ELBIT SYSTEMS LTD
Form 20-F
May 28, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

for the fiscal year ended December 31, 2007

Commission File No. 0-28998

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ELBIT SYSTEMS LTD.

(Exact Name of Registrant as Specified in its Charter and Translation of Registrant's Name into English)

Israel

(Jurisdiction of incorporation or organization)

Advanced Technology Center, Haifa 31053, Israel

(Address of principal executive offices)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Ordinary Shares, nominal value 1.0 New Israeli Shekels per share

(Title of Class)

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Not Applicable

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

Not Applicable

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

42,059,752 ordinary shares

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes **x** **No** **o**

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o **No** x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x **No** o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer x **Accelerated filer** o **Non-accelerated filer** o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o **Item 18** x

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o **No** x

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PART I

International Disclosures Standards

Elbit Systems Ltd.'s (Elbit Systems) consolidated financial statements are prepared in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP). Unless otherwise indicated, all financial information contained in this Annual Report on Form 20-F is presented in U.S. dollars. References in this Form 20-F to the "Company" are to Elbit Systems and our subsidiaries.

Item 1. Identity of Directors, Senior Management and Advisors

Information not required in Annual Report on Form 20-F.

Item 2. Offer Statistics and Expected Timetable

Information not required in Annual Report on Form 20-F.

Item 3. Key Information

Selected Financial Data

The following selected consolidated financial data of Elbit Systems as of and for the years ended December 31, 2003, 2004, 2005, 2006 and 2007 are derived from our audited consolidated financial statements of which the financial statements as of December 31, 2006 and 2007, and for each of the years ended December 31, 2005, 2006 and 2007, appear later in this Annual Report on Form 20-F. The audited financial statements have been prepared in accordance with U.S. GAAP. You should read the information presented below in conjunction with this statement.

	Years Ended December 31				
	2003	2004	2005	2006	2007
	(U.S. dollars in millions except for share and per share amounts)				
Income Statement Data:					
Revenues	$ 898	$ 940	$ 1,070	$ 1,523	$ 1,982
Cost of revenues	673	690	787	1,150	1,455
Restructuring expenses	—	—	3	—	10
Gross profit	225	250	280	373	516
Research and development expenses, net	55	67	72	92	127
Marketing, selling, general and administrative expenses	116	118	133	189	264
In-process research and development write-off	—	—	8	—	17
Operating income	54	65	67	92	108
Financial expenses, net	(5)	(6)	(11)	(21)	(19)
Other income (expenses), net	—	1	(5)	2	—
Income before taxes on income	49	60	51	72	89
Taxes on income	11	15	16	21	14
Equity in net earnings (losses) of affiliated companies and partnership	7	7	(2)*	15	15
Minority interest in losses (earnings) of subsidiaries	1	—	—	6	(13)
Net income	$ 46	$ 52	$ 33	$ 72	$ 77
Earnings per share:					
Basic net income per share	$ 1.18	$ 1.30	$ 0.80	$ 1.75	$ 1.82
Weighted average number of shares used in computation of basic net income per share (in thousands)	39,061	39,952	40,750	41,340	42,041
Diluted net income per share	$ 1.14	$ 1.26	$ 0.78	$ 1.72	$ 1.81
Weighted average number of shares used in computation of diluted net income per share (in thousands)	40,230	41,041	41,623	41,880	42,342

* Includes acquired in-process research and development write-off of $8.5 in 2005.

	December 31									
	2003		**2004**		**2005**		**2006**		**2007**	
	(U.S. dollars in millions except for share and per share amounts)									
Balance Sheet Data:										
Cash, cash equivalents and short-term investments	$ 77		$ 35		$ 97		$ 88		$ 377	
Long-term deposits, trade receivables, and marketable securities	2		2		2		6		34	
Working capital	199		173		227		112		157	
Short-term debt	15		10		38		28		29	
Long-term debt	62		86		225		125		431	
Share capital	11	.3	11	.5	11	.6	11	.9	11	.9
Shareholders' equity	452		432		451		494		537	
Total assets	$ 1,024		$ 1,034		$ 1,622		$ 1,773		$ 2,781	
Outstanding ordinary shares of NIS 1 par value (in thousands)	39,337		40,561		40,967		42,017		42,060	
Dividends paid per ordinary share with respect to the applicable year	$ 0	.40	$ 2	.17*	$ 0	.54	$ 0	.61	$ 0	.67

* Including an extraordinary dividend of $1.80 declared in the second quarter of 2004.

Forward-Looking Statements

This Annual Report on Form 20-F contains forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended) regarding the Company, to the extent such statements do not relate to historical or current fact. Forward-looking statements are based on management's expectations, estimates, projections and assumptions.

Forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. These forward-looking statements generally are identified by the words "believe," "project," "expect," "will likely result," and "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result" and similar expressions. Forward-looking statements are based on current expectations and assumptions and are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Therefore, actual future results, performance and trends may differ materially from these forward-looking statements due to a variety of factors, including, without limitation:

- scope and length of customer contracts;
- governmental regulations and approvals;
- changes in governmental budgeting priorities;
- general market, political and economic conditions in the countries in which we operate or sell, including Israel and the United States among others;
- differences in anticipated and actual program performance, including the ability to perform under long-term fixed-price contracts; and
- the outcome of legal and/or regulatory proceedings.

The factors listed above are not all-inclusive, and further information is contained in this Annual Report on Form 20-F. All forward-looking statements speak only as of the date of this Annual Report. We expressly disclaim any obligation to update or review any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable law.

Risk Factors

General Risks Related to Our Business and Market

Our revenues depend on a continued level of government business. A significant portion of our revenues comes, directly or indirectly, from contracts or subcontracts with domestic and foreign government agencies. A reduction in the level of the purchase of our systems, products, services and upgrade projects by these agencies, mainly the Israeli Ministry of Defense (IMOD), the U.S. Department of Defense (DOD) and governmental customers of our other major programs, would have a material adverse effect on our business. The development of our business in the future will depend on the continued willingness of the IMOD, the DOD and other governmental purchasing agencies to commit substantial resources to defense programs and, in particular, to continue to purchase our systems, products, services and upgrade projects.

The level of customer purchases under our contracts may be reduced due to changes in governmental priorities and audits. The risk that governmental purchases of our systems, products, services and upgrade projects may decline is affected by the possibility that government purchasing agencies may:

- terminate, reduce or modify contracts or subcontracts if their requirements or budgetary constraints change;
- cancel multi-year contracts and related orders if funds become unavailable;
- shift spending priorities into other areas or for other products; and
- adjust contract costs and fees on the basis of audits.

We are subject to buy-back obligations. A number of our international programs require us to meet “buy-back” obligations. See below – Item 4. Information on the Company – Buy-Back. Should we be unable to meet such obligations we may be subject to contractual penalties. Moreover, our chances of receiving further business from the applicable customers could be reduced.

We depend on governmental approval of our exports. Many of our exports and the receipt of technology and components from suppliers depend on receipt of export license approvals from the Israeli Government, the U.S. Government and other governments. Such licenses and approvals also are required for technological exchanges with our customers and for employment of our technical personnel abroad. There is no assurance that such approvals will be given in the future, current approvals will not be revoked or governmental export policies will remain unchanged. See below - Item 4. Information on the Company – Governmental Regulations.

We depend on international operations. We depend on sales to customers throughout the world. We expect that international sales will continue to account for a significant portion of our revenues for the foreseeable future. As a result, changes in international, political, economic or geographic events could result in significant shortfalls in orders or revenues. These shortfalls could cause our business, financial condition and results of operations to be harmed. Some of the risks of doing business internationally include:

- unexpected changes in regulatory requirements;

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- our or our subcontractors' inability to obtain export licenses;

- imposition of tariffs and other barriers and restrictions;

- burdens of complying with a variety of foreign laws;

- political and economic instability; and

- changes in diplomatic and trade relationships.

Some of these factors, such as the ability to obtain export licenses and changes in diplomatic relations, may be affected by Israel's overall political situation. See "Risks Related to Our Israeli Operations" below. In addition, the economic and political stability of the countries of our major customers and suppliers may also impact our business.

Our revenues depend on obtaining follow-on business. Follow-on orders are important because our contracts are mainly for fixed periods of up to five years or more, particularly for contracts where the customer has options to purchase additional items. In addition, when we have supplied a system for a defense platform, we sometimes have the potential to supply other items for that platform. If a customer is dissatisfied with our performance on a particular program or if the customer's priorities change, it could negatively affect our ability to receive follow-on business. Inability to obtain follow-on business could result in a loss of revenues and profit.

Our contracts may be terminated for convenience of the customer or for default. Our contracts with the Government of Israel and other governments often contain provisions permitting termination for convenience of the customer. Our subcontracts with non-governmental prime contractors sometimes contain similar provisions. In general, in order to reduce risks of financial exposure resulting from the early termination of a contract, we attempt to flow down these requirements to our subcontractors and expend funds for projects according to the contract performance schedule. If the customer were to make an early termination for convenience, in most cases we would be entitled under the applicable contract to reimbursement for our incurred contract costs and a proportionate share of our fee or profit for work actually performed. If, however, it is determined that we are not entitled to such compensation, it could cause us to suffer corresponding losses. Moreover, if in the remote event that any of our contracts would be terminated for default due to our failure to meet material contractual obligations, we could face liability in certain cases in excess of the amounts paid or payable to us under the applicable contract.

We face risks of changes in costs under fixed-price contracts. Most of our contracts are fixed-price contracts, as opposed to cost-plus or cost-share type contracts. Generally, a fixed-price contract price is not adjusted as long as the work performed falls within the original contract scope. Therefore, under these contracts, we generally assume the risk that increased or unexpected costs may reduce profits or generate a loss. The risk can be particularly significant under a fixed-price contract involving research and development for new technology, where estimated gross profit or loss from long-term projects may change and such changes in estimated gross profit/loss are recorded on a cumulative catch-up basis. See below – Item 5. Operating Financial Review and Prospects – Management's Discussion and Analysis – General - Critical Accounting Policies and Estimates. The frequent need to bid on fixed-price programs before completing the necessary design may result in unexpected technological difficulties, cost overruns and potential contractual penalties. Typically, costs must be accounted for in the period they are recognized. In addition, there is difficulty in forecasting long-term costs and schedules and the potential obsolescence of products or components related to long-term fixed-price contracts, particularly in contracts that contain extended warranty or logistic support obligations.

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We sometimes participate in risk-sharing contracts. We sometimes participate in "risk-sharing" type contracts, in which our non-recurring costs are only recoverable if there is a sufficient level of production sales for the applicable product, which level of sales typically is not guaranteed. If production sales do not occur at the level anticipated, we may not be able to recover our non-recurring costs under the contract.

We face fluctuations in revenues and profit margins. The level of our revenues may fluctuate over different periods. These fluctuations may relate to factors in addition to changes in pricing or sales volume. Also, the level of our revenues may be dependent on our mix of projects during any given period. Moreover, since project revenues generally are recognized in connection with achievement of specific performance milestones, we may experience significant fluctuations in year-to-year and quarter-to-quarter financial results. Similarly, our profit margins may vary significantly from project to project as a result of changes in estimating gross profits that are recorded in results of operations on a cumulative catch-up basis. See below – Item 5. Operating Financial Review and Prospects – Management's Discussion and Analysis – General – Critical Accounting Policies and Estimates. As a result, the overall profit margin in a particular period is influenced by a number of conditions. These include the type, size and stage of projects, the percentage of work performed by subcontractors and the timing of the recognition of revenue.

We sometimes have risks relating to financing for our programs. A number of our major projects require us to arrange, or to provide, specific guarantees in connection with the customer's financing of the project. These include guarantees by us as well as guarantees provided by financial institutions relating to advance payments received from customers. Customers typically have the right to draw down against advance payment guarantees if we were to default under the applicable contract. In addition, some customers require that the payment period under the contract be extended for a number of years, sometimes beyond the period of contract performance. See below – Item 4. Information on the Company – Financing Terms.

We face currency exchange risks. As more of our revenues are generated in currencies other than the U.S. dollar, mainly in New Israeli Shekels (NIS), Great Britain Pounds (GBP) and Euro, we are subject to increasingly significant foreign currency risk. Accordingly, our level of revenues and profit may be adversely affected by exchange rate fluctuations. This also may include risks relating to exchange rate changes during the period from the date we submit a price proposal until the date of contract award. Moreover, since a significant portion of expenses is denominated in NIS, if we do not adequately hedge against exchange rate risks, our financial results could be adversely affected. See below "Risks Related to Our Israeli Operations – Changes in the U.S. Dollar –NIS Exchange Rate" and Item 5. Operating Financial Review and Prospects – Management's Discussion and Analysis – Impact of Inflation and Exchange Rates.

We may not be able to consolidate the financial results of some of our subsidiaries. One of our subsidiaries currently is considered for accounting purposes as a variable interest entity (VIE), and we are considered the primary beneficiary, enabling us to consolidate its financial results in our consolidated financial statements. In the event that in the future a company we hold as a VIE would no longer meet the definition of a VIE, or we are deemed not to be the primary beneficiary, we would not be able to consolidate line by line that entity's financial results in our consolidated financial statements.

We may experience production delays or liability if suppliers fail to make compliant or timely deliveries. The manufacturing process for some of our products consists in large part of the assembly, integration and testing of purchased components. Some components are available from a small number of suppliers, and in a few cases we work with suppliers that are effectively our sole source. If a supplier should stop delivery of such components, finding another source could result in added cost and manufacturing delays. Moreover, if our subcontractors fail to meet their design, delivery schedule or other obligations we could be held liable by our customers, and there can be no assurance that we would be able to obtain full or partial recovery from our subcontractors for those liabilities. In addition, when we act as a subcontractor, the failure or inability of the prime contractor to perform its contract with the customer may affect our ability to obtain payments under our subcontract. This could have a material adverse effect on our operating results.

Undetected problems in our products could impair our financial results and give rise to potential product liability claims. If there are defects in the design, production or testing of our or our subcontractors' products and systems, we could face substantial repair, replacement or service costs and potential liability and damage to our reputation. There can be no assurance that our efforts to implement appropriate design, testing and manufacturing processes for our products or systems will be sufficient to permit us to prevent such occurrences, which could have a material adverse effect on our business, results of operations and financial condition.

We operate in a competitive industry. The various markets in which we participate are highly competitive and characterized by technological change. If we are unable to improve existing systems and products and develop new systems and technologies in order to meet evolving customer demands, our business could be adversely affected. In addition, our competitors could introduce new products with innovative capabilities, which could adversely affect our business. There are many competitors in our markets. We compete with many large and mid-tier defense contractors on the basis of system performance, cost, overall value, delivery and reputation. Many of these competitors are much larger than us and generally have greater resources. Consequently, these competitors may be better positioned to take advantage of economies of scale and develop new technologies. Some of these competitors are also our suppliers in some programs.

We are subject to the increasingly restrictive publicly traded company regulatory environment. As a company whose shares are publicly traded both in the United States and in Israel, we are subject to the increasingly restrictive regulatory requirements applicable to publicly traded companies. These regulations, including the U.S. Sarbanes-Oxley Act of 2002 and other laws and regulations, impose new and stringent requirements, which we continue to implement in compliance with regulatory deadlines. Failure to timely implement such requirements could adversely affect us.

Our share price may be volatile and may decline. Numerous factors, some of which are beyond our control, may cause the market price of our ordinary shares to fluctuate significantly. These factors include both specific developments relating to the Company as well as market conditions in the industry in which we operate and the general state of the securities markets, with particular emphasis on the technology, defense and Israeli sectors of the securities markets.

Our investments in auction rate securities or similar financial instruments may fluctuate in value. Due to the continuing changes and uncertainty in the auction rate securities (ARS) markets, it is possible that our investments in ARS may fluctuate and decline in the future. Also, as market conditions change, we may determine that unrealized losses, which are currently considered temporary in nature, may become "other-than-temporary," resulting in an impairment charge. Such impairment might also apply to any investments we may make in similar types of variable rate securities or financial instruments. See below Item 5. Operating Financial Review and Prospects - Management's Discussion and Analysis – Liquidity and Capital Resources – Auction Rate Securities.

Our business depends on proprietary technology that may be infringed. Many of our systems and products depend on our proprietary technology for their success. Like other technology oriented companies, we rely on a combination of patents, trade secrets, copyrights and trademarks, together with non-disclosure agreements, contractual confidentiality clauses, including those in employment agreements, and technical measures to establish and protect proprietary rights in our products. Our ability to successfully protect our technology may be limited because:

- some foreign countries may not protect proprietary rights as fully as do the laws of the United States and Israel;
- detecting infringements and enforcing proprietary rights may be time consuming and costly, diverting management's attention and company resources;
- measures such as entering into non-disclosure agreements afford only limited protection;
- unauthorized parties may attempt to copy aspects of our products or technologies and develop similar products or technologies or obtain and use information that we regard as proprietary;
- our patents may expire, thus providing competitors access to the applicable technology;
- competitors may independently develop products that are substantially equivalent or superior to our products or circumvent intellectual property rights; and
- competitors may register patents in technologies relevant to our business areas.

In addition, others may allege infringement claims against us and affiliated companies. The cost of defending infringement claims could be significant, regardless of whether the claims are valid. To the extent we are not successful in defending such claims, we may be subject to injunctions with respect to the use or sale of certain of our products or to liabilities for damages and may be required to obtain licenses which may not be available on reasonable terms, any of which may have a material adverse impact on our business, results of operation or financial condition.

