

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

AS OF MARCH 31, 2008

(Unaudited)

(In thousands of U.S. dollars)

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

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ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U. S. dollars (In thousands)

	March 31 2008	December 31, 2007
	(Unaudited)	(Audited)
CURRENT ASSETS:		
Cash and cash equivalents	\$ 325,103	\$ 363,887
Short-term bank deposits	32,164	10,068
Available for sale marketable securities	756	2,830
Trade receivables (net of allowance for doubtful accounts in the amount of \$3,956 and \$3,794 as of March 31, 2008 and December 31, 2007, respectively)	444,576	439,370
Other receivables and prepaid expenses	153,487	127,333
Inventories, net of customer advances	519,531	480,603
Total current assets	<u>1,475,617</u>	<u>1,424,091</u>
LONG-TERM INVESTMENTS AND RECEIVABLES:		
Investments in affiliated companies, partnership and other companies	66,270	66,161
Compensation receivables in respect of fire damages, net	-	15,530
Long-term bank deposits and trade receivables	19,315	13,338
Marketable securities	19,098	20,885
Deferred income taxes	15,554	22,155
Severance pay fund	254,466	238,083
	<u>374,703</u>	<u>376,152</u>
PROPERTY, PLANT AND EQUIPMENT, NET	<u>359,741</u>	<u>350,514</u>
INTANGIBLE ASSETS, NET:		
Goodwill	331,810	331,810
Other intangible assets, net	289,272	298,925
	<u>621,082</u>	<u>630,735</u>
	<u>\$ 2,831,143</u>	<u>\$ 2,781,492</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)

	March 31 2008	December 31, 2007
	(Unaudited)	(Audited)
CURRENT LIABILITIES:		
Short-term bank credit and loans	\$ 2,302	\$ 10,418
Current maturities of long-term loans	13,046	18,659
Dividend payable	7,571	-
Trade payables	290,637	273,010
Other payables and accrued expenses	512,424	455,296
Customers advances in excess of costs incurred on contracts in progress	495,468	510,562
Total current liabilities	1,321,448	1,267,945
LONG-TERM LIABILITIES:		
Long-term loans, net of current maturities	397,679	431,312
Customers advances	111,318	137,296
Deferred income taxes and tax obligations	87,165	92,193
Pension and termination indemnities	320,036	293,848
Other long-term liabilities	4,636	2,551
	920,834	957,200
COMMITMENTS AND CONTINGENT LIABILITIES		
MINORITY INTERESTS	30,576	20,085
SHAREHOLDERS' EQUITY:		
Share capital:		
Ordinary shares of New Israeli Shekels (NIS) 1 par value;		
Authorized – 80,000,000 shares as of March 31, 2008 and December 31, 2007 ;		
Issued 42,480,894 and 42,468,673 shares as of March 31, 2008 and December 31, 2007, respectively;		
Outstanding 42,071,973 and 42,059,752 shares as of March 31, 2008 and December 31, 2007, respectively		
	11,889	11,886
Additional paid-in capital	296,274	294,862
Treasury shares - 408,921 shares as of March 31, 2008 and December 31, 2007, respectively	(4,321)	(4,321)
Accumulated other comprehensive loss	(28,341)	(24,367)
Retained earnings	282,784	258,202
	558,285	536,262
	\$ 2,831,143	\$ 2,781,492

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)

	Three months ended		Year ended
	March 31,		December 31,
	2008	2007	2007
	(Unaudited)		(Audited)
Revenues	\$ 616,063	\$ 403,600	\$ 1,981,761
Cost of revenues	447,710	300,062	1,454,913
Restructuring expenses	-	-	10,482
Gross profit	<u>168,353</u>	<u>103,538</u>	<u>516,366</u>
Research and development expenses, net	38,035	24,093	126,995
Marketing and selling expenses	49,664	32,371	157,411
General and administrative expenses	32,149	20,318	107,447
Acquired in-process research and development ("IPR&D")	-	-	16,560
	<u>119,848</u>	<u>76,782</u>	<u>408,413</u>
Operating income	48,505	26,756	107,953
Financial expenses, net	(4,600)	(2,928)	(19,329)
Other income, net	4,096	113	368
Income before taxes on income	<u>48,001</u>	<u>23,941</u>	<u>88,992</u>
Taxes on income	7,922	6,733	13,810
	<u>40,079</u>	<u>17,208</u>	<u>75,182</u>
Equity in net earnings of affiliated companies and partnership	2,565	3,400	14,565
Minority interests in earnings of subsidiaries	(10,491)	(1,509)	(13,038)
Net income	<u>\$ 32,153</u>	<u>\$ 19,099</u>	<u>\$ 76,709</u>
Earnings per share			
Basic net earnings per share	<u>\$ 0.76</u>	<u>\$ 0.45</u>	<u>\$ 1.82</u>
Diluted net earnings per share	<u>\$ 0.75</u>	<u>\$ 0.45</u>	<u>\$ 1.81</u>
Number of shares used in computation of basic net earnings per share	<u>42,067</u>	<u>42,023</u>	<u>42,041</u>
Number of shares used in computation of diluted net earnings per share	<u>42,876</u>	<u>42,175</u>	<u>42,342</u>

