electro Optic Research and Development Company Ltd.

The accompanying notes are an integral part of the consolidated financial statements.

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

U. S. dollars (In thousands)

Note 1 - GENERAL

The accompanying financial statements have been prepared in a condensed format as of June 30, 2008, and for the three and six months then ended in accordance with United States generally accepted accounting principles ("U.S. GAAP") relating to the preparation of financial statements for interim periods. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP but which are not required for interim reporting purposes, have been condensed or omitted.

These statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of December 31, 2007.

The interim financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation. All such adjustments were of a normal recurring nature. Reclassifications have been made to comparative data in the balance sheet as of December 31, 2007 in order to conform to the current year's presentation.

Operating results for the six and three months ended June 30, 2008, are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

Note 2 - SIGNIFICANT ACCOUNTING POLICIES

- A. The significant accounting policies followed in the preparation of these statements are identical to those applied in preparation of the latest annual financial statements.

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 is an amendment of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). To address concerns that the existing disclosure requirements of SFAS 133 do not provide adequate information, SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS 161 will be effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the future impacts and disclosures resulting from SFAS 161.

- B. The accompanying financial statements have been prepared in U.S. dollars since the functional currency of the primary economic environment in which the operations of the Company are conducted is the U.S. dollar.

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

U. S. dollars (In thousands)

Note 3 - INVENTORIES, NET OF ADVANCES

	June 30, 2008	December 31, 2007
	(Unaudited)	(Audited)
Cost of long-term contracts in progress	\$ 643,095	\$ 508,273
Raw materials	142,575	123,466
Advances to suppliers and subcontractors	56,664	65,597
Less -	842,334	697,336
Cost incurred on contracts in progress deducted from customer advances	105,464	69,199
Advances received from customers	129,094	131,177
Provision for losses	24,232	16,357
	\$ 583,544	\$ 480,603

Note 4 – FAIR VALUE MEASUREMENTS

In the first quarter of 2008, the Company adopted Statement of Financial Accounting Standards (FAS) 157, *Fair Value Measurements*, which defines fair value, establishes a market based framework or hierarchy for measuring fair value and expands disclosures about fair value measurements. FAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value, but does not require any new fair value measurements. The FAS 157 requirements for certain non-financial assets and liabilities have been deferred until the first quarter of 2009 in accordance with Financial Accounting Standards Board (FASB) Staff Position (FSP) 157-2. The adoption of FAS 157 did not have a material impact on our results of operations, financial position or cash flows.

The fair value hierarchy established in FAS 157 prioritizes the inputs used in valuation techniques into three levels as follows:

- A. Level 1 – Observable inputs – quoted prices in active markets for identical assets and liabilities;
- B. Level 2 – Observable inputs other than the quoted prices in active markets for identical assets and liabilities – includes quoted prices for similar instruments, quoted prices for identical or similar instruments in inactive markets, and amounts derived from valuation models where all significant inputs are observable in active markets; and
- C. Level 3 – Unobservable inputs – includes amounts derived from valuation models where one or more significant inputs are unobservable and are required in order to develop relevant assumptions.

The amount of assets and liabilities subject to the provision of SFAS 157 at June 30, 2008, includes mainly \$17,921 of marketable securities and liabilities related to derivative financial instruments of \$19,838. The Company determined the fair values of the marketable securities using Level 3 methodology. Changes in the fair value of those securities during the period were recorded as follows: unrealized gains of \$456 considered to be temporary were reflected in other comprehensive income, and unrealized losses of \$3,433 that are considered to be other-than-temporary were charged to statement of income as finance expenses. The fair value of the derivative financial instruments was determined using Level 2 methodology.

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

U. S. dollars (In thousands)

Note 5 – COMMITMENTS AND CONTINGENT LIABILITIES

- A. On July 2, 2008, The Company announced that on June 30, 2008, the court issued a series of orders relating to a trial in Memphis, Tennessee, against several defendants, including Kollsman, Inc. (“Kollsman”), a wholly-owned U.S. subsidiary of the Company. This is further to the Company's announcement on November 7, 2007 and information contained in the Company's Annual Report on Form 20-F filed on May 28, 2008 regarding a claim brought by the plaintiff Innovative Solutions and Support, Inc. The rulings reflect an award to the plaintiff against Kollsman for direct and exemplary damages, interest and costs totaling approximately \$23.2 million. A final judgment to be entered by the court will contain the actual judgment amounts. Kollsman strongly believes that these rulings are neither supported by the evidence on the record nor by the applicable law and intends to evaluate the options available to vigorously defend itself, including filing an appeal upon the entry of a final judgment in the case. The impact of the ruling was included in the Company's second quarter 2008 results in a net after tax expenses of approximately \$10 million, taking into account reserves previously recorded.
- B. On July 24, 2008, the Company announced, further to the Company's announcement on July 4, 2007, that on July 22, 2008 the United States District Court for the Southern District of New York issued an order dismissing, on grounds of forum non conveniens, the claim filed last year by certain minority shareholders of ImageSat International N.V. (“ImageSat”). The Company, through one of its subsidiaries, holds a minority position in ImageSat. The claim had been filed against certain of ImageSat's shareholders including the Company and against certain current and former officers and directors of ImageSat, including among others Michael Federmann, Joseph Ackerman and Joseph Gaspar, the Company's Chairman, Chief Executive Officer and Chief Financial Officer, respectively. On July 28, 2008, the plaintiffs filed an appeal of the court's dismissal order with the U.S. Federal Court of Appeals for the Second Circuit. On August 6, 2008, another minority shareholder of ImageSat filed a similar claim in the New York District Court.

#####