We would be adversely affected if we are unable to retain key employees. Our success depends in part on key management, scientific and technical personnel and our continuing ability to attract and retain highly qualified personnel. There is competition for the services of such personnel. The loss of the services of key personnel, and the failure to attract highly qualified personnel in the future, may have a negative impact on our business. Moreover, it may be difficult for us to restrict our competitors from gaining access to the expertise of our former employees who may be hired by those competitors.

We may face labor relations disputes or not be able to amend collective bargaining agreements in a timely manner. A number of our subsidiaries in Israel and other countries are parties to collective bargaining agreements that cover a substantial number of the Company's employees. These agreements contain a range of conditions that vary depending on the applicable company and are for various periods of time. Disputes with trade unions or similar types of labor relations difficulties as well as failure to timely amend or extend collective bargaining agreements could lead to worker disputes, slow-downs, strikes and other measures, which could negatively impact our results of operations.

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Our industry has experienced significant consolidation. As the overall number of companies in the defense industry has decreased in recent years, the industry has experienced substantial consolidation, thus increasing the market share of some prime contractors. Failure to maintain our relationships with these major contractors could negatively impact our future business. In addition, some of these companies are vertically integrated with in-house capabilities similar to ours in certain areas.

We face acquisition and integration risks. Over the past several years we have made a number of acquisitions and investments in companies that complement our business. See below – Item 4. Information on the Company – Recent Acquisitions and – Current Business Operations. We intend to continue to acquire businesses that complement our operations. Our growth may place significant demands on our management and our operational, financial and marketing resources. In connection with acquisitions and the opening of new facilities we have increased and may continue to increase the number of our employees. Moreover, several of our recent acquisitions involve companies with collective bargaining agreements applicable to a significant number of the company's employees. In addition, we have expanded and may continue to expand the scope and geographic area of our operations. We believe this growth will increase the complexity of our operations and the level of responsibility exercised by both existing and new management personnel. Failure to successfully retain key employees and integrate and manage our growth may have a material adverse effect on our business, financial condition, results of operations or prospects.

Our acquisitions are subject to governmental approvals. Most countries require local governmental approval of acquisition of domestic defense industries, which approval may be denied if the local government determines the acquisition is not in its national interest. We may also encounter anti-trust issues in certain areas as our operations expand. Failure to obtain such governmental approvals could negatively impact our future business and prospects.

Our due diligence in acquisitions may not adequately cover all risks. There may be liabilities or risks that we fail or are unable to discover in the course of performing due diligence investigations relating to businesses we have acquired or merged with or may acquire or merge with in the future. Examples of these liabilities include employee benefits contribution obligations, estimated costs to complete contracts, non-compliance with applicable environmental requirements or infringement of third party intellectual property rights by prior owners for which we, as a successor owner, may be responsible. Such risks may include changes in estimated costs to complete programs and estimated future revenues. In addition, there may be additional costs relating to acquisitions including, but not limited to, possible purchase price adjustments. Moreover, if the value of the acquired company were to decrease after the acquisition, or after follow-on investments in that company, we could face impairment issues. We try to minimize these risks by conducting due diligence as we deem appropriate under the circumstances. However, there is no assurance that we have identified, or in the case of future acquisitions, will identify, all existing or potential risks. Also, although generally we require the sellers of acquired businesses or assets to indemnify us against undisclosed liabilities, we cannot assure you that the indemnification will be enforceable, collectible or sufficient to fully offset the possible liabilities. Such liabilities could have a material adverse effect on our business, financial condition, results of operations or prospects. In addition, there may be situations in which our management determines, based on market conditions or other applicable considerations, to pursue an acquisition with limited due diligence or without performing due diligence at all.

Risks Related to Our Israeli Operations

Conditions in Israel may affect our operations. Political, economic and military conditions in Israel directly affect our operations. Since the establishment of the State of Israel, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity has led to security and economic problems for Israel. Since 2000, there have been ongoing hostilities between Israel and the Palestinians, which have adversely affected the peace process and at times has negatively influenced Israel's economy as well as its relationship with several other countries. In 2006, Israel experienced a war with Hezbollah militants in Lebanon. Hamas, an Islamist movement responsible for many attacks, including missile strikes, against Israelis, won the majority of the seats in the Parliament of the Palestinian Authority in 2006 and took control of the entire Gaza Strip by force in June 2007. These developments have further strained relations between Israel and the Palestinians. There is no assurance that the current political situation with Israel's neighbors will improve or, if it did, that the political and economic situation in Israel would improve as a result. These political, economic and military conditions in Israel could have a material adverse effect on our business, financial condition, results of operations and future growth.

Political relations could limit our ability to sell or buy internationally. We could be adversely affected by the interruption or reduction of trade between Israel and its trading partners. Some countries, companies and organizations continue to participate in a boycott of Israeli firms and others doing business with Israel or with Israeli companies. Foreign government defense export policies towards Israel could also make it more difficult for us to obtain the export authorizations necessary for our activities. Also, over the past several years there have been calls in Europe and elsewhere to reduce trade with Israel. There can be no assurance that restrictive laws, policies or practices directed towards Israel or Israeli businesses will not have an adverse impact on our business.

Many of our officers and employees are obligated to perform military reserve duty in Israel. Generally, Israeli adult male citizens and permanent residents are obligated to perform annual military reserve duty up to a specified age. They also may be called to active duty at any time under emergency circumstances, which could have a disruptive impact on our workforce.

Israel's economy may become unstable. Over the years, Israel's economy has been subject to a number of factors that have affected its stability. These include periods of inflation, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. For these and other reasons, the Government of Israel has intervened in different sectors of the economy. Such intervention has included employing fiscal and monetary policies, import duties, foreign currency restrictions, controls of wages, prices and foreign currency exchange rates and regulations regarding the lending limits of Israeli banks to companies considered to be in an affiliated group. The Israeli Government has periodically changed its policies in all of these areas. Reoccurrence of previous destabilizing factors could make it more difficult for us to operate our business as we have in the past and could adversely affect our business.

Changes in the U.S. dollar - NIS exchange rate. The exchange rate between the NIS and the U.S. dollar has fluctuated in recent years. For example, at the end of 2005, 2006 and 2007, the NIS/U.S. dollar exchange rate was 4.603, 4.225 and 3.846, respectively. This represented a strengthening of the NIS vis-à-vis the U.S. dollar of approximately 8.2% in 2006 and approximately 9.0% in 2007. During the first four months of 2008, the NIS strengthened by approximately 10.8% against the U.S. dollar, and the NIS/U.S. dollar exchange rate as of April 30, 2008 was 3.429. While most of our sales and expenses are denominated in dollars, a significant portion of our expenses is paid in NIS, and most of our sales to customers in Israel are in NIS. Our primary expenses paid in NIS that are not linked to the dollar are employee expenses in Israel and lease payments on some of our Israeli facilities. As a result, if we do not hedge our position, a change in the value of the NIS compared to the dollar, which over the past year has undergone numerous fluctuations, could affect our research and development expenses, manufacturing labor costs and general and administrative expenses. See below – Item 5. Operating Financial Review and Prospects – Management's Discussion and Analysis - Impact of Inflation and Exchange Rates – Inflation and Devaluation.

Reduction in Israeli Government spending or changes in priorities for defense products may adversely affect our earnings. The Israeli Government may reduce its expenditures for defense items or change its defense priorities in the coming years. There is no assurance that our programs will not be affected in the future if there is a reduction in Israeli Government defense spending for our programs or a change in priorities to products other than ours.

Israeli Government programs and tax benefits may be terminated or reduced in the future. Elbit Systems and some of our Israeli subsidiaries participate in programs of the Israeli Chief Scientist's Office (OCS) and the Israel Investment Center, for which we receive tax and other benefits as well as funding for the development of technologies and products. The benefits available under these programs depend on meeting specified conditions. If we fail to comply with these conditions, we may be required to pay additional taxes and penalties, make refunds and be denied future benefits. From time to time, the Government of Israel has discussed reducing or eliminating the benefits available under these programs. See below - Item 4. Information on the Company – Conditions in Israel – Chief Scientist (OCS) and Investment Center Funding. We cannot assure you that these benefits will be available in the future at their current levels or at all.

Israeli law regulates acquisition of a controlling interest in Israeli defense industries. Israeli legislation regarding the domestic defense industry requires Israeli Government approval of an acquisition of a 25% or more equity interest (or a smaller percentage that constitutes a "controlling interest") in companies such as Elbit Systems. This could limit the ability of a potential purchaser to acquire a significant interest in our shares. See below – Item 4. Information on the Company – Governmental Regulation – Approval of Israeli Defense Acquisitions.

Israel has enhanced its export control regulations. Over the last two years the Israeli Government adopted laws and regulations regarding enhanced defense export controls and the export of "dual use" items. Should government approvals required under these laws and regulations not be obtained, our ability to export our products from Israel could be negatively impacted, including revocation of authorizations previously granted, thus causing a reduction in our revenues. See below – Item 4. Information on the Company – Governmental Regulation - Israeli Export Regulations.

It may be difficult to enforce a non-Israeli judgment against us, our officers and directors. We are incorporated in Israel. Most of our executive officers and directors are nonresidents of the United States, and a substantial portion of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult for an investor, or any other person or entity, to enforce against us or any of those persons in an Israeli court a U.S. court judgment based on the civil liability provisions of the U.S. federal securities laws. It may also be difficult to effect service of process on these persons in the United States. Additionally, it may be difficult for an investor, or any other person or entity, to enforce civil liabilities under U.S. federal securities laws in original actions filed in Israel. See below – Item 4. Information on the Company – Conditions in Israel – Enforcement of Judgments.

Item 4. Information on the Company

Business Overview

Principal Activities

We develop, manufacture and integrate advanced, high-performance defense electronic and electro-optic systems for customers throughout the world. The Company focuses on designing, developing, manufacturing and integrating command, control, communication, computer, intelligence, surveillance and reconnaissance (C4ISR) network centric systems, including unmanned vehicles, for defense and homeland security applications. We also perform upgrade programs for airborne, land and naval defense platforms, often as a prime contractor. Moreover, we develop and manufacture avionic and aerostructure products for the commercial aviation market. In addition, we provide a range of support services.

Our major areas of operations include:

- military aircraft and helicopter systems and upgrades;
- helmet mounted systems;
- commercial aviation products;
- unmanned air vehicle (UAV) systems;
- naval systems;
- land vehicle systems and upgrades;
- command, control, communications, computer and intelligence (C4I) and government information systems;
- military communications systems and equipment;
- electro-optic and countermeasures systems and products;
- homeland security systems;

- electronic warfare (EW) and signal intelligence (SIGINT) systems; and

- technology spin-offs and other commercial activities.

Many of these major activities have a number of common and related elements. Therefore, marketing, research and development, manufacturing, performance of programs, sales and after sales support often are conducted jointly among these areas of activities.

We tailor and adapt our technologies, integration skills, market knowledge and battle-proven systems to each customer's individual requirements in both existing and new platforms. By upgrading existing platforms with advanced electronic and electro-optic technologies, we provide customers with cost-effective solutions, and our customers are able to improve their technological and operational capabilities within limited defense budgets.

Principal Market Environment

The military actions in recent years and ongoing terrorist activities have caused a shift in the defense priorities for many of our major customers. More emphasis is being placed on C4I systems, as well as intelligence, surveillance and reconnaissance (ISR) systems. These include network centric information systems, intelligence gathering, border and perimeter security, UAVs, unmanned ground vehicles (UGVs), unmanned surface vessels (USVs) remote controlled systems, space and satellite based defense capabilities and homeland security applications. There is also a growing demand for cost effective logistic support and training services. The market for cost effective avionic products for commercial and general aviation aircraft is also expanding.

We believe our existing systems, products and capabilities place us in a position to meet emerging customer requirements in many of these areas. We continue to perform platform upgrades and believe that some types of upgrade programs and electronic and electro-optic systems, particularly those that emphasize C4ISR, will continue to be a significant portion of defense budgets in many countries. Our customers are increasingly expecting us to provide overall solutions to their comprehensive defense and security needs, which we believe is conducive to our growing expertise in providing "systems of systems."

Moreover, the worldwide defense market has been characterized over the last decade by significant consolidation and merger and acquisition activities. Part of our growth strategy includes our continued activity in mergers and acquisitions both in Israel and internationally. We would view positively implementation of the Government of Israel's previously declared policy to privatize portions of government-owned industries, and we see the Company as a natural candidate to acquire some of these activities.

We operate as a multi-domestic organization in order to meet the needs of our customers around the world. The Company's structure enables us to benefit from the synergy of our overall capabilities while at the same time focus on local requirements.

Company History

We have many decades of operational experience. Elbit Ltd. was initially incorporated in Israel in 1966 as Elbit Computers Ltd. Thirty years later, in 1996, Elbit Systems was formed as part of the Elbit Ltd. corporate demerger, which spun-off Elbit Ltd.'s defense related assets and business to Elbit Systems. From its founding in 1966 until the demerger, Elbit Ltd. was involved, among other operations, in a wide range of defense related airborne, land, naval and C4I programs throughout the world. Elbit Systems, which last year celebrated 40 years of Elbit operations, continues these activities today as the largest non-government-owned defense company in Israel.

During the last three years, in addition to smaller acquisitions, we acquired a 70% interest in Elisra Electronic Systems Ltd. (Elisra) and a 100% interest in Tadiran Communications Ltd. (TadComm). Both Elisra and TadComm have several decades of experience in their respective areas. We are in the process of incorporating TadComm's operations into our Land and C4I business. In 2000, Elbit Systems merged with Elop Electro-Optics Industries, Ltd. (currently known as Elbit Systems Electro-Optics Elop Ltd.) (Elop). Following the merger, Elop became a wholly-owned subsidiary of Elbit Systems. Elop has more than 70 years of experience in the electro-optics area. Several other of our subsidiaries

around the world have decades of experience in their respective markets.

As a corporation domiciled and incorporated in Israel, we operate in accordance with the provisions of the Israeli Companies Law - 1999.

Trading Symbols and Address

Elbit Systems' shares are traded on the Nasdaq National Market (Nasdaq), as part of the Nasdaq Global Select Market, under the symbol "ESLT" and on the Tel-Aviv Stock Exchange (TASE).

Our main offices are in the Advanced Technology Center, Haifa 31053, Israel, and our main telephone number at that address is (972-4) 8315315.

Major Activities

Military Aircraft and Helicopter Programs and Systems. We supply advanced airborne electronic and electro-optic systems and products to leading military aircraft manufacturers and end users. The systems and products are designed to enhance operational capabilities and extend life cycles of the aircraft. Such airborne systems and products include weapons guidance and fire control systems, mission computers, cockpit management systems, display systems, head-up displays, digital maps, night vision systems, forward-looking infra-red (FLIR) systems, laser range-finders and designators, airborne C4I systems, stabilized line-of-sight payloads, aerial reconnaissance systems, store management systems, digital video recording systems, laser seekers for guided munitions, mission planning and mission debriefing systems, full mission simulators, tactical simulators and virtual training systems. Elbit Systems also is a prime contractor for aircraft and helicopter upgrade programs. We act as the upgrade integrator, and supply systems and products, for military airborne platforms including:

- fixed-wing aircraft such as the F-4, F-5, F-15, F-16, F-18, F-35, T-38, T-45, L-39, MiG-21, SU-25, SU-30, C-130, A-4, A-10, B-2, Mirage 2000, AL-X, AM-X, IAR-99, Tejas, Jaguar, P3 and AT-63 Pampa; and

- helicopters such as the CH-47, CH-48, CH-53, Cobra, AH-IZ and AH-IW, Puma, Super Puma, OH-58 Kiowa Warrior, AH-64 Apache, Agusta 129, ARH, H-60 Blackhawk, S-70 Blackhawk, KHP, MI-8, MI-17, MI-24, Linx and EC225, as well as the V-22 Osprey tilt rotorcraft.

Helmet Mounted Systems. We design and supply advanced helmet mounted systems for fighter aircraft and helicopter pilots and land applications. These include tracking and display systems for target designation, weapon and sensor slaving and processing and display of tactical information for pilots, both for day and night flying. Examples of our fixed-wing helmet mounted systems currently in operation include the Display and Sight Helmet (DASH) family, Joint Helmet Mounted Cueing System (JHMCS) and Night Vision Cueing Display system (NVCD). For helicopters, our operational systems include the Aviator Night Vision Imaging System Head-Up Display (ANVIS/HUD®) family, Integrated Helmet Display and Sighting System (IHADSS), Jedeye™ and the Panoramic Night Vision Goggle (PNVG). Our helmet mounted systems are supplied as part of our upgrade programs as well as on a stand-alone basis.

Commercial Aviation Systems. We design and manufacture a range of products and systems for the commercial aviation and general aviation markets. Our commercial aviation product line includes the Vision Based Cockpit™ concept, incorporating our All Weather Wind® Enhanced Vision System (EVS II), our General Aviation – Vision System (GAViS™) and our Advanced Technology Head-Up Display (AT-HUD) and Micro-ViS™ head-up display system. We also supply cabin pressurization control systems, air data test equipment, air data processor/sensor systems and flight instruments for the general aviation market. Our legacy products for commercial aircraft include altimeters, pressure meters, cockpit indicators and avionics test equipment. Our commercial avionics systems are employed on aircraft such as the Gulfstream 150, 200, 300, 350, 400, 450, 500 and 550, the Boeing MD-10 and MD-11, the Airbus A300 and A310, the Cessna CJ 1, 2, 3 and 4 Bravo, XLS, Citation Mustang, ENCORE, Hawker, Beechcraft 400XP and 800XP and King Air series, and on EC-725 helicopters. We also produce avionic suites, including electronic flight instrumentation systems and flight management systems for commercial helicopters as well as produce aerostructure parts for commercial aircraft.

UAS (UAV Systems). We design and supply integrated UAV systems and mini-UAV systems for a range of ISR applications. We design and manufacture a variety of UAV platforms, including the Hermes® and Skylark® families of UAVs. We also design and supply command and control ground station elements that can be adapted for various types of UAVs, as well as training systems with capabilities to simulate payload performance, malfunctions and ground control station operation.

Naval Systems. Our naval systems include naval combat management systems, shipboard combat system integration, naval electro-optic observation systems, naval tactical trainers, submarine and surface electronic support measurement systems, shipboard SIGINT systems, shipboard decoy countermeasure launching systems and unmanned surface vessels.

Land Vehicle Programs and Systems. We upgrade and modernize tanks and other combat vehicles both as a prime contractor and as a systems supplier to leading platform manufacturers. Our land vehicle solutions cover the entire combat vehicle spectrum, from complete modernization, to maintenance depots and life cycle support services. Our land vehicle systems include fire control systems, electric gun, turret drive and stabilization systems, unmanned turrets, overhead remote control weapon stations, battle management systems, FLIRs, gunner's and commander's sights, laser range-finders, laser warning systems, TOW night targeting sights, threat detection systems, reconnaissance systems, "See-Through Armor" systems, displays, life support systems and hydraulic systems for tanks, combat vehicles and other tactical wheeled vehicles. We develop and supply unmanned ground vehicles and robotic devices for a variety of land based missions. We also develop and supply deployed vehicle mounted counter remote controlled improvised explosive devices electronic warfare systems (CREW). We also supply training systems for tanks and fighting vehicles. Land vehicles containing our systems and products include the Merkava, M1 Abrams, Centurion, M-60, T-55, T-72, Bradley A-3, Leopard, Fennek, PzH 2000, MLRS, HIMARS, MTVR, AMX-30, SK-105, MK-109, ULAN, Pandur, LAV, Patria AMV and Piranha III.

C4I and Government Information Systems. We design, manufacture and integrate C4I systems for ground forces and battlefield management and control applications. Our C4I solutions are capable of linking every ground forces echelon to real-time mission or critical information. These include artillery command and control systems, day-night observation systems, C4I battlefield management systems for headquarters and maneuvering forces as well as battle management systems for battalion combat teams, tactical communications systems, satellite communication systems, wireless communication and radios that provide infrastructure and connectivity for network centric architecture solutions, tactical ground reconnaissance systems and tactical battle company trainers. This includes our prime contractor role for the Israeli Digital Army Program. We also design and manufacture C4I systems and products for infantry soldiers, including our prime contractor role for the Israeli Future Infantry Soldier Program. We also design and manufacture governmental information technology systems and integrated information gathering systems for border control and management systems, crime prevention and other governmental applications.

Military Communications Systems and Products. We supply military communications systems and products for a wide range of customers worldwide. Specializing in radio communications, we develop and supply solutions for voice, data and video (multimedia) applications in a broad range of frequencies, starting at the VLF band though HF, VHF, UHF to the C-band and further on in the mm wave band. The range of products and systems facilitate secured and ECCM immuned voice and broadband data communications, covering the communication needs of all levels of the military echelons. Military communications product lines include short and medium-range VHF radio systems, long-range HF radio systems, multi-band VHF-UHF handheld/manpack radios, line-of sight multi-channel radio systems, ruggedized computers/communication terminals and personal digital assistance devices (RPDAs), integrated communications systems combining wireless (radio) and wired (telephony) communications, military wireless broadband systems based on WiMAX technology, IP/LAN/WAN networks and situation awareness systems.

Electro-Optic and Countermeasures Systems. We design and manufacture a full range of electro-optics sensors and systems for space, air, land and sea applications. We cover the full spectrum of electro-optics based solutions with products ranging from laser and thermal imaging systems to head-up displays, through ISR systems – including payloads for space, airborne, naval and land-based missions - to ground integrated sights, electro-optic countermeasures and homeland security solutions. The range of electro-optics products includes space cameras and telescopes and specialized sensors, airborne reconnaissance and observation systems. Our electro-optics product line also includes ground integrated sights and robotic sensors, gated imagery FLIRs for land, naval and airborne applications, laser range-finders and laser designators based on flash pumped and diode pumped technologies used by infantry soldiers and in manned and unmanned airborne vehicles and land and naval platforms. Our electro-optic solutions are used for detection, identification and information gathering as well as for land vehicle upgrades. Our ISR related business activities – space cameras, airborne reconnaissance and observation & surveillance – share a broad infrastructure of technologies that provide imagery intelligence (IMINT), long-range observation solutions for space, air, sea and land based sources. In the space area, we also maintain in-house Israel's national space electro-optics infrastructure and provide the cameras for the Israeli Ofek satellites. In addition, we supply dedicated satellite payloads for space research and advanced multi-spectral and high resolution pan-chromatic cameras for commercial satellites.

Homeland Security Systems. We design, manufacture and integrate a wide range of comprehensive homeland security systems and products covering diverse scenarios and applications. These include integrated land, maritime and coastal control and surveillance systems, airport and seaport security systems, border control systems, access and border registration control systems, transportation security, C4I homeland security applications, facility perimeter security products, electronic fences, electro-optic surveillance systems and tactical mini-UAVs for defense, police, airport, border patrol, coast guard, critical infrastructure protection and other homeland security uses.

EW and SIGINT Systems. Through our 70%-owned subsidiary Elisra, we supply a range of self-protection suites and systems for airborne platforms including advanced EW and electronic countermeasure systems, communications jammer solutions, missile warning systems, laser warning systems and radar warning receivers. Elisra also furnishes SIGINT - electronic intelligence (ELINT), communications intelligence (COMINT) and direction finding (DF) - systems designed for air, ground and naval platforms and applications.

Technology Spin-Offs and Other Commercial Activities. We are engaged in spin-offs of our defense technologies to commercial applications as well as other commercial activities. Our spin-off and other commercial activities to date are in the areas of medical equipment, commercial satellites, satellite communications for commercial aircraft, commercial communications systems, commercial information technology applications, microwave technology applications, night vision and fleet management systems for automobiles and general manufacturing services.

Revenues

The table below shows our consolidated revenues by major areas of operations for the years ended December 31, 2005, 2006 and 2007:

	2005	2006	2007
	(U.S.dollars in million)		
Airborne Systems:	$ 421	$ 548	$ 596
Land Vehicle Systems:	117	318	381
C4ISR Systems:	218	313	582
Electro-optic Systems:	242	223	271
Other (mainly non-defense engineering and production):	72	121	152
Total:	$ 1,070	$ 1,523	$ 1,982

The following table provides our consolidated revenues by geographic region, expressed as a percentage of total revenues for the years ended December 31, 2005, 2006 and 2007:

	2005	2006	2007
Israel	29%	27%	21%
United States	37%	40%	35%
Europe	10%	15%	25%
Others	24%	18%	19%

Systems and Products

The following is a brief description of our main systems and products:

Military Aircraft and Helicopter Systems

Cockpit Management Systems - for reduced pilot workload while operating complex weapons platforms.

Airborne Computers - for mission management performance.

Weapon Delivery and Navigation Systems - for controlling weapon delivery and navigation.

Display Systems - for processing and displaying tactical information, including head-up and multi-functional displays.

Airborne C4I Systems - for network centric airborne, command, control, communication and intelligence and situational awareness.

Digital Map Systems and Mass Memory Devices - for storing digitized mapping information and providing pilots with mapping and other tactical information correlated with aircraft position.

Stores Management Systems - for operating and releasing airborne weapons.

Digital Video Recording Devices – for mission and maintenance debriefing.

Weapon Guidance Systems – laser kits for guiding precision weapons launched from aircraft.

Cockpit Instrumentation - altimeters, pressure meters, cockpit indicators and avionics test equipment.

Simulators – for airborne and ground training.

Virtual Training Systems – for embedded training.

Mission Planning and Debriefing Systems – for planning and debriefing of fixed and rotary-wing aircraft missions.

Helmet Mounted Systems

Pilot Helmet Mounted Systems – for air superiority, target designation, weapon and sensor slaving and information display.

Night Vision Systems - for improving range and clarity of what pilots see while flying at low altitude and with poor flight visibility.

Land Helmet Mounted Systems – for use on land platforms and individual soldier applications.

Cockpit Mapping Systems – for mapping of cockpits to enable accurate line-of-sight alignment in a cockpit.

Fast Characterization Tool (FACT™) characterizing (mapping) electro-magnetic volumes using advanced adaptive technologies for line-of-sight alignment in a cockpit or elsewhere.

Commercial Aviation Systems

Vision-Based Cockpit™ - integrated cockpit concept utilizing real-time and synthetic vision systems integrated with advanced head-up and head-down displays.

Enhanced Vision Systems (EVS) – for improving an aircraft's capability to execute precision approaches and safely land in fog, rain, snow and other reduced visibility conditions, thereby reducing controlled flight into terrain (CFIT) accidents, and providing improved situational awareness during ground operations to reduce in runway incursion accidents.

General Aviation Vision System (GAViS™) – low-cost IR based vision system that mounts like an antenna for general aviation aircraft to provide increased situational awareness at night and in other low visibility conditions.

Advanced Flight Display System – for assisting the air crew in flight and mission management, navigation, and communication while reducing pilot workload and increasing flight safety in both VFR and IFR flight conditions, allowing the display of all primary flight information, navigation data, weather radar or digital maps.

Head-Up Displays - advanced technology LCD head-up displays for air transport, high-end business aircraft and general aviation aircraft.

Air Data Computers and Sensors – aircraft air data computers, processors, probes and sensor modules.

Digital Air Data Test Sets - digital flight line and shop repair testers.

Cabin Pressurization Control Systems – modern solid-state technology, automatic cabin pressurization control systems designed to minimize cost, weight and panel space for advanced glass cockpits of business and commuter aircraft.

Commercial Helicopter Avionics – avionic suites, including electronic flight instrumentation systems and flight management systems for civil rotorcraft.

Cockpit Instruments – altimeters, pressure meters and cockpit indicators.

Aerostructure Products – composite and metal structural components and shipsets for commercial aircraft.

UAV Systems

UAV Systems – comprehensive systems, including the air vehicle, payloads, data link, ground control system and ground support equipment.

Hermes® 1500 – medium altitude long endurance (MALE) UAV system designed for corps and command-level support missions and for maritime patrol.

Hermes®900 – tactical MALE UAV system designed for various missions with combined payloads.

Hermes® 450 – tactical long endurance UAV system designed for division-level support missions, with recent modifications and variants providing extended capabilities.

Hermes® 180 – tactical short-range UAV system designed for brigade-level support missions.

Skylark® I – electrically propelled man-packed close-range UAV systems for company - battalion-level support missions.

Skylark® II -electrically propelled and highly covert short-range UAV system providing Intelligence, Surveillance, Target Acquisition and Reconnaissance (ISTAR) capabilities to company – brigade-level tactical echelons.

Ground Control Stations – designed with an open architecture concept that is adaptable to various types of UAVs.

Training Systems - for simulation of full UAV operation, payload data and malfunctions.

Naval Systems

Naval Combat Management Systems (CMS) – command and control, data links, sensors and effector control systems for naval ships including integrated tactical information and operation of weapon systems.

Naval Combat Systems Integration – integration of weapons and sensors for naval platforms.

Stabilized Electro-Optical Payloads – for naval observation and electro-optical stabilized line-of-sight fire control systems.

Computerized Naval Simulators – for tactical training of naval officers at shore-based locations.

Submarine and Surface EW Systems - electronic support measurements (ESM) for threat identification and electro-magnetic analysis.

Shipboard SIGINT Systems – for a range of sea-based electronic intelligence applications.

Shipboard Communication Systems – for a range of seaborne communication applications.

Shipboard Decoy Countermeasure Launching Systems - sophisticated countermeasure systems for deployment of chaff and flair against missile threats.

Unmanned Surface Vehicles - unmanned naval systems for various maritime applications that adapt the capabilities and applications of UAVs.

Land Vehicle Systems

Fire Control Systems – for target identification, acquisition and engagement, incorporating thermal imaging, laser range-finders, day-TV, digital ballistic computers and sensors using day and night vision systems and displays.

Electric Gun and Turret Drive Systems - for controlling electrically driven turrets and guns, using advanced brushless technology and digital/software based servo systems.

Battle Management Systems - for data processing and situational awareness of land vehicle crews and commanders.

Unmanned Turrets (UT) 25/30 mm and Overhead Remote Controlled Weapon Stations (ORCWS) 7.62 mm and 12.7 mm - for transforming armored vehicles into armored fighting vehicles by providing the crew with the combat capabilities of a turreted vehicle.

Color Flat Panel Displays - for presentation of maps and command and control data, as well as video generated by thermal imaging systems.

See-Through-Armor system (STA) – a 360% panoramic observation system designed to provide the vehicle crew with an omni-directional combat scene around their vehicle when the platforms hatches are closed.

Mass Storage Devices – for storage of maps and battle command information using solid state memory devices based on commercial off-the-shelf and PCMCIA technology.

Commander Panoramic Sights - for 360° independent panoramic target location and identification and gun-turret direction, using day and night vision systems.

Laser Warning Systems and Threat Detection Systems – for identifying and pinpointing the angular direction of laser sources generated by laser range-finders and laser guided and laser beamrider missiles.

Dominator™ enables full situational awareness from the infantry battalion level down to the individual soldier, including a personal digital unit, tactical communications unit, eye piece, weapon-mounted fire control system, helmet, CORAL-CR, power-pack and communications system.

Ground Electronic Countermeasures (GECM) Systems - for protection of ground vehicles and convoys from Improvised Explosive Devices (IEDs) and other threats.

Unmanned Ground Vehicles (UGVs) – dedicated autonomous vehicles, equipped with sensory perception and artificial intelligence capabilities for various land based applications.

Mini-Unmanned Ground Vehicles (Mini-UGVs) – mini-UGV devices used by land forces for tactical missions.

Simulator and Training Systems - for tank and fighting vehicle training, based on optical and computerized image generation technology.

Hydraulic Systems – for vehicle fueling, braking, suspension and power pack operation.

Life Support Systems – for environmental, climate and nuclear, bacterial and chemical (NBC) protection and control.

C4I and Government Information Systems

Digital Army "System of Systems" - advanced combat concepts geared to increase operational effectiveness and connectivity throughout all land force echelons, in all combat situations, under a unified operational concept, providing computerized systems down to the single soldier level to facilitate transmission of integrated, real-time situation pictures to and from all battlefield and command echelons.

Combat NG Artillery Fire Control and C4I Systems - for C4I applications among field artillery units deployed from the platform to brigade levels, managing all aspects of artillery operations and fire control, including for theater missile defense applications.

Battlefield Management Systems - comprehensive solutions comprising advanced electro-optical sensors, multi-functional displays, command and control software, information and dissemination systems and advanced mission computers, for enabling coordination between fighting vehicles, that provide situational awareness to peace-keeping operations and maneuvering forces, including combat vehicles, engineering corps and logistic support personnel.

Headquarters and Force Maneuvering Management Systems – integrated command and control systems for maneuvering forces, providing updated situational awareness, command dissemination and decision support tools.

Tactical Ground Reconnaissance Systems - for border control and ground reconnaissance operations.

Digital Soldier Systems – for future digital soldiers, equipping individual soldiers with computers, helmets, communication systems and weapon systems.

TORC2H® – integrated operational command control headquarters system that closes the sensor to shooter loop and facilitates data collection and border patrol operations.

MapCore – software design kit providing mapping capabilities for application programmers, capable of manipulating 2D maps, 2.5D maps (2D maps with elevation) and 3D maps (terrain visualization) in the application's user window and serving as an infrastructure for developing moving maps, mission planning and debriefing, C4ISR and simulator systems.

Enhanced Tactical Computers (ETC) – tactical computers comprised of modular military terminals designed to withstand military environments and operate for military field use.

PCMCIA - communication controller modem installed in an ETC, providing high level connectivity.

Tactical Battle Company Trainers – for training commanders and staff from company-level to battalion battle company and brigade-level operations.

TIGER™Tactical Internet Geographic Dissemination in Real-Time System - providing real-time quality decision making information to various levels of combined forces.

Information Technology Systems - for crime prevention, information management, border control and other governmental applications.

Integrative Component-based Exploitation (ICE) System - integrative component based exploitation system designed to provide an end-to-end solution for the entire operational cycle of satellite and airborne digital imagery.

Anti-Money Laundering Systems - information technology systems for law enforcement anti-money laundering and combating of terrorist financing activities.

Military Communications Systems

Tactical Radio Systems – comprehensive HF, VHF and UHF radio communications solutions for maneuvering tactical forces and headquarters, featuring secured and anti-jamming voice and data communications capabilities to enable efficient and effective command and control at all echelon levels.

Multi-Channel Radio (MCR) Systems - ECCM-capable, anti-jamming MCRs, especially suited for dense military communications conditions, providing broadband, yet frequency-spectrum efficient communications between headquarters.

Advanced Power Amplifiers – RF power amplifiers for ground mobile, shipborne, airborne and fixed-station applications, covering a wide range of frequencies and power levels and featuring advanced linearization techniques, high capacity data handling capabilities, low power consumption and high spectral efficiency.

Tactical Computers and Communication Terminals – advanced and small rugged handheld/mobile computers providing the combat echelons in the battlefield with digital messaging and navigation capabilities in support of C4I applications and Ruggedized Personal Digital Assistants (RPDAs), with functionalities similar to those of civilian PDA products, providing digital mapping, navigation, route planning, situational awareness, tactical information sharing, mission planning and other digital battlefield applications under combat conditions.

Integrated Radio Communication System (IRCS) – combines a diverse range of communications networks including regular telephony, wireless communications and advanced technology-based networks such as IP and fiber optics into one integrated network.