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ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U. S. dollars (In thousands, except share and per 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 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	12,221	3	162	-	-	-	165	
Stock based compensation	-	-	1,250	-	-	-	1,250	
Dividends declared	-	-	-	-	(7,571)	-	(7,571)	
Other comprehensive income (loss), net of tax:								
Unrealized losses on derivative instruments	-	-	-	(5,126)	-	-	(5,126)	\$ (5,126)
Foreign currency translation differences	-	-	-	536	-	-	536	536
Unrealized pension income	-	-	-	1,177	-	-	1,177	1,177
Unrealized loss on available for sale securities	-	-	-	(561)	-	-	(561)	(561)
Net income	-	-	-	-	32,153	-	32,153	32,153
Total comprehensive income								<u>\$ 28,179</u>
Balance as of March 31, 2008 (Unaudited)	<u>42,071,973</u>	<u>\$ 11,889</u>	<u>\$ 296,274</u>	<u>\$ (28,341)</u>	<u>\$ 282,784</u>	<u>\$ (4,321)</u>	<u>\$ 558,285</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)

	Three months ended March 31,		Year ended December 31,
	2008	2007	2007
	(Unaudited)		(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 32,153	\$ 19,099	\$ 76,709
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	30,645	15,373	99,414
Acquired IPR&D	-	-	16,560
Marketable securities fair value adjustment	1,787	-	10,027
Stock based compensation	1,250	993	4,778
Deferred income taxes and reserve	(3,351)	(8,286)	(15,141)
Accrued severance pay, net	10,982	280	(3,171)
Gain on sale of property, plant, equipment and investment	(120)	(433)	(1,120)
Minority interests in earnings of subsidiaries	10,491	1,509	13,038
Equity in net losses (earnings) of affiliated companies and partnership, net of dividend received (*)	1,120	4,156	(2,182)
Changes in operating assets and liabilities:			
Increase (decrease) in short and long-term trade receivables, and prepaid expenses	(10,922)	42,695	(69,087)
Increase in inventories, net	(50,882)	(32,992)	(124,381)
Increase in trade payables, other payables and accrued expenses	71,172	23,434	135,448
Increase (decrease) in advances received from customers	(29,118)	20,993	120,814
Other	-	-	2
Net cash provided by operating activities	<u>65,207</u>	<u>86,821</u>	<u>261,708</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(33,618)	(14,033)	(104,205)
Acquisitions of subsidiaries and a business (Schedule A)	-	-	(353,175)
Investments in affiliated companies and other companies	(150)	(158)	(916)
Proceeds from sale of property, plant and equipment	3,518	1,970	4,364
Proceeds from sale of investment	-	-	1,431
Investment in long-term bank deposits	(7,088)	(170)	(12,216)
Proceeds from sale of long-term bank deposits	1,127	180	8,839
Short-term deposits, net	(20,583)	(303)	193,263
Net cash used in investing activities	<u>(56,794)</u>	<u>(12,514)</u>	<u>(262,615)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of options	165	162	427
Repayment of long-term bank loans	(52,023)	(26,096)	(150,310)
Receipt of long-term bank loans	12,777	32,371	464,878
Dividends paid	-	-	(27,410)
Tax benefit in respect of options exercised	-	27	46
Change in short-term bank credit and loans, net	(8,116)	(10,630)	(7,401)
Net cash provided by (used in) financing activities	<u>(47,197)</u>	<u>(4,166)</u>	<u>280,230</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(38,784)	70,141	279,323
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	363,887	84,564	84,564
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 325,103</u>	<u>\$ 154,705</u>	<u>\$ 363,887</u>
(*) Dividend received	<u>\$ 3,685</u>	<u>\$ 7,556</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 FLOW