Power HF Communication System – a turn-key, advanced high-power HF radio communication system with optimized resource management and allocation facilities and automatic backup for strategic fault-free, long-range operational needs.

Bro@dNet Communication System – for point-to-multi-point, high-capacity broadband, IP-based data, video and voice communications based on wireless broadband WiMAX technology.

AW@RENET Communication System – a tactical situation awareness command, control and communication system that enables the commanders and soldiers in the field to access and share real-time tactical information via tactical radio networks by means of end-to-end IP tactical internet connectivity.

Mobile Net Communication System – compact and scalable, "out-of-the-box" secured cellular mobile network solution for fast-deployment applications.

Tactical Data Communication Systems – for network centric information exchange for ground applications, using data radios, modems, protocols, message handling systems, voice over IP and tactical internet.

MAXESS™ Military Wireless LAN – immune wireless systems for wideband data transmission, with high survivability in dynamic and noisy military environments.

Barkanit – communication solution for maneuvering divisions' headhunters.

Electro-Optic and Countermeasures Systems

FLIR Systems - for thermal imaging observation without need for natural or artificial light for air, land and sea platforms, including hand-carried portable solutions.

Laser Range-Finders and Designators - for range finding and designation of targets for air, land and naval platforms based on solid state flash lamp and diode pumped technologies, including eye-safe systems.

Laser Radars – for helicopter obstacle detection and avoidance during flight.

Payloads - for observation, target acquisition, target engagement training and fire control using stabilized line-of-sight systems, incorporating laser range-finders or designators and thermal and TV cameras.

Countermeasures Systems – for ground, shipborne and airborne applications.

Aerial Reconnaissance Systems - for long-range and day/night IMINT information collection from high, medium and low altitude in penetrating and stand-off missions using digital photography, transmission, processing and display systems.

Long-Range Day & Night Surveillance Systems - for improving day and night vision, including computerized information processing.

Space Cameras and Telescopes – advanced panchromatic and multi-spectral cameras for high resolution, remote sensing satellites for commercial and military space IMINT, supplying high resolution ground images and for scientific space research.

Homeland Security Systems

Long and Short-Range Observation Systems – various integrated day/night/laser designated surveillance solutions covering 1 – 15 kilometer observation and detection ranges for security applications.

Electronic Fences – high and dual technology (tot-wire and vibration cable) electronic fences for border and airport applications.

Border and Coastal Surveillance Systems – integrated, C4I based systems for maritime, coastal and border guard control, including C4I tactical pictures based on radars, electro-optical observation systems, tactical UAVs and surveillance vehicles.

Surveillance Vehicles – integrated mobile solutions for radar electro-optical surveillance operation in border, perimeter and coastal applications.

Airport Security Systems – integrated security control for airports providing civil aviation authorities means to control airport perimeters, access to/from the indoor areas, closed-circuit TV and electro-optical surveillance over perimeter and runways as well as security control centers.

Access and Border Control Registration Systems – integrated IT/biometric solutions for national border gates passengers and vehicle integrated screening for access, including automatic point of entry applications.

Tactical Mini-UAVs – for border and critical site surveillance and threat assessment activities.

EW and SIGINT Systems

EW Suites -advanced self protection integrated capabilities for various types of combat aircraft, naval and ground platforms, covering multi-spectral bands (RF, Laser and IR).

SIGINT Systems – full electromagnetic spectrum, SIGINT (ELINT, COMINT and DF) systems for tactical and strategic intelligence gathering for airborne, ground and naval applications.

Electronic Counter Measures (ECM) – wide range of systems for self protection and electronic attack for airborne, naval and ground platforms including SPJ (Self Protection Jammer), EJ (Escort Jammer) and COMJAM (Communication Jammer).

Counter Improvised Explosive Devices (CIED) – a range of electronic jammer anti-bomb products, including cellular selective jammer and protection systems from IEDs.

Data Links and Video Dissemination Systems – smart data link solutions for unmanned platforms, guided weapons and satellites and video dissemination for airborne, ground and naval applications.

Microwave and Microelectronic Solutions – wide range of products including components, super components and microelectronics for EW, radar and communication systems.

Spectrum Management & Control Systems – for security and commercial government requirements.

Search and Rescue Systems – advanced solutions for pilots and rescue teams for the combat arena as well as personal search and rescue systems for non-combat situations.

Organizational Structure - Principal Subsidiaries

Our beneficial ownership interest in our major subsidiaries and investees is set forth below. Our equity and voting interests in these entities are the same as our beneficial ownership interests.

Elbit Systems of America

We conduct most of our business in the United States through Elbit Systems of America, LLC (ESA), a Delaware limited liability company, and its wholly-owned subsidiaries including: EFW Inc. (EFW), Kollsman, Inc. (Kollsman) and International Enterprises, Inc. (IEI). ESA also

includes Talla-Com, Tallahassee Communications Industries, Inc. (Talla-Com) and Talla-Com's wholly-owned subsidiaries Tallahassee Technologies, Inc. (Talla-Tech) and Mobat USA, Inc., all of which came under the control of ESA in January 2008. Ownership of Talla-Com will be transferred to ESA upon completion of the TadComm merger with Elbit Systems. See below – "TadComm."

ESA was formally established as a legal entity in January 2007, however, we have owned some of ESA's subsidiaries since 1992. References below to ESA include activities of ESA's subsidiaries in periods prior to 2007. ESA provides products and system solutions focusing on U.S. military, commercial aviation, homeland security and medical instrumentation customers. We hold our 100% interest in ESA through a Delaware holding company, Elbit Systems U.S. Corp. (ESC).

In January 2008, ESA reorganized along a number of main business lines operating out of four primary operational facilities. The business lines include Airborne Solutions, Land Solutions, C4I Solutions, Sensor and Electro-Optics Solutions, Services and Support Solutions, Commercial Aviation – Kollsman and Medical Instruments – KMC Systems. ESA's main operation centers include its operations in Fort Worth, Texas; Merrimack, New Hampshire; Tallahassee, Florida and Talladega, Alabama. These are in addition to ESA's 50% ownership in Vision Systems International LLC as described below.

Main Activities

ESA's main activities in the area of airborne solutions are related to the design, production and support of a range of avionics products and systems . Airborne platforms supported by ESA include most of the fighter, transport and rotary-wing aircraft used by the U.S. Armed Forces. In land solutions ESA's main activities include the design, production and support of combat vehicle mission processors and electronic subsystems, CREW systems, unmanned turrets and weapon stations and robots. ESA is involved with land platforms and programs including the Bradley A3, MLRS, HIMARS, VHP Hunter (CREW 210) and the MIA1 loader remote weapon station. ESA's C4I solutions main activities include military communications, ruggedized computers as well as command and control systems and products for DOD and U.S. Department of Homeland Security requirements. ESA's sensors and electro-optics main activities and programs include thermal binocular systems, long-range thermal imagers, portable laser designator rangers, thermal laser spot imagers, common laser designator range-finders, fire control systems and the Night Targeting System upgrade program.

ESA's airborne, land, C4I and sensors and electro-optics solutions' principal customers include the U.S. Army, U.S. Marine Corps (USMC), U.S. Navy (USN), U.S. Air Force (USAF), U.S. Coast Guard and various U.S. defense contractors, including Lockheed Martin, Boeing, BAE, Bell Helicopter, Sikorsky Aircraft and Oto Melara.

ESA's services and support main activities include the repair, maintenance and logistics support for a wide variety of military electronic systems and components manufactured by numerous original equipment manufacturers (OEMs) installed on aircraft, helicopters and ground support equipment for the U.S. military and other customers worldwide.

ESA's commercial aviation main products include the Vision Based Cockpit™ concept, incorporating our All Weather Windows® Enhanced Vision System (EVS II), General Aviation – Vision System (GAViS™), Advanced Technology Head-Up Display and Micro-ViS™ head-up display system. Commercial aviation products also include cabin pressurization control systems, air data test equipment, air data processor/sensor systems and flight instruments for the general aviation market. Legacy products for commercial aircraft include altimeters, pressure meters, cockpit indicators and avionics test equipment. ESA's commercial aviation systems and products are installed on aircraft including the Gulfstream 150, 200, 300, 350, 400, 450, 500 and 550, the Boeing MD-10 and MD-11, the Airbus A300 and A310, the Cessna CJ 1, 2, 3 and 4 Bravo, XLS, Citation Mustang, ENCORE, Hawker, Beechcraft 400XP and 800XP and King Air series. Major customers include Gulfstream. FedEx, Cessna, Sikorsky, Qubic, NAVICP, Diamond Aircraft, Grob Aerospace, Hawker Beechcraft and Jetcraft.

ESA's medical instruments activities are conducted by KMC Systems, Inc. (KMC), a subsidiary of Kollsman. Principal customers include Gen-Probe, Qiagen, Becton Dickenson, Biokit and GE Healthcare.

FMF. ESA also acts as a contractor for U.S. Foreign Military Funding (FMF) and Foreign Military Sales (FMS) programs. See below "Governmental Regulations – Foreign Military Funding."

Engineering and Manufacturing. Each of ESA's four major operational facilities has extensive engineering and manufacturing capabilities. ESA's facilities in Alabama, Georgia and Texas have significant maintenance and repair capabilities. See below "Manufacturing" and "Customer Satisfaction and Quality Assurance."

SSA. ESA, Elbit Systems, ESC and the DOD are parties to a Special Security Agreement (SSA). The SSA provides controls and procedures to protect classified information and export controlled data received by the ESA companies in performing U.S. Government contracts. The SSA allows the ESA companies to participate in classified U.S. Government programs even though, due to their ownership by Elbit Systems, the ESA companies are considered under the control of a non-U.S. interest. Under the SSA, a Government Security Committee of ESA's board of directors was permanently established to supervise and monitor compliance with ESA's export control and national security requirements. The SSA also requires ESA's board of directors to include outside directors who have no other affiliation with the Company. ESA's board of directors also contains officers of ESA and up to two inside directors, who have other affiliations with the Company. The SSA requires outside directors and officers of the ESA companies who are directors, and certain other senior officers, to be U.S. resident citizens and eligible for DOD personal security clearances.

VSI

Vision Systems International LLC (VSI) is a California limited liability investee company based in San Jose, California. EFW and Rockwell Collins Inc. (Rockwell Collins) each own 50% of VSI. Founded in 1996, VSI acts on a world-wide basis on behalf of Rockwell Collins and Elbit Systems/ESA in the area of helmet mounted display systems for fixed-wing military and paramilitary aircraft. VSI performs marketing, project management, contract administration and systems engineering. Elbit Systems, ESA and Rockwell Collins each have provided VSI with licenses to use their helmet mounted display technologies. In general, VSI subcontracts product development and production to its owners on an approximately equal basis. Each owner has equal representation in VSI's management.

VSI is the prime contractor to Boeing and Lockheed Martin for the design and manufacture of the Joint Helmet Mounted Cueing System (JHMCS) for the USAF, USN and U.S. Air National Guard (ANG) F-15, F-16 and F/A-18 aircraft. VSI also has contracts to supply helmet mounted display systems for fighter aircraft to the Israel Air Force (IAF) and numerous other international customers. VSI has developed a dual-seater version of the JHMCS and is in full scale JHMCS production for F/A-18. In addition, VSI is under contract to Lockheed Martin to develop the helmet mounted display system for the U.S. F-35 Joint Strike Fighter (JSF). See below "Current Business Operations – Helmet Mounted Systems."

Elop

Based in Rehovot, Israel, our wholly-owned subsidiary Elop operates in the area of electro-optic systems and products mainly for defense, space and homeland security applications. With significant design, engineering and manufacturing capabilities, Elop has a broad customer base, both in Israel and internationally.

Elop designs, engineers, manufactures and supports a wide range of advanced electro-optic air, space, land and naval systems and products described elsewhere in this Annual Report on Form 20-F. These include IMINT solutions, such as airborne reconnaissance systems and spaceborne and reconnaissance systems, observation and surveillance stabilized payloads, laser systems, head-up displays, thermal imaging systems, integrated sights and robotic sensors for ground applications and electro-optical homeland security and defense security systems. See below "Current Business Operations – Military Aircraft and Helicopter Systems – F-16 Programs - Aircraft Head-Up Displays - Aircraft Electro-Optic Systems - Aerial Reconnaissance Systems and - Electro-Optics Products for Helicopters; Commercial Aviation Systems - Commercial HUDs; UAS – Watchkeeper; Naval Systems – Electro-Optic Systems; Land Vehicle Systems - Merkava and - Thermal Imaging Systems; Electro-Optical and Countermeasures Systems; and Homeland Security Systems."

In 2007, Elop received the prestigious Israel Defense Prize for development of an innovative system for ground forces developed in cooperation with the IDF Ground Forces Command and the Directorate of Defense R&D of the IMOD. This was the fourth such prize awarded to Elop in the last 11 years.

TadComm. Tadiran Communications Ltd. (TadComm) is a wholly-owned Israeli subsidiary, with headquarters in Netanya, Israel. TadComm is engaged in the worldwide market for military communications systems and equipment and also active in the civilian communications market. See below "Current Business Operations - Military Communications Systems." TadComm has wholly-owned subsidiaries in the U.S. and Germany. In November 2007, Elbit Systems' Board of Directors approved a plan to merge TadComm into Elbit Systems and for TadComm's Israeli operations to be combined with Elbit Systems Land and C4I operations under a wholly-owned Israeli subsidiary, Elbit Systems Land and C4I – Tadiran Ltd., which was established in November 2007. Under the merger, ownership of the TadComm's U.S. subsidiaries will be transferred to ESA. The merger plan is subject to completion of certain approvals which are currently in the process of being finalized.

Elisra

Elisra is an Israeli company located in Bnei Brak, Israel, held 70% by Elbit Systems with the balance being owned by Elta Systems Ltd., a subsidiary of Israel Aerospace Industries Ltd. (IAI). Elisra has two principal wholly-owned Israeli subsidiaries – Tadiran Electronic Systems Ltd. (Tadiran Systems) and Tadiran Spectralink Ltd. (Tadiran Spectralink), each located in Holon, Israel.

Elisra and its subsidiaries provide a wide range of EW, SIGINT and C4ISR technological solutions. Elisra and its subsidiary's products are designed for airborne, naval and ground platforms and applications. Their main business areas include EW suites, airborne warning systems, SIGINT (including ELINT and COMINT) systems, electronic counter measures (including ECM and COMJAM), C4I systems for theater missile defense and artillery (through Tadiran Systems), spectrum management & control systems (through Tadiran Systems), smart datalink solutions for UAVs, guided munitions and satellites, video dissemination systems for naval, ground and combat aircraft applications (through Tadiran Spectralink), search and rescue systems (through Tadiran Spectralink), counter IED solutions (through Elisra and Tadiran Systems) and a range of microwave and microelectronic products. See below "Current Business Operations - Naval Systems – EW Systems and - Communications Systems; and EW and SIGINT Systems."

Elisra was a recipient of the prestigious Israeli Defense Prize in 2007 for development of a system based on advanced technological components together with teams from the IMOD R&D Directorate and the Israeli Air Force (IAF).

***Cyclone*.** Cyclone Aviation Products Ltd. (Cyclone) is a wholly-owned Israeli subsidiary of Elbit Systems. Located near Karmiel, Israel, Cyclone designs and produces composite and metal aerostructure parts for civil and military aircraft. Cyclone also performs maintenance, integration of systems and upgrades for aircraft and helicopters. In 2005, Cyclone acquired the assets of Israel Military Industries Ltd. (IMI) Aircraft Systems Division, which was involved in manufacturing weapons pylons and external fuel tanks for fighter aircraft. Both directly and through its affiliated company Snunit Aviation Services Ltd., Cyclone works with Elbit Systems in supplying flight training services for IAF fixed-wing aircraft and helicopters. Cyclone's customers include the IMOD, the USAF, Boeing, Lockheed Martin, Spirit AeroSystems, Vought Aircraft, Bell Helicopters, Sikorsky Aircraft, IAI, Aircelle – Safran Group and other aircraft manufacturers and end users around the world. See below "Current Business Operations – Military Aircraft and Helicopter Systems – Logistics Support Services and – Commercial Aviation Systems – Maintenance and Repairs and - Aerostructure Parts."

ELSEC. Elbit Security Systems Ltd. (ELSEC) (formerly Ortek Ltd.) is a wholly-owned Israeli subsidiary of Elbit Systems. Located in Sderot, Israel, ELSEC operates mainly in the fields of homeland security, EO surveillance systems, E-fences, border and coastal integrated security systems, aviation security systems, airport security systems and strategic perimeter sites security. ELSEC is participating in the coastal and border security programs in Israel and a range of other countries. See below "Current Business Operations - Homeland Security Systems."

Ferranti. Ferranti Technologies (Group) Limited (Ferranti), a wholly-owned U.K. subsidiary, was acquired by Elbit Systems in July 2007. Located in Oldham, U.K, Ferranti's principal activities include engineering, manufacturing and logistic support to aerospace and defense industries in the U.K. and internationally.

European Subsidiary. The European Subsidiary is a wholly-owned Belgium subsidiary located in Oudenaarde, Belgium. It develops, manufactures and supports electro-optical products, mainly for the defense and space markets.

Elbit Systeme. Elbit Systems S.A. (Elbit Systeme) is a wholly-owned Romanian subsidiary located in Bucharest, Romania. It serves as the base for our various defense and commercial operations and holdings in Romania.

Telefunken RACOMS. Telefunken Radio Communications Systems GmbH (Telefunken RACOMS) is a wholly-owned German subsidiary located in Ulm, Germany. Telefunken RACOMS is active in both military and civilian communications projects in Germany and internationally.

AEL. Aeroeletronica Ltda. (AEL) is a wholly-owned Brazilian subsidiary. AEL, located in Porto Alegre, Brazil, performs engineering, manufacturing and logistic support activities for defense and commercial applications.

U-TacS. UAV Tactical Systems Ltd. (U-TacS) is a British subsidiary located in Leicester, U.K., held 51% by Elbit Systems (through a wholly-owned U.K. holding company – Elbit Systems UK Limited), with the balance being owned by Thales UK Limited, a subsidiary of Thales S.A. (France). U-TacS' main business is to perform a major part of the Watchkeeper Program and other related programs.See below "Current Business Operations – UAS – Watchkeeper Program."

Kinetics. Kinetics Ltd. (Kinetics), based in Airport City, Israel, is owned 51% by Elbit Systems. The balance is owned by founding employees and private investors in Israel and the United States. Kinetics develops technologies, systems and products in the field of advanced life support and environmental controls, such as climate control systems and nuclear, biological and chemical protection systems for combat vehicles. Also, Kinetics develops and manufactures other products for land vehicles, such as hydraulic, fuel, braking and suspension systems, an auxiliary power unit for land vehicle power pack systems and hydraulic systems for aircraft. Kinetics sells its products to the IDF, the U.S. Army and other customers. Kinetics wholly-owns Real-Time Laboratories, LLC. a company based in Boca Raton, Florida, engaged in the U.S. market in similar activities to those of Kinetics. See below "Current Business Operations – Land Vehicle Systems – Environmental Control and Hydraulic Systems."

SCD. Semi-Conductor Devices (SCD) is an Israeli investee partnership equally owned by Elbit Systems and Rafael Armaments Development Authority Ltd. (Rafael). Located in Leshem, Israel, SCD develops and manufactures infrared detectors for thermal imaging equipment and laser diodes used in defense and commercial applications. See below "Current Business Operations – Electro-Optical and Countermeasures Systems."

Opgal. Opgal - Optronics Industries Ltd. (Opgal*)* is an Israeli investee company owned 50.1% by Elbit Systems and 49.9% by Rafael. Located in Karmiel, Israel, Opgal focuses mainly on commercial applications of thermal imaging and electro-optic technologies. Its developments include an enhanced vision sensor designed to assist in landing aircraft under limited visibility and harsh weather conditions. Opgal also designs thermal imaging cameras and FLIR systems for applications such as surveillance, industrial, medical and fire fighting. It also produces OEM FLIR cameras for defense applications. See below "Current Business Operations – Commercial Aviation Systems; and Electro-Optical and

Countermeasures Systems."

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Others. We have several other smaller subsidiaries and investee companies in Israel and other countries.

Recent Acquisitions and Divestitures

During the past year we continued to expand our capabilities through acquisitions and made a divestiture.

TadComm

In November 2007, our Board of Directors approved a plan to merge TadComm into Elbit Systems. Pursuant to the merger plan, TadComm will be merged into Elbit Systems and will cease to exist as an independent legal entity. Moreover, upon completion of the merger, our subsidiary, Elbit Systems Land and C4I – Tadiran Ltd., will assume TadComm's Israeli operations as well as those of Elbit Systems' Land and C4I Division, all in accordance with the merger plan. Also, pursuant to the merger plan, TadComm's U.S. subsidiaries will become owned by ESA. The merger plan is subject to its conditions precedent and is pending final approval of the Israeli Companies Registrar.

In April 2007, we completed a tender offer for the balance of TadComm's shares, increasing our ownership from 42% to 100%. Under the tender offer we paid a price of approximately $52.32 per share, resulting in total consideration paid by us under the tender offer, and for the balance of the shares remaining following the tender offer, of approximately $382 million. Such consideration was paid in cash. As a result of the tender offer TadComm ceased to be a publicly traded company. TadComm purchased the balance of the outstanding stock options for the same consideration per share as paid by us under the tender offer.

AeroAstro. In October 2007, we sold our approximately 8% interest in AeroAstro Inc. (AeroAstro) to Raydne Corporation for approximately $1.4 million. AeroAstro is a U.S. company engaged in micro and nano spacecraft applications for satellite systems and components.

Ferranti. In July 2007, we acquired the entire share capital of the U.K. company Ferranti Technologies (Group) Limited (Ferranti) for approximately $31 million. Ferranti, based in Oldham, U.K., is an established supplier of engineering, manufacturing and product support solutions to the aerospace and defense markets. It designs and manufactures electronic, power and control solutions with emphasis on reliable operation in harsh climatic and electromagnetic environments. Ferranti's customer logistic support services cover repair, overhaul, modification, integrated logistic support and post-design services. Ferranti provides enhanced access and support to our customers in the U.K. and Europe.

Current Business Operations

The contract amount for programs described below is provided only where the amount is considered to be material to the Company. The areas of operation described below often operate in an interrelated manner.

Military Aircraft and Helicopter Systems

Nature of Our Airborne Systems and Upgrades

Fighter, trainers and transport aircraft and helicopters require advanced electronic and electro-optic systems to perform their complex missions accurately, reliably and efficiently. Our airborne systems are used in upgrading and modernizing fighter aircraft and helicopters, extending the useful life of a fleet and provide a cost-effective alternative to replacing existing equipment. Our systems are also installed as original equipment in new aircraft.

Our airborne systems and products include, head-up displays, mission computers, digital maps, displays, display processors, weapon control systems, airborne C4I systems, FLIRs, laser products, EW systems, cockpit instruments, recording systems payloads and aerial reconnaissance systems. We also supply helmet mounted display and tracking systems as described below. By reducing the pilot's workload, these systems are designed to provide greater safety, accuracy, reliability and efficiency in performing missions. We also supply a comprehensive line of aircraft simulator and training systems.

Aircraft and helicopter upgrade programs are a part of our business strategy. We have implemented this strategy over the past several years in major upgrade programs for existing aircraft and helicopters.

As further described below, our business activities for military aircraft and helicopter systems include: aircraft avionics systems, aircraft upgrade programs, numerous programs for F-16 aircraft, head-up displays and other electro-optic systems for aircraft, aerial reconnaissance systems, helicopter upgrade programs, electro-optics products for helicopters, precision guidance systems, flight simulators, logistic support services, helmet mounted systems for fighter aircraft and helmet mounted systems for helicopters.

Aircraft Avionics Systems and Upgrade Programs

C-130 J Digital Map. In January 2008, ESA was awarded a contract by Lockheed Martin for the development of a digital map for the C-130J to replace the older production units. This program has production options for deliveries through 2011.

T-38. In August 2007, Elbit Systems received a contract from Turkish Aircraft Industries for supply of avionics equipment for the T-38 modernization program of the Turkish Air Force. The avionics package includes various displays and a comprehensive logistic package. Deliveries are to be completed through 2012.

IAR 99. In 2004, Elbit Systems, in cooperation with the Romanian aircraft manufacturer Avioane Craiova, was awarded a contract from the Romanian Defense Ministry to supply eight IAR-99 lead-in trainer aircraft. In January 2007, the contract was increased to add logistic support elements. The project is being executed in cooperation with Romanian industries, and we anticipate completing deliveries during 2008.

F-18 Displays. In 2004, ESA was awarded a contract from Boeing for the design and development of Upfront Control Display and Multi-Purpose Color Display units for F/A-18E/F aircraft. Under the terms of the contract, ESA is providing form, fit, function and interface replacements of the existing aircraft configuration in support of the F/A-18E/F Multi-Year II program, taking place through 2009. The contract award provides options for production units of up to 360 aircraft. The first of these production options was awarded to ESA in 2004, with additional options awarded in 2006 and 2007.

AL-X Brazil. In 2002, Elbit Systems was awarded contracts by the Brazilian Government and by a subsidiary of the Brazilian aircraft company Embraer – Empresa Brasileira de Aeronautica S.A. (Embraer) for the production and logistic support phases of the AL-X Super Tucano aircraft program for the Brazilian Air Force. Under the contracts we supply avionics systems, equipment and logistic support for 76 AL-X light attack and trainer aircraft being manufactured by Embraer for the Brazilian Air Force. This followed our completion of a development contract for the AL-X. We began delivering equipment for production aircraft in 2004. In January 2007, the Brazilian Government and Embraer exercised options for avionic systems for an additional 23 AL-X aircraft. Deliveries are scheduled through 2009. The avionics system for the AL-X includes an advanced mission computer, liquid crystal displays, head-up display, navigation system, digital video recorder and embedded GPS/INS radio altimeter. In addition, we are supplying simulators, planning mission stations and debriefing stations. Maintenance and logistic support to the Brazilian Air Force are provided mainly through our Brazilian subsidiary AEL. Program funding is provided in part through a financing arrangement between the Brazilian Government and commercial banks.

Colombia AL-X. In 2006, Elbit Systems received a contract from Embraer for the supply of avionic systems for 25 AL-X Super Tucano aircraft to be supplied by Embraer to the Colombian Air Force. Deliveries are scheduled to occur through 2009.

F-5 Brazil. In 2001, Elbit Systems began work under contracts for the Brazilian F-5 Aircraft Modernization Program. The program calls for the upgrade of 46 F-5 aircraft for the Brazilian Air Force. Our contracts for the program are with Embraer and the Brazilian Government, with a total value of approximately $230 million to be performed over an eight-year period. The contract with Embraer provides for an avionics upgrade, which includes an EW suite, mission computers, helmet mounted system, radar, displays and other avionics products. Delivery of production aircraft began in 2005. In January 2007, Elbit Systems was awarded an additional order to integrate further advanced capabilities in the F-5 aircraft. The contract with the Brazilian Government covers a logistic support program including establishment of an in-country maintenance center based at AEL. Program funding is provided through a financing arrangement between the Brazilian Government and commercial banks. We obtained an insurance policy from the Israeli Foreign Trade Risk Insurance Company covering up to 90% of our financial exposure under the program, subject to the policy's terms.

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Pampa. In 2001, Elbit Systems signed a contract with Lockheed Martin Aircraft Argentina S.A. for the avionics upgrade of 24 AT-63 Pampa aircraft for the Argentinean Air Force. We completed production deliveries during 2007, and in the first quarter of 2008 we received additional orders for spare parts.

F-16 Programs

For more than two decades, we have supplied numerous customers with systems and electronic components for F-16 aircraft. We have supplied systems for the IAF's entire F-16 fleet. In addition, we have received a number of contracts from the U.S. Government, Lockheed Martin, the prime contractor of the F-16, and others, to supply electronic and electro-optic systems for F-16 aircraft used by the USAF and other air forces.

In recent years, Elbit Systems, ESA, Elop and Cyclone have received a number of orders to supply additional systems and equipment, as well as to repair equipment, for F-16 aircraft of the IAF and other Lockheed Martin customers. We are supplying a wide range of items to Lockheed Martin for the new IAF F-16 aircraft (F-16I). These items include mission computers, helmet mounted systems, head-up displays, display systems, stores management systems, structural assemblies and other equipment.

In recent years, ESA was awarded F-16 related contracts to develop and supply the commercial central interface unit, color multi-function display systems and a digital video recorder. ESA also is supplying advanced air to ground, air to air and emergency jettison remote interface units to Lockheed Martin for an F-16 customer and supplies commercial data entry electronic units (CDEEU) for the F-16. In 2004, ESA was awarded a contract by the USAF to provide more than 2,000 CDEEUs for F-16 Block 40-50 aircraft and upgrade of pre-Block 40 F-16 aircraft. The contract is being performed over a four-year period. Also, in 2005, ESA was awarded a five-year multiple products, multiple quantity repair and maintenance contract from the USAF for various F-16 avionics components. In 2006, ESA was awarded a five-year contract by the USAF to provide depot level repair support for the Wide Angle Conventional HUD.

In April 2008, Lockheed Martin selected Elop to supply new generation head-up displays for new F-16 aircraft. Elop has been supplying the head-up display for the F-16I since 2001. Elop also supplies aerial reconnaissance systems for the F-16 for oblique photography.

Since its 2005 acquisition of the assets of IMI's Aviation Systems Division, Cyclone manufacturers pylons for F-16 aircraft. Also, for a number of years Cyclone has manufactured the leading edge flap for U.S. Air Force F-16 aircraft. In January 2007, Cyclone was awarded a contract by Lockheed Martin to supply structural components for F-16 aircraft ordered by the Hellenic (Greek) Air Force, including leading edge flaps horizontal stabilizers, ventral fins, rudders and center line pylons. Deliveries are scheduled through 2008.

As of December 31, 2007, our overall F-16 related systems and components backlog, which extends through 2010, totaled approximately $115 million.

Fighter Aircraft Structural Components and Fuel Tanks. In December 2007, Cyclone was awarded an initial contract from the USN to supply 300-gallon fuel tanks to be installed on F-18 aircraft. Deliveries are schedule to take place through 2013. In 2006, Cyclone was awarded a contract by Boeing for structural components for Boeing's F-15 aircraft, including external fuel tanks, pylons, horizontal stabilizers and gun access doors. Deliveries are scheduled to be completed in 2009.

Aircraft Head-Up Displays. Elop supplies its head-up displays for fixed-wing fighter and trainer aircraft such as the F-4, F-5, F-16, T-38C, MiG-21, Mig-27, SU-30, A-4, AL-X. AM-X, AT-63 Pampa, IAR-99, Jaguar, KO-1, L-39 and Mirage.

Aircraft Electro-Optic Systems. Elop supplies laser range-finders for a range of airborne platforms. Elop also has supplied laser designators for other airborne applications such as the laser designator for the U.S. Apache and the French Tiger helicopters, the USN's Nite Hawk pod and for pods of other customers.

Aerial Reconnaissance Systems. Elop supplies airborne reconnaissance systems for a range of fighter aircraft including the F-16. In 2005, Elop was awarded a contract by the Republic of Korea Air Force (ROKAF) to supply real-time EO/IR long-range oblique images systems for ROKAF F-16 aircraft. The contract is to be performed over a three-year period. A program to supply airborne systems for the Turkish Air Force ceased in 2006, subject to mutually acceptable provisions, and Elop was invited to compete on a similar program with updated requirements.

HALBIT Joint Venture. In May 2007, Elbit Systems, Hindustan Aeronautics Ltd. (HAL) and MerlinHawk Associates Private Limited established HALBIT Avionics Private Limited (HALBIT) as an Indian joint venture company. HALBIT, in which we hold a 26% interest, was established to jointly market, design and integrate avionics and simulator products in the Indian market and other agreed markets.

Helicopter Upgrade Programs

OH-58D Displays. In January 2008, ESA was awarded a contract by the U.S. Army to replace the current displays with a new 5X7 display for the OH-58D helicopter. This order is for the production of up to 650 displays with deliveries through 2010.

Korean Helicopter Upgrades. In 2006, Elbit Systems was awarded a contract by Korean Aerospace Industries Ltd. to provide technical assistance for a Korean helicopter upgrade program, to be performed through 2011. Also, in 2006, Elbit Systems was awarded a contract by the Korean Ministry of National Defense to perform portions of a large scale project for helicopters upgrades. The contract is being performed over a three-year period.

Romanian Helicopter Upgrade Programs. In 2005, Elbit System won two contracts to upgrade helicopters to NATO standards for the Romanian Air Force and Navy. The contracts, which are being performed in cooperation with the Romanian aircraft manufacturer IAR S.A. Brasov, are being performed over a three-year period.

IAF Mission Management System. In 2005, Elbit Systems was awarded a contract to provide the IAF with a command and control mission management system for helicopter platforms. This advanced system provides combat forces with a real-time updated situational picture, which enables them to share mission critical data based on data communications. The system allows all mission participants to benefit from an accurate tactical picture for enhanced situational awareness, as well as effective synchronized operation on the battlefield. The system enables support coordination, identification of friendly forces and prevention of inadvertent gunfire. Follow-on orders were received for additional capabilities with deliveries extending through 2009.

Apache Mission Computer. In 2004, ESA was selected by Boeing to design a new mission computer for the Apache AH-64 helicopter. The contract was completed in 2006. In March 2007, ESA received a follow-on master development and production contract for integration of the mission processor on the Apache Block 3 program, with development deliveries to be completed in 2008.

Turkish S-70 Blackhawk. In 2003, Elbit Systems received a contract from Turkish Aerospace Industries for the modernization of the Turkish Armed Forces Command Sikorsky S-70 Blackhawk helicopters. We act as the avionics systems integrator and are developing and supplying “glass cockpit” avionics and advanced mission equipment. The program is being performed in two stages, development and production, over a six-year period.

V-22 Digital Map and Display Systems. We supply both digital maps and multi-function display systems for the U.S. Armed Forces’ V-22 Osprey tilt rotor aircraft (V-22). Our digital map provides pilots with real-time high resolution digital topographical images and other information pilots need to perform their missions. Over the last several years Boeing has awarded ESA V-22 related contracts for the development and supply of the digital map system, a contract for the Active Matrix Liquid Crystal Multi-function Display Upgrade Program, a series of interface units, redesign of the display electronic unit and digital map and production orders for second generation digital map and display electronics. In 2005, ESA was awarded a development contract for the second generation of the V-22 primary flight display, and in 2006 and 2007 ESA received additional production of orders for various V-22 items, including interface units, digital maps, displays, display electronics and head-up displays.

Digital Maps and Displays for Eurocopter. In 2003, we received a contract from Eurocopter S.A. (Eurocopter) to develop and supply flight displays systems for French search and rescue helicopters. Deliveries under orders received to date under this contract are being made through 2009. This followed earlier contracts from Eurocopter for display development and supply of digital map systems and displays.

***Electro-Optic Products for Helicopters*.** Elop supplies several products for heliborne applications. These include laser range-finders and target designators including those based on solid state diode pumped laser technology. In 2002, Elop was awarded a contract to develop and supply its Laser Obstacle Ranging & Display Systems (LORD) for IAF helicopters, which has successfully completed its advanced multi-functional flight test series. Performance of the contract is through 2008. In 2005, Elop's LORD system received Flight International's Aerospace Industry Award in the Avionics and Electronics category. Elop and ESA have completed the development of a common laser designator for both the upgrade of the Gun-Ship C-130H aircraft and the TSS Hawkeye Cobra AH-Z helicopter. Elop also supplies the laser-spot tracker integrated with the fire-control system, as well as display monitors, for the AH-64 Apache helicopter. ESA supplies the upgraded FLIR enhanced night targeting system for the USMC's AH-IW Super Cobra helicopters. Elop also supplies electro-optic payloads for a variety of helicopters,such as the Sea King, Cheetah, Mi-17 and Mi-24.

Precision Guidance Systems

OPHER and Lizard. In the area of guided munitions, we developed and are supplying our "Whizzard" family of precision guided systems. The Whizzard family includes the "OPHER" and "Lizard" systems. OPHER is a thermal-imaging, autonomous precision guidance system. The Lizard system provides munitions guidance towards laser designated targets. We have supplied OPHER systems to customers such as the IDF, the Italian Air Force and the Romanian Air Force and are currently supplying Lizard systems to the Italian Air Force. In March 2007, Elbit Systems was awarded a contract to supply Lizard systems for the IAF that were delivered during 2007. In October 2007, Elbit Systems was awarded a follow-on order for deliveries during 2008.

JDAM. In 2004, ESA was awarded an order from Boeing to modify a Lizard Semi-Active Laser (SAL) seeker to serve as the SAL seeker for Boeing's JDAM munitions, adding the capability of laser terminal guidance against targets of opportunity and moving targets. The laser JDAM development program has been completed with a successful test conducted by the USAF and USN. ESA was awarded a production contract by Boeing for laser seekers in May 2007, with deliveries scheduled through 2012. During 2008, ESA will be supporting Boeing in a follow-on USN competition for the Direct Attack Moving Target Capability weapon.

Viper Strike. In 2003, under an order received by ESA from Northrop Grumman Corporation (NG), our semi-active laser seeker was successfully tested with NG's brilliant anti-tank (BAT) munitions – Viper Strike. Orders for additional units were received through 2006. These munitions are used in connection with the Hunter UAV, the Predator UAV and the AC-130 gunship. New derivatives of this product are being modified for use on other platforms, with ESA is continuing deliveries of Viper Strike seekers through 2008.

Flight Training Services

We provide a range of aircraft flight training solutions and operation of training aircraft on private financing initiative (PFI) and "power by the hour" (PBH) arrangements.

In February 2007, Elbit Systems was awarded a contract to establish a training center for “Tzofit” (King Air B200 Beechcraft) for the IAF. The training center operates through a PFI program, with Elbit Systems providing the IAF a turn-key solution including the establishment of the training center, its operation and the supply of simulators, training services and maintenance for a ten-year period. The IMOD purchases from Elbit Systems flight training hours for the IAF. The center is established on civilian property, and for the first time in Israel such a training center also serves civilian pilots, providing them training in accordance with international aviation requirements while using local flight simulators and facilities.

In 2004, Cyclone was awarded a ten-year contract from the IMOD for the operation and maintenance of the helicopters of the IAF Flight School. Under the contract, which is executed by providing flight hours on a PBH basis, Cyclone provides full maintenance services to the IAF Bell 206 and Bell 209 Cobra AH-1A helicopters.

In 2002, Snunit Aviation Services Ltd., an Israeli company established by Elbit Systems and Cyclone, was awarded a contract for the supply and operation of the Grob 120A light trainer aircraft for the IAF. The contract for operation of the aircraft is for ten years and was the first PFI program adopted by the IAF. Under the PFI concept, we purchase, own, maintain and operate the aircraft and make them available to the IAF, who is charged according to flight hours.

Training and Simulators

We provide tactical, virtual and embedded training and simulation programs offering across-the-board systems engineering and integration expertise applied to a comprehensive line of training and simulation solutions for airborne platforms. These solutions range from mission preparation, through execution, to post-mission debriefing and analysis. Our total solution concept encompasses ground support systems, including mission planning and debriefing for pre-and-post multi-mission rehearsal and review.

Our training systems include virtual training systems such as the Advanced Combat Training System (ACTS) for fixed-wing aircraft and HeliACTS for helicopter crew training. We also supply live, virtual and constructive training systems. In addition, we offer comprehensive simulator support services such as contractor logistics support (CLS), training, manuals and spare parts.

In 2006, Elbit Systems was awarded a contract by the IMOD to supply the avionics simulation system, cockpit and visual system for the IAF’s F-16I aircrew flight and system trainer. This contract is being performed in cooperation with Lockheed Martin and is to be completed over a two-year period. We also supply simulators for aircraft such as the F-16A, F-16C/D, Puma, ALX, F-4E, F-5, Mi-8, Mi-24, Sea-King, MiG-21, IAR 99 and Mirage 2000.

In addition, we supply trainers for land, naval and UAV applications.

Logistic Support Services

We provide logistic support services for fixed-wing aircraft and helicopters such as repair, maintenance and supply of spare parts to the IAF and other customers, often as a part of our upgrade and other programs. Acquisitions in recent years have added to our logistic support capabilities

for a wide range of aircraft in Israel, the United States, Brazil and for other customers.

Cyclone performs various levels of maintenance services for a number of types of military and commercial aircraft and helicopters. Its facilities near Karmiel, Israel include hangars and a runway. Cyclone also has a license to use another runway and facilities in Israel for aircraft maintenance for the IAF. In May 2007, Cyclone assumed responsibility for maintenance activities for the Israeli Police helicopters on a PBH basis for a two-year period. The maintenance is done at the Police facilities and is subject to the Israeli CAA rules and regulations.

At ESA in Alabama, Georgia and Texas, we repair and maintain electronic systems and components for aircraft, helicopters and ground support equipment for U.S. and other customers. ESA also assists customers in establishing the appropriate level of maintenance and repair close to the user to improve operational readiness. At AEL in Porto Alegre, Brazil, we are implementing a logistic support center for our aircraft modernization programs for the Brazilian Air Force.

In 2007, our revenues from flight training services, services relating to training and simulators and logistic support services were not significant.

Helmet Mounted Systems

Fighter Aircraft Helmet Mounted Systems

DASH. Our pilot helmet mounted systems are in operation with a number of customers throughout the world. Over the last 20 years we have been designing and manufacturing Display and Sight Helmet (DASH) systems. DASH allows the pilot to target the weapons systems by looking at the target and also displays flight information on the helmet's visor. The DASH system has been purchased by the IMOD for the IAF's F-15I and F-16I aircraft, as well as by other customers.

JHMCS

Since 2000, VSI has received several contracts from Boeing and Lockheed Martin to supply production quantities of the Joint Helmet Mounted Cueing System (JHMCS) and associated development and integration efforts. The JHMCS was developed under contracts awarded by Boeing and Lockheed Martin to VSI. It is used in USAF and ANG F-15 and F-16 and USN F/A-18 fighter aircraft and has been successfully flown in all three aircraft types. The JHMCS provides visual information to the pilot and other crew members, based on the position and orientation of the operator's head. The JHMCS provides the pilot with "first look, first shot" high off-boresight weapons engagement capabilities. The system enables the pilot to accurately cue onboard weapons and sensors against enemy aircraft and ground targets without the need to aggressively turn the aircraft or place the target in the head-up display for designation. Critical information and symbology, such as targeting cues and aircraft performance parameters, are graphically displayed directly on the pilot's visor.

Starting in 2004, VSI has been awarded several contracts by Boeing for Low Rate Initial Production and Full Rate Production (FRP) lots for the JHMCS. Contracts were awarded in 2006, to meet FRP Lot 3 requirements. These orders fulfill U.S. Government domestic requirements for USAF F-15 and F-16, ANG F-15 AND USN F/A-18 Single Seat and Dual Seat platforms, as well as FMS production and spare commitments. In October 2007, VSI received additional orders to meet FRP Lot 4 requirements. As of April 30, 2008, VSI is supplying JHMCS to 22 countries. VSI also received direct contracts from the USN and USAF for spares and test equipment in support of the JHMCS. The contracts are to be completed through 2009. These orders bring VSI's total JHMCS production quantity to more than 3,200 systems ordered, with approximately 2,500 systems delivered as of April 30, 2008.

ESA's facilities in Talladega serve as the depot repair center for the JHMCS electronics unit.

JSF. In 2003, VSI was awarded a contract by Lockheed Martin to develop the helmet mounted system for the U.S. F-35 Joint Strike Fighter (JSF) Program. The contract was increased in 2005 to a total of approximately $156 million. VSI supported the successful JSF prototype flight test in April 2007, which included the helmet mounted display system, and the majority of the development effort is scheduled to be completed in 2008, with continuing support activities through 2012. The JSF helmet mounted display system is expected to contain the most advanced helmet mounted display ever designed and will be used as the aircraft's primary flight and weapon delivery system. In October 2007, the JSF helmet was assessed in the RAFCAM Hawk aircraft at Boscombe Down in the U.K.

NVCD. In 2006, VSI was awarded two contracts by the USN and USAF to supply the Night Vision Cueing and Display System (NVCD), which includes Panoramic Night Vision Goggles (PNVG) for evaluation and test flight by USN and USAF tactical aircraft. The PNVG is based on the "Quad Eye"™ product developed by ESA.

Helicopter Helmet Mounted Systems

NVG/HUD

Our Night Vision Goggles Head-Up Display (NVG/HUD) system allows helicopter pilots continuous head-up operation, which greatly improves night-flying safety.

In 2005, ESA was awarded a framework Indefinite Delivery / Indefinite Quantity (IDIQ) contract by the DOD to supply ANVIS/HUD® systems for U.S. Army utility helicopters and other DOD rotary-wing platforms. Under this contract, the U.S. Army may place purchase orders with ESA for ANVIS/HUD® systems from time to time over a five-year period for up to the aggregate amount of the contract. Over the past fifteen years Elbit Systems and ESA have supplied more than 4,000 NVG/HUD systems for a variety of U.S. Army and other U.S. Armed Forces' programs.

The NVG/HUD is operational in the IAF, having been integrated into various assault and attack helicopters. In recent years, we also received contracts to supply NVG/HUD systems for customers and end users in Korea, Australia, Canada, the U.K. and other countries. In June 2007, Elbit Systems was awarded two contract for ANVIS HUD® systems from two NATO countries. In 2002, ESA was selected to supply NVG/HUDs for the Agusta 129 helicopter over a five-year period.

ARH. In 2005, ESA was selected by Bell Helicopter to provide the Helmet Display Tracking System (HDTS), also referred as Aviator Night Vision Imaging System/Head-Up Display for 24 hours a day (ANVIS/HUD® 24), for the U.S. Army's Armed Reconnaissance Helicopter (ARH) program. Under ESA's contract with Bell Helicopter, ESA is supplying the HDTS for each ARH aircraft ordered by the U.S. Army from Bell Helicopter that contains an HDTS requirement, up to 500 aircraft. The ARH Program currently forecasts a production quantity of approximately 500 aircraft over a seven-year period. In 2006, ESA was selected to provide two additional systems for ARH, including the data transfer system and the rocket interface unit. The Limited User Test for the ARH was satisfactorily completed in March 2008.

IHADSS. In 2000, ESA acquired Honeywell's display and orientation products business, which mainly included supply of the Integrated Helmet Display and Sighting System (IHADSS) for the U.S. Army and other users of Apache helicopters and for the Italian-made Agusta 129 helicopter. The ESA Warner Robins Support Center provides depot level repair support for all IHADSS customers. In 2002, Boeing awarded ESA the IHADSS 21 contract to upgrade the AH-64 Apache IHADSS with new electronics to achieve increased image resolution to accommodate longer range thermal imaging systems being developed for the AH-64. Transition to full-rate production is ongoing, with Lot I scheduled to begin during 2008.

Commercial Aviation Systems

Several of the entities in the Company are engaged in the design, development and manufacture of a range of systems and products for the commercial and general aviation markets. This includes products for business jets, very light jets, search and rescue and transport helicopters and other general aviation platforms.

EVS

As part of its Vision-Based Cockpit™ concept, ESA designs and produces the All Weather Window® Enhanced Vision System (EVS) for commercial aircraft. The EVS utilizes an advanced FLIR system developed together with Opgal. EVS projects an image on the pilot's head-up display, providing FLIR picture overlaying the outside view in a conformal manner. It is designed to improve flight safety and situational awareness and allows the pilot to detect lights and ground features such as runways, aircraft and buildings at night and in low visibility conditions. Since receiving U.S. Federal Aviation Administration (FAA) certification in 2001 for the installation of the EVS on General Dynamics' Gulfstream-550 business jet, EVS is installed as standard equipment on Gulfstream-400, 450, 500 and 550 aircraft and is an option on Gulfstream G-150, G-200 and G-350 aircraft. In 2006, ESA was awarded additional follow-on orders for EVS by Gulfstream for all Gulfstream large cabin aircraft models. EVS II, the second generation Enhanced Vision System, was certified on the Gulfstream G-350 through G-550 aircraft in December 2007 and will be phased into production during 2008.

During 2006, ESA's EVS was awarded the New Hampshire High Technology Council's Product of the Year Award. In 2003, EVS was selected for installation on FedEx Express' Boeing MD-10 and MD-11 and Airbus A300 and A310 aircraft fleet. Certification was received in March 2008, with installations on aircraft beginning in mid-2008. EVS II was also selected by Jetcraft Corp. for the retrofit business jet market.

AALC Program. In 2006, ESA teamed with BAE Systems in support of the Air Force Research Laboratory (AFRL) Autonomous Approach and Landing Capability (AALC) program. The AALC program is a funded technology demonstration program by AFRL and industry to develop a sensor, database and display system that provides Air Force Air Mobility Command aircraft crews the ability to land at prepared and semi-prepared airfields in zero ceiling/zero runway visual range meteorological conditions. The meteorological conditions can include rain, fog, snow, dust, sand and other suspended and blowing particles. ESA is responsible for providing an integrated short wave infrared and medium wave infrared sensor for fusion with BAE Systems' 94 GHz radar image for the head-down display and head-up display.

Sandel. In 2006, ESA acquired a 20% interest in Sandel, a U.S. company engaged in the development and production of specialized integrated display systems and other products, primarily for the general aviation market. Sandel's product line includes a terrain avoidance warning system and an electronic horizontal situation indicator, among others. ESA intends to integrate some of its recent commercial aviation products with Sandel's displays for the general aviation market. ESA has an option that expires in the fourth quarter of 2008 to acquire the balance of the shares of Sandel.

GAViS™. The GAViS™ is a small, light weight, low cost, infrared based vision system for general aviation aircraft. It is a single aerodynamic unit that mounts like an antenna on the top or bottom of the aircraft and provides the pilot with increased situation awareness with a real-time video image on a head down display at night and in some other low visibility conditions. In March 2008, Piaggio America and Jetworks Air Center selected GAViS™ for the Avanti aircraft, with certification scheduled during 2008. In 2006, Grob Aerospace of Germany selected the Kollsman GAViS™ for the Grob SPn light utility business jet. The GAViS™ has been certified on a Citation 550 aircraft and has received product parts manufacture approval. GAViS™ is in full production.

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Commercial HUDs. In 2003, ESA entered into a contract with Honeywell International Inc. to develop and supply, together with Elop, head-up display overhead projection units for the Federal Express (FedEx) fleet. The contract calls for deliveries through 2012. In November 2007, a new Advanced Technology Head-Up Display was selected by Jetcraft Corp. for the retrofit business jet market and is scheduled to be certified during 2009. During 2007, the FedEx head-up display was certified on the FedEx aircraft fleet.

Cabin Pressurization Control System. In April 2007, ESA's next generation autoschedule cabin pressurization control system, KAPS™ II, was selected by Diamond Aircraft for its D-Jet program. In March 2007, the KAPS™ II system was selected by Cessna for its CJ 4 aircraft program. In 2004, the KAPS™ II system was selected by Cessna for a multi-year contract for the Mustang aircraft and was certified in August 2007.

***Commercial Avionics Instrumentation Products*.** ESA designs and manufactures a range of altimeters, pressure monitors, other cockpit indicators and avionics test equipment for commercial as well as military aircraft. ESA is also supplying air data computers and air data pressure probes for commercial aircraft.

Civil Avionics Systems. In 2006, Elbit Systems was awarded a long-term contract to supply civil avionics systems over an approximately ten-year period.

Avionics for Commercial Helicopters. Elbit Systems develops and supplies digital maps, displays and other avionic products for commercial helicopters such as the EC-225 and others.

Maintenance and Repairs. ESA maintains a FAA certified repair facility in Wichita, Kansas for commercial avionics repairs. Cyclone also performs maintenance for commercial helicopters.

Aerostructure Parts. Cyclone manufactures structural parts based on metal and composite technologies for several types of commercial aircraft, including the Airbus 340 and Boeing 737, 747, 767 and "Dreamliner" 787 passenger jets. In March 2008, Cyclone was awarded a contract by Spirit AeroSystems to supply entrance and cargo doors for commercial aircraft. The contract, in an amount of approximately $160 million, calls for deliveries between 2009 and 2016. In February 2007, Cyclone was awarded a contract by Spirit AeroSystems to supply engine blocker doors for commercial jets, with deliveries through 2011.

UAS (UAV Systems)

Recent advances in technology and extensive use of UAS in Afghanistan and Iraq by Allied Forces have resulted in an increased demand for UAVs for many military applications, particularly in the area of ISR. The spectrum of our UAS and related technology provides solutions for a broad range of operational requirements. This resulted in the rapid growth of our UAS business in recent years (more than tripling our sales since 2004).

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Scope of UAS Activities

We develop and manufacture several types of UAV platforms for the IDF and other customers. These include the Hermes® family of UAVs, including the Hermes® 1500, Hermes® 900, the Hermes® 450 and the Hermes® 180, as well as the Skylark® UAV family of Skylark® I and Skylark® II.

The Hermes® 1500 is a medium altitude long endurance (MALE) UAV for maritime patrol and other types of support missions.The Hermes® 900 is a tactical MALE UAS designed for various missions with combined payloads. The Hermes® 450 supplies real-time intelligence data to ground forces. We have developed a number of recent modifications and variants to the Hermes® 450 system. These modifications and variants provide extended capabilities. The Hermes® 180 is a tactical short-range UAV designed for brigade-level intelligence, surveillance, target acquisition and reconnaissance (ISTAR) missions.

We also are involved in smaller UAVs, such as the Skylark® I and II. The Skylark® I is an electrically propelled and highly covert short-range UAS providing ISTAR capabilities to company – brigade-level tactical echelons. Skylark® II, which is currently under contract for development, expands the range of ISTAR capabilities and endurance of the Skylark® family.

We also develop and supply ground control stations for the operation of UAVs. In addition, we supply to the IDF and other customers the latest generation of surveillance UAVs, based on the Hermes® 450. Our U.K. subsidiary, UEL Engines Ltd., produces engines for UAVs. In April 2008, we upgraded our Hermes® 450 UAV to include a R902 Wankel rotary technology based engine, providing capability for the UAV to carry multiple payloads with extended endurance.

We also provide training systems for UAV operations. In addition, Tadiran Spectralink supplies data links for UAVs.

UAS Programs

Watchkeeper

In 2005**,** U-TacS, Elbit Systems' 51%-owned UK subsidiary, was awarded an approximately $500 million contract as part of the U.K. Ministry of Defence's (UK MOD) Watchkeeper program. U-TacS' contract was awarded by Thales UK, the prime contractor for the Watchkeeper program, and is to be performed over an approximately eight-year period. U-TacS subcontracted with Elbit Systems for approximately one-third of the value of U-TacS' contract with Thales.

The Watchkeeper program will provide the U.K. Armed Forces with ISTAR capability based on our Hermes® 450 UAS and will be a key component of the U.K.'s Network Enabled Capability (NEC). The program calls for the delivery of equipment, training and facilities, with the capability of coming into service starting in 2010.

Under the Watchkeeper program, the U.K. Armed Forces will be provided with all weather day and night surveillance in times of war, tension or during peace-keeping operations without the need to deploy troops into sensitive areas or harmful situations. The Watchkeeper program system can provide continuous 24/7 surveillance when needed, using UAVs able to stay airborne for extended periods.

The Watchkeeper program system consists of the WK450 UAV carrying a stabilized payload incorporating day/night sensors and laser target designator connected by a data link to a network of containerized ground control stations where operators will control the entire mission and interface within a network enabled environment. High resolution optical and radar imagery will be exploited and disseminated to provide valuable intelligence for operational commanders. The system is capable of rapid deployment and operations anywhere in the world. In April 2008, the first flight of the WK 450 was successfully conducted.

In 2005, U-TacS selected Elop as the subcontractor, together with Thales UK Land and Joint Systems, to supply Elop's CoMPASS™ advanced observation system payload for the Watchkeeper program.

As of December 31, 2007, we had a backlog for the Watchkeeper program of approximately $436 million, to be performed mainly through 2011.

Lydian. In June 2007, U-TacS was awarded an approximately $110 million contract to perform the U.K. MOD Lydian Program. The program provides service-based support to an ISTAR capability in two overseas theatres. The support is intended to include the provision of a Hermes® 450 UAS, training of the U.K. MOD staff in use and maintenance of the system and the provision of contractor logistic support (CLS) and program management services.

IUP. In 2005, IUP, a partnership equally owned by Elbit Systems and IAI, was awarded an approximately $150 million contract to supply UAS for the Turkish TUAV Program. Under the contract IUP is delivering UAS including advanced payloads. IUP is subcontracting 50% of the work under its contract to Elbit Systems, which is supplying ground controlstations, data links and payloads, to be delivered over a four-year period.

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Skylark®

Skylark®II . In April 2008, Skylark®II conducted its first flight demonstration for the U.S. Armed Forces. In December 2007, Elbit Systems was selected by the Korean Government to supply the Skylark®II UAS. In June 2007, Skylark®II was selected by the consulting and research organization Frost & Sullivan for its "Best Innovative Product Award for 2007 in the Aviation Defense Category." In 2006, Skylark®II received Popular Science's "2006 Best of What's New" Award in the Aviation and Space category.

Skylark®I. In March 2008, we received a contract from France's Special Forces to supply Skylark®I mini-UAS. In recent years, the Canadian Army, the Netherlands Army, the Swedish Army and several other customers placed orders for Skylark®I systems, thus establishing a leading market position globally in this class of UAVs. In 2005, Elbit Systems was awarded a contract to supply six Skylark®I systems for rapid deployment by the Australian Army. The deliveries were made during 2006, and in April 2007 the Australian Army placed orders for additional systems. In 2004, the IMOD selected Elbit Systems to supply several Skylark®I systems for operational evaluation by the IDF ground forces. The system deliveries were completed, and the systems are now in an operational evaluation phase.

IMOD Integrated Program. Elbit Systems received contracts from the Israeli Government to act as the prime contractor under a program to develop and supply integrated defense electronic systems. We completed the first phase of this program in 2002. During 2002 through 2004, we received additional orders for deliveries through 2010. In November 2007, we received a new UAV order for the Israeli Defense Forces (IDF). The order includes the development, manufacture and supply of new and improved UAS, as well as the upgrade of existing UAS, designed to enhance and expand the IDF's existing UAV platform. Development and supply is scheduled to take place over a four-year period.

Airborne C4ISR. In 2004, Elbit Systems was awarded a contract in an amount of approximately US$300 million by the IMOD to supply advanced systems. The contract is being performed over a multi-year period, under which Elbit Systems will supply airborne systems and command and control systems. The contract includes integration of various systems, part of whose purpose includes providing advanced solutions in the area of homeland security. As of December 31, 2007, we had a backlog for the program of approximately $141 million to be performed mainly through 2009, with support activities through 2011.

UAS Subsidiaries

UAS related subsidiaries in addition to U-TacS (see above – "Principal Subsidiaries - U-TacS"), include the following.

Silver Arrow. Silver Arrow LP (Silver Arrow), is an Israeli limited partnership owned by Elbit Systems together with a wholly-owned holding company subsidiary of Elbit Systems. It is located in Nes Ziona, Israel and develops and manufactures UAVs.

UEL - UAV Engines Ltd., a wholly-owned British subsidiary of Silver Arrow, manufactures engines for UAVs and other applications.

Naval Systems

Over the past three decades, we have worked with the Israeli Navy to develop high capability naval command and control, electro-optic, communications, EW and training systems for surface ship and submarine applications. These systems are currently being used by the Israeli Navy and several other navies throughout the world. We also develop unmanned surface vessels.

C4I Systems. For more than ten years, we have been the prime contractor for the C4I system for the Israeli Navy SAAR 5 corvette class missile boat. We also developed and supply the anti-missile decoy countermeasure launching system for the SAAR 5 program.

Trainers and Simulators. We develop advanced naval training simulators. Our simulators address the need to improve training due to the high cost of activating naval forces. Our naval training systems provide realistic simulations of combat conditions at sea. They are used in on-shore facilities for training in naval tactical command decision procedures, anti-submarine warfare and electronic warfare. Our training systems are currently used by the Israeli Navy and several other navies. Our naval training and simulator systems include naval tactics and commander trainers, naval operational trainers, electronic warfare trainers and anti-submarine trainers.

Electro-Optic Systems. Elop supplies electro-optic products for naval applications to several customers. Elop also supplies electro-optic shipboard payloads to several navy and maritime forces for both observation and fire control applications. In 2006, Elop was awarded a follow-on contract for the supply of additional CoMPASS™ systems to a European Navy. Deliveries were completed in 2007.

EW Systems

Elbit Systems has developed and supplied several naval electronic intelligence systems. The systems are designed to detect and recognize threats under a wide range of conditions and to initiate automatic countermeasures to protect ships against enemy missiles. Our systems equip the Israeli Navy Dolphin class submarines and are installed on board submarines of several navies worldwide. In 2001, Elbit Systems was awarded a contract by the German shipyard Howaldtswerke Deutsche Werft (HDW) to supply our Timnex II EW system for submarines, and the systems were delivered in 2003. An additional system was ordered in 2004, and deliveries were completed during 2007. In April 2007, Elbit Systems was awarded an additional contract by HDW for two systems for the new Dolphin class submarines ordered by the Israeli Navy. In January 2008, Elbit Systems received orders for additional ESM systems to be installed on an overseas customer's frigates. Furthermore, in 2006, two additional systems were ordered by an overseas customer.

Elisra supplies a range of systems for a variety of shipboard EW, threat detection and intelligence applications. Elisra's EW suites equip all Israeli Navy ships and are designed to perform threat detection and intelligence applications. Elisra's naval systems also initiate automatic coordinated countermeasures to protect ships against enemy missiles as well as active anti-missile protection.

Communications Systems. Elisra supplies several types of communications systems for naval applications. Also, Elisra's subsidiary, Tadiran Spectralink, supplies data links for seaborne applications.

Nirit Navigation System. ESA produced the navigation systems for the Israel Navy's Nirit patrol boats.

Unmanned Surface Vehicles. Elbit Systems is developing the Silver Marlin USV for various maritime applications. Silver Marlin combines the UAS Division's extensive experience with unmanned platforms with the scope of our naval command and control capabilities.

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Land Vehicle Systems

Nature of Our Land Vehicle Systems

Our land vehicle systems capabilities combine Elbit Systems' electronic and electric tank systems experience with Elop's electro-optics expertise. The combined land vehicles business offers capabilities ranging from complete tank modernization programs with full logistics support, to situational awareness and battle management systems, advanced day and night fire control systems incorporating eye-safe lasers and advanced FLIRs, electrical turret drive and stabilization systems to life support and hydraulic systems.

The survivability of tanks and other combat vehicles on the modern battlefield depends largely on their ability to achieve a first-round hit. This requires the gunner to quickly and accurately coordinate many complex tasks with a large number of variables. We were one of the first companies to introduce modern electronic technology in tank applications using our expertise in developing advanced avionics systems to adapt and to develop control systems and electronics for combat vehicles. We replaced manually operated fire control systems with an advanced digital tank fire control system, improving on-the-move hit probability and reducing the time required for targeting.

For over twenty years, we have been developing and supplying a family of fire control systems for new and upgraded main battle tanks, medium and light tanks and light armored vehicles. Our systems integration expertise and extensive experience in developing and manufacturing these systems led to an expansion into a new generation of tank turret drive systems. We developed an electric gun and turret drive and stabilization system that can be integrated with the fire control system to improve turret stabilization and accuracy. This, in turn, improves fire-on-the-move performance.

We develop unmanned turrets and overhead remote controlled weapon stations that transform armored vehicles into armored fighting vehicles by providing the crew with combat capabilities of a turreted vehicle – including guns, anti-tank missiles and capabilities to perform in harsh battlefield conditions. In addition, we developed the "See-Through-Armor" (STA) system, a cutting edge panoramic observation system designed to provide the vehicle crew with an omni-directional combat scene when the platform hatches are closed. The STA system provides a 360° view around the vehicle, which is critical in urban environments.

Elop is a long time developer and producer of electro-optic systems for combat vehicles in Israel and abroad. These systems include eye safe laser range-finders, second generation thermal imaging systems, gunners' sights with or without line-of-sight stabilization, commander panoramic sights, computers and sensors. We supply our integrated battle management systems as part of our modern fire control systems sold to the IDF and to other customers around the world. We also furnish combat vehicle logistic support services to the IDF.

Merkava

All of the models of the most advanced IDF battle tank, the Merkava, use our fire control and electric gun and turret drive and stabilization systems as original equipment. We are both a prime and a subcontractor for the supply of systems to various Merkava tank models, and we are the integrator for the Merkava MK electronic and electric turret systems. Elbit Systems, Elop and Kinetics are supplying a significant number of systems for the IDF's most advanced Merkava tank, the MK-4. These systems include the day/night gunner and commander sighting systems, the

electronic gun and turret drive system, flat panel displays, advanced warning systems against laser guided threats, life support systems, a battle management system and laser warning systems.

In 2006 and 2007, we were awarded several orders for the development and supply of electronic and optical systems and electrical drive systems for the Merkava. In January 2007, we were awarded an order to supply additional electronic and electro-optical systems for the ongoing production of the Merkava MK-4. We are the prime contractor to the IMOD for all Merkava tank fire control systems. We also are supplying the upgrade of the firing computer of the IDF's Merkava and M-60 tanks. Kinetics also supplies several systems, including the life support system, for Merkava programs. As of December 31, 2007, we had a total of approximately $147 million in our backlog relating to Merkava orders, to be supplied mainly through 2009, with additional supplies through 2010.

Land Vehicle Modernization Programs

Turkish M-60 Modernization Program. In 2004, Elbit Systems was awarded a contract for the Turkish Army M60A1 Tank Modernization program. The contract, in the amount of approximately $183 million, was signed with the IMOD, with deliveries to be completed over an approximately five-year period. The contract is for the supply of electronic and electro-optical fire control systems, electrical gun and turret drive systems and support equipment for the program. The Prototype System Approval Tests of the tank were successfully completed in 2006. The program is now in the serial production phase. Our contract is being performed within the framework of the agreement for the program between Israel Military Industries Ltd. and the Turkish Ministry of Defense.

Multiple Launch Rocket System (MLRS) and High Mobility Artillery Rocket System (HIMARS). ESA is a subcontractor to Lockheed Martin for the U.S. Army MLRS M270A1 upgrade program. ESA supplies the fire control system that includes an on-board computer processor, a 14-inch color flat panel display, a mass storage device and a keyboard. ESA completed production deliveries in 2004 and is performing ongoing retrofit activities. In 2006, ESA received additional orders from Lockheed Martin for MLRS production systems as well as to develop a new generation gunner display unit for the MLRS. The equipment developed for MLRS is also directly compatible with the HIMARS used by the U.S. Army and the USMC. In 2006, ESA received a production order for systems for the HIMARS. Additional orders were received during 2007.

Bradley A-3 Program. ESA is a subcontractor for the U.S. Army Bradley A-3 fighting vehicle modernization program. ESA was awarded contracts by United Defense (now BAE Systems), the prime contractor for the program, to develop and supply the turret and hull processors, the gunners' and commanders' hand stations, the position interface box and the map operational software. During 2005 - 2007, ESA was awarded additional orders for Bradley systems for the U.S. Army's ongoing operations in Afghanistan and Iraq**.**

USMC LAV. In 2005, ESA was awarded a demonstration contract by Lockheed Martin as part of the Lockheed Martin team for the development of an upgrade of the command and control variant of the USMC's Light Armored Vehicle (LAV). The demonstration contract was completed in 2006, with ESA providing an integrated mission equipment package for the LAV C2 variant. Following completion of the demonstration program ESA participated in the phase 2 development and was responsible for the design, manufacturing and support of the LAV's complete mission equipment package. The development was performed in 2007, culminating in a successful operational test in March 2008.

USMC CREW Systems. In 2006, ESA was awarded a CREW 2.0 contract by the USMC Systems Command to supply vehicle mounted counter remote controlled improvised explosive device electronic warfare (CREW) systems. This was a follow-on contract for the supply of VHP Hunter systems. ESA has delivered and fielded VHP Hunter systems to deployed Marines and continues to upgrade the CREW systems' capabilities.

Integrated Land Systems Upgrade Programs. In August 2007, Elbit Systems was awarded contracts in a total amount of approximately $163 million for the supply of tank and artillery systems upgrades for customers in the Asian countries. The projects include upgrading of fire control and command and control systems for tanks and artillery systems, with deliveries to be performed through 2009.

Slovenia Armored Vehicle Program.In July 2007, Elbit Systems was selected to supply overhead remote controlled weapon stations and unmanned turrets as well as other electronic and electro-optical systems and components for the Slovenia Armored Vehicle program. The items are to be installed on board Patria AMV 8x8 vehicles. Deliveries under the contract are scheduled to take place through 2011.

Romanian Vehicle Program.In July 2007, Elbit Systems was awarded a contract to supply unmanned turrets and electro-optic systems, including the Driver Thermal Viewer, to be installed on Piranha III vehicles supplied by the Swiss company Mowag of the General Dynamics European Land Combat Systems Company (Mowag) to the Romanian Government. Deliveries are scheduled through 2010.

Portuguese Army Program. In 2006, Elbit Systems was awarded a contract to supply unmanned turret systems, fire control systems and additional land systems to the Portuguese Army. The contract was entered into with STEYR Austria (STEYR), a member of the General Dynamics European Land Combat Systems Company, the prime contractor for the Portuguese program. The systems supplied by Elbit Systems are integrated in STEYR's Pandor II 8x8 light wheeled armored vehicles and will facilitate rapid force mobility and deployment by the Portuguese Army. Under this program Elbit Systems is providing a fully integrated configuration for fighting/patrol/surveillance vehicles, including unmanned turrets equipped with missiles, automatic 120 mm mortars, fire control and threat detection systems. Deliveries under the contract are scheduled to take place through 2010.

Belgian Armored Infantry Vehicle Program. In January 2007, Elbit Systems was awarded a contract to supply unmanned turrets and electro-optic systems for the Belgian Armored Infantry Vehicle program. The contract is pursuant to a cooperation between Elbit Systems and Mowag. Mowag is supplying its Piranha III vehicles for the program. Elbit Systems' portion of the program includes the delivery of 30 mm unmanned turrets as well as several opto-electronic and electronic subsystems. Deliveries under the contract are scheduled to take place through 2010.

Thermal Imaging and Electro-Optic Systems

In January 2008, Elop was awarded several contracts from international customers for the supply of CORAL and CORAL-CR hand-held lightweight thermal imaging cameras. The contracts include applications for infantry, scouts and special units, night sight and target acquisition, security and perimeter defense for infantry commanders. During the first part of 2007, Elop was awarded several contracts to supply Coral-type hand-held thermal imaging systems for long-range observation and reconnaissance to the Canadian and Israeli armed forces as well as for other international customers.

In 2006, Elop was awarded a contract by the Samsung-Thales Company to supply thermal imaging kits for the gunner periscope sights of the Korean K1A1 Tank. The contract is to be performed over a four-year period. Also in 2006, Elop was awarded a contract to supply Portable Lightweight Designator /Rangefinders (PLDR) and Coral thermal imagers to the German Armed Forces. Deliveries are to be completed in 2008.

In September 2006, Elop was awarded a contract in the amount of approximately $130 million to develop and manufacture electronic land systems for a foreign customer. The project also includes logistic support for the systems and is to be performed over a five-year period.

In 2005, ESA was awarded initial orders to provide high performance thermal binocular system long-range thermal imagers (LRTI) for the USMC. The LRTI is a portable binocular, hand-held battery-operated thermal imager for long-range observation and reconnaissance and is based on an Elop design. Deliveries for the initial orders placed by the USMC System Command under an IDIQ contract were completed during 2007. Under the IDIQ contract the U.S. Government may purchase up to 5,000 LRTIs as well as spare parts, contractor maintenance and training items over a five-year period. In December 2007, ESA was awarded additional orders under the IDIQ contract for thermal laser spot imagers for the USMC for deliveries through 2009.

Elop sells thermal imaging systems for the Leopard 2/A5 and other tanks. In addition Elop has sold thousands of hand-held thermal imagers and thermal imager kits.

Laser Warning Systems. Elbit Systems is supplying laser warning systems for ground vehicles to several European countries.

Training Systems and Simulators. Elbit Systems and ESA have supplied tank gunnery training systems to the IDF and the U.S. Army. We have fielded the Deployable Range Training and Safety System (DRTSS) to the U.S. Army at the Forts Hood, Carson, and Stewart tank gunnery ranges. This system provides real-time crew gunnery evaluation, recorded after action video, battle status assessment, positive target recognition and ammunition conservation as well as reduces friendly fire casualties. In addition, we supply ground forces trainers to other customers worldwide including the Appended Tactical Combat Trainer System, Tactical Battle Company Trainers, Artillery Training Centers and the Conduct of Fire Trainer.

Environmental Control and Hydraulic Systems. Kinetics develops advanced life support systems, including environmental and climate control and NBC protection systems, for combat vehicles. Kinetics also develops and manufactures hydraulic, fuel, braking and suspension systems as well as an auxiliary power unit for combat vehicles of the IDF, the U.S. Army and other customers. Kinetics' U.S. subsidiary is delivering environmental and climate control systems for the U.S. Army and USMC MRAP vehicles.

Unmanned Ground Vehicles (UGVs). Elbit Systems and Elop are involved in the development of robotic unmanned ground vehicles (UGVs) for defense and homeland security applications. Elbit Systems' UGVs are deployed by the IDF for patrolling missions. In March 2007, the Israeli Antitrust Commission approved the establishment of a joint venture by Elbit Systems and IAI to develop a next generation UGV for various applications related to security missions and border control. In December 2007, Elbit Systems and IAI signed a joint venture agreement for the establishment of a jointly-owned company for the development of the above-mentioned next generation UGV. In January 2008, Elbit Systems established the new company, G-NIUS Unmanned Ground Systems Ltd. (G-NIUS). Until receipt by IAI of the governmental approvals required by IAI for holding shares of G-NIUS, G-NIUS will be owned by Elbit Systems, and IAI was granted options to purchase shares of G-NIUS in an equal number to those of Elbit Systems. Such options will be exercised upon receipt by IAI of the required approvals.

C4I and Government Information Systems

Nature of Our C4I and Government Information Systems. We design our C4I and battlefield systems to manage the growing amount of data supplied by information systems and sensors in defense, border control, crime prevention and other government intelligence gathering applications. This is an area of growing importance in light of increased priority for communications among defense forces and the growing need of many governments for anti-terrorism measures, such as ISR, access control and integrated intelligence gathering. Our C4I battlefield and information systems process and interpret data received from the different sources and present it in a user-friendly format. We integrate advanced software tools with general and special purpose hardware into full C4I battlefield and information technology systems.

Land C4I and Battlefield Management Systems

Our land C4I and battlefield management systems are supplied through turn-key projects for tactical command and control. We provide solutions from the level of individual fighting vehicles, mortars and artillery to the divisional and headquarters command level. Our systems are based on hardware and software building blocks, including tactical computers, modems, communication controllers, data radios, military WLAN radios and digital map systems among others. We also provide products for facilitating operations in the battlefield based on commercial off-the-shelf technology (COTS).

Digital Infantry Soldier. In March 2007, Elbit Systems received an order from the IMOD to develop and provide a battle management solution and full digital soldier combat suit for infantry, to be performed through 2009.

Israel Digital Army Program. In 2004, Elbit Systems was awarded a contract by the IMOD for the Digital Army Program (DAP), in an amount of approximately $200 million, which has since been supplemented by additional orders. The DAP, is being performed over a ten-year period. Elbit Systems is the prime contractor for the DAP. Rafael and Tadiran Systems are serving as our major subcontractors. In September 2007, funding approval was finalized for a total of approximately $300 million for the U.S. Foreign Military Funding (FMF) portion of the DAP. The FMF portion of the DAP is being performed by ESA as well as other U.S. subcontractors. Within the framework of the program, all land forces operations are being computerized (command, control, and communications), integrated and interfaced with new and advanced applications. Under the DAP, we are supplying the IDF with computerized systems down to the single soldier level. The systems facilitate transmission of integrated, real-time situation pictures to and from all battlefield and command echelons. The program calls for supply and support of all hardware and software, including command and control stations, data processing and distribution systems. It will enable force coordination at all levels, access to updated situational pictures, improved overall operational capabilities, including survivability and accuracy, and more efficient utilization of personnel and other resources. As of December 31, 2007, we had a total DAP backlog of approximately $425 million, to be performed mainly through 2013.

TORC2H®. Elbit Systems' TORC2H® border protection command and control system has been supplied to the IDF, and Elbit Systems has successfully deployed the TORC2H® to support border security activities in Israel. Further phases of TORC2H® are anticipated to be implemented under the scope of the DAP. In 2005, Elbit Systems fielded a TORC2H® version which was used operationally by the IDF during the disengagement from the Gaza Strip. We also received in 2005 an additional order under the TORC2H® program calling for deliveries through 2009.

Netherlands Battle Management Systems. In January 2008, Elbit Systems was awarded a contract to supply advanced Battlefield Management Systems (BMS) to the Royal Netherlands Army Ground Forces. The BMS includes enhanced tactical computers incorporating tactical communications devices and data communications software, for installation on tanks and armored vehicles. Deliveries are to be made through 2013.

IDF BMS. In 2002, Elbit Systems was awarded a contract by the IMOD to serve as prime contractor for the IDF's BMS for Battalion Combat Teams program. The program includes the development, supply and support of advanced electro-optical sensors, multi-functional displays, command and control software, information and dissemination systems and advanced mission computers. The program enables coordination among the IDF's main battlefield tanks, armored fighting vehicles and infantry fighting vehicles. It provides situational awareness to maneuvering forces and improves the overall operational capabilities of fighting units. The first phase of the program, including initial deployment, was completed. Elbit Systems received additional orders under the scope of the Battle Management Systems for Battalion Combat Teams, to be performed through 2010.

ETC. In July 2007, Elbit Systems was awarded a contract for the supply of enhanced tactical computers (ETCs) and other commercial and control systems to an Asian country. The contract will be performed through 2011. The IDF has selected Elbit Systems to develop and deliver ETCs, which serve as the hardware building blocks for the IDF's ground command and control systems. These building blocks are based on high performance military computers, "ruggedization" of COTS circuit boards for application in harsh military environments, as well as specialized displays and communication controllers for higher echelon levels. The ETCs are equipped with several types of communication interfaces and powerful display features. We also develop, manufacture and supply ETCs to a number of customers worldwide.

Governmental Information Technology and Information Gathering Systems

Governmental Information Technology. We develop and supply computerized communication systems, information technology, knowledge management systems and image intelligence processing for governmental applications in Israel and abroad.

Anti-Money Laundering System. In 2003, Elbit Systems was awarded a contract for the development and support of an information processing system for the Israeli Money Laundering Prohibition Authority (IMPA). The system was successfully fielded and is currently operational by IMPA. The project is anticipated to be completed in 2008. The project provides IMPA with an information technology system that includes a database and a collection center for relevant data from financial institutions such as banks, insurance companies and customs authorities. The project includes the management of an official data base containing the currency transactions and suspicious activities reports submitted to IMPA by the Israeli financial community, as well as reports of enrichment from governmental law enforcement and information resources and from corresponding governmental financial intelligence units in other countries.

Military Communications Systems

Through TadComm and our Land and C4I operations in Israel and ESA's C4I solutions activities in the U.S., we provide a range of tactical communications solutions for armed forces throughout the world.

With over 40 years of experience in military communications, TadComm has established expertise in diverse areas of military communications. These include advanced radio design, development and production in frequencies ranging from 1.5 MHz to 5 GHz, featuring high grade built-in crypto algorithms and electronic counter - counter measures techniques (e.g. frequency hopping and direct sequence) for reliable communications under severe battle environments. TadComm also provides quality modems to serve the increasing demand for C4I data communications; multi-channel line-of-sight frequency hopping wide-band radio equipment for reliable inter-command posts communications; tactical terminals/military computers and communication controllers; as well as tactical internet based integrated communication systems providing communication from headquarters to any point in the battle-space for effective command and control.

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Tactical Radio Systems

We supply tactical radio systems to a wide range of customers throughout the world. Examples of our recent contract awards in this area include the following:

In May 2008, TadComm received a $127 million contract from a European customer to supply tactical communications radio equipment and systems. The systems include high frequency (HF) and very high frequency (VHF) tactical radio equipment designed for use by ground forces for data transfer and voice communications. The project will be performed over a 17-month period.

In July 2007, Telefunken RACOMS in Germany was awarded a contract for the supply of advanced tactical communications equipment for a European customer, with deliveries through 2012. In 2006, TadComm signed a contract with a Latin American customer to supply advanced tactical radio communications equipment and system elements, which was completed in 2007. In 2005, TadComm entered into an agreement with an Asian customer to supply HF and VHF tactical radios. Deliveries were completed during 2007. In 2004, Talla-Tech, was awarded a five-year IDIQ contract from the U.S. Army CECOM, for the support and improvement of SINCGARS radios.

In 2004, Elbit Systems was awarded a contract by the IMOD to develop a Wireless LAN solution for the IDF. This solution is based on commercial standards which are adapted and tailored to military tactical needs and environments.

In 2002, TadComm was awarded a contract to develop the IDF's new generation tactical radio system. In 2005 and 2007, TadComm was awarded contracts from the IDF for the supply of new generation tactical radio systems. Deliveries of the new radios are scheduled to begin in 2009, following completion of the development.

Bro@dNet Communication System. In 2005, TadComm was awarded a contract from the IDF to supply a point-to-multi-point, high-capacity broadband, IP-based, data communications system based on wireless broadband WiMAX technology. The implementation of the system is scheduled to be completed during 2009.

USMC Rugged Computers. In July and October 2007, Talla-Tech received purchase orders from the USMC to supply its RPDA-57 Rugged Personal Digital Assistant as well as Tacter 31M products. The RPDA is a rugged hand-held computer and will facilitate situational awareness to dismounted Marines and soldiers. Tacter 31M is a hand-held or vehicle mounted multi-purpose ruggedized computer designed to serve all combat echelons.

***UHF SATCOM Power Amplifiers*.** In December 2007, Talla-Com was awarded a contract from DOD agencies to supply UHF SATCOM (satellite communications) power amplifiers.

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Electro-Optical and Countermeasures Systems

Elop has more than 70 years of experience in the field of electro-optics and designs and manufactures electro-optic systems and products for defense, space, homeland security and commercial applications worldwide. This includes expertise in thermal imaging, laser systems, optronic stabilized payloads, ground integrated sights, robotic sensors, head-up displays, space and airborne reconnaissance systems, IMINT solutions and electro-optic countermeasures. These systems are supplied for spaceborne, airborne, land and naval applications as described above.

COMPASS™ Payloads. In February 2008, Elop was awarded two contracts by foreign customers for supply of Micro-COMPASS™ (Micro Compact Multi-Purpose Advanced Stabilized Systems) payloads for coast guard applications. The payloads are to be installed on a variety of marine platforms with deliveries to be completed during 2008. In July 2007, Elop was awarded a multi-year contract by a foreign customer to supply the COMPASS™ electro-optical payloads for attack and utility helicopters. In 2006, Elop was awarded several new contracts to supply advanced CoMPASS™ payloads for naval and aerial use, to be supplied over a four-year period. In 2005, Elop was selected to supply its CoMPASS™ advanced observation system payload for the UK Watchkeeper program. See above “UAS – UAV Programs – Watchkeeper Program.”

PLDR. In February 2007, ESA received two follow-on orders from the USMC for its high-performance Portable Laser Designator Ranger (PLDR) systems that have proven successful in field test evaluations. This followed an initial award in 2006, under a five-year IDIQ contract by the USMC for a PLDR based on an Elop developed product.

Other Thermal Imaging Products

In May 2008, Elop and ELSEC were awarded a total of three contracts from a customer in Asia for the supply of cooled thermal imaging systems for reconnaissance and target acquisition applications. The contracts will be performed over a two-year period.

Elop and ESA are involved in the development and supply of payload based observation and fire control systems for naval and airborne platforms, including day and night vision, laser range-finders and designators and integrated sights for ground forces. In November 2007, ESA received an IDIQ contract form the USMC to supply thermal laser spot imagers over a five-year period.

In July 2007, ESA received an IDIQ contract from the U.S. Naval Inventory Control Point for repair/mediation of various Night Targeting Systems components in support of the USMC AH-IW helicopters. This work will be performed through 2012.

Elop supplies advanced IMINT systems to various customers internationally. Elop also supplies to customers worldwide a range of hand-held, surveillance and homeland security and armored vehicle applications of thermal imaging products and systems.

These products and systems are further described above in “Military Aircraft and Helicopter Systems,” “Naval Systems,” and “Land Vehicle Systems” and below in “Homeland Security Systems.”

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Infrared Detectors. SCD develops and manufactures infrared detectors and laser diodes for electro-optical applications. Opgal develops electro-optics "engines" that combine detectors with proprietary electronics for a wide range of applications including for commercial aviation and homeland security.

Space Systems

Space Cameras. Elop is actively expanding space applications for its technology and products. Elop has developed a variety of cameras for the Ofek Satellite, including the Ofek-3, Ofek-5 and Ofek-7, and for other initiatives of the Israel Space Agency. In 2006, EROS B, a commercial reconnaissance satellite, was launched and began transmitting images taken by an advanced high resolution camera developed by Elop. This followed Elop's supply of an advanced digital camera for the EROS A satellite in 2000. EROS B and EROS A were launched by ImageSat International N.V. in which Elop owns a minority interest. See below "Technology Spin-Offs."

Tauvex II. In 2004, Elop was awarded a contract from the Israel Ministry of Science and Technology and the Israel Space Agency for the supply of the "Tauvex II" (Tel-Aviv University Ultra-Violet Explorer) scientific space telescope. The Tauvex II telescope will be launched into space mounted on the Indian Satellite GSAT-4, for the purpose of scientific research in exploration of the galaxies. The telescope is to be supplied for integration into the GSAT-4 during 2008. The contract follows an agreement signed in 2003 between the Israel Space Agency and ISRO, the Indian Space Research Organization, for scientific cooperation between the two countries in the field of astronomy in the "Ultra-Violet" spectrum.

CNES. In 2005, CNES, the French Space Agency, selected Elop for cooperation in the supply of a scientific electro-optical space camera called Venus. The contract is for the production of the camera which will be mounted on-board a micro-satellite. The contract followed a successful feasibility study by Elop. The camera will be installed on a satellite resulting from a contract signed between the Israel Space Agency and CNES. The camera is scheduled for integration into the micro-satellite in 2009.

Hyperspectral Systems. Elop has been selected by the IMOD to be Israel's hyperspectral systems development house. Currently, Elop is involved in an on-going hyperspectral system development program for the IMOD.

OHB. Elop and OHB System A.G. of Germany each own 50% of a German subsidiary, OHB Electro-Optics Gmbh, which pursues space-related activities.

Homeland Security Systems

Nature of Our Homeland Security Systems. We are involved in the homeland security market that includes airports, border control, transportation, coastal authorities, urban crisis management and other critical infrastructure facilities. These activities are a natural extension of our expertise gained in the development of our C4I and battlefield management systems, UAVs and electro-optic systems and communication systems. National and local governments are