U. S. dollars (In thousands)

	Three months ended		Year ended
	March 31,		December 31,
	2008	2007	2007
	(Unaudited)		(Audited)
SUPPLEMENTARY CASH FLOW ACTIVITIES:			
Cash paid (received) during the period for:			
Income taxes	\$ 3,997	\$ (641)	\$ 23,282
Interest	\$ 7,798	\$ 3,062	\$ 20,949
SCHEDULE A:			
Acquisitions of subsidiaries and a business (*)			
Estimated net fair value of assets acquired and liabilities			
Working capital, net (excluding cash and cash equivalents)	-	-	\$ 40,540
Property, plant and equipment	-	-	25,175
Other long-term assets	-	-	63,063
Goodwill and other intangible assets	-	-	530,536
IPR&D	-	-	16,560
Deferred income taxes	-	-	(71,919)
Long-term liabilities	-	-	(76,910)
Equity investment in Tadiran	-	-	(173,870)
	-	-	\$ 353,175

(*) In 2007, the shares of Tadiran Communications Ltd. and Ferranti Technologies Group 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 March 31, 2008, and for the three 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 three months ended March 31, 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 (which includes Elbit Systems Ltd. and its subsidiaries) 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

	<u>March 31,</u> <u>2008</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2007</u> <u>(Audited)</u>
Cost of long-term contracts in progress	\$ 567,169	\$ 508,273
Raw materials	129,484	123,466
Advances to suppliers and subcontractors	58,096	65,597
Less -	754,749	697,336
Cost incurred on contracts in progress deducted from customer advances	62,010	69,199
Advances received from customers	150,320	131,177
Provision for losses	22,888	16,357
	<u>\$ 519,531</u>	<u>\$ 480,603</u>

Note 4 – FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company implemented Statement of Financial Accounting Standard No. 157, Fair Value Measurement, or SFAS 157, for the Company's financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually. In accordance with the provisions of FSP No. FAS 157-2, Effective Date of FASB Statement No. 157, the Company elected to defer until January 1, 2009 implementation of SFAS 157 as it relates to our non-financial assets and non-financial liabilities that are recognized and disclosed at fair value in the financial statements on a non-recurring basis. We are evaluating the impact, if any, this Standard will have on our non-financial assets and liabilities.

The adoption of SFAS 157 to the Company's financial assets and liabilities and non-financial assets and liabilities that are remeasured and reported at fair value at least annually did not have an impact on our financial results.

The following table presents information about our assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2008, and indicates the fair value hierarchy of the valuation techniques we utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability:

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

U. S. dollars (In thousands)

Note 4 – FAIR VALUE MEASUREMENTS (Cont.)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at March 31, 2008
Auction rate securities	\$ -	\$ -	\$ 19,098	\$ 19,098
Available-for-sale marketable securities	756	-	-	756
Derivative instruments, net	-	(19,586)	-	(19,586)
	<u>\$ 756</u>	<u>\$ (19,586)</u>	<u>\$ 19,098</u>	<u>\$ (268)</u>

The following table is a roll forward of the fair value of the Company's marketable securities, whose fair value is determining by Level 3 inputs:

	Balance at December 31, 2007	Total Realized and Unrealized Gains	Balance at March 31, 2008
Auction rate securities	<u>\$ 20,885</u>	<u>\$ (1,787)</u>	<u>\$ 19,098</u>

For marketable securities not actively traded, fair values are estimated using values obtained from the Company's asset managers. To estimate the value of these investments the asset managers employ various models that take into consideration such factors, among others, as the credit rating of the issuer, effective maturity of the security, yields on comparably rated publicly traded securities, availability of insurance and risk-free yield curves.

Note 5 – FIRE DAMAGE CLAIM

On March 19, 2008, the Company announced that on March 17, 2008 the District Court of Tel-Aviv approved a Settlement Agreement between Elisra Electronic Systems Ltd. and its subsidiaries Tadiran Electronic Systems Ltd. and Tadiran Spectralink Ltd. (collectively "Elisra"), in which the Company holds a 70% ownership interest, and The Phoenix Insurance Company Ltd. (the "Phoenix"). The Settlement Agreement relates to a claim by Elisra for insurance payments for damages caused in a 2001 fire at the manufacturing facilities of Elisra's subsidiaries in Holon, Israel. Under the Settlement Agreement the Phoenix will pay Elisra approximately \$38 million in addition to approximately \$10 million in insurance proceeds already paid. In accordance with the terms of the agreement signed in 2005 between the Company and Koor Industries Ltd. ("Koor") in connection with the acquisition by the Company of Elisra's shares held by Koor, as part of the consideration for the purchase price of the Elisra shares, the Company agreed to pay Koor a portion of any insurance proceedings received as a result of the claim against the Phoenix. Accordingly, as a result of the Settlement Agreement, the Company will pay Koor a sum of approximately \$13 million. As a result from the settlement, the Company recorded as other income, in the three months ended March 31, 2008 a gain of \$4.1 million and an amount of \$2.1 million in the minority interest in earning of subsidiaries.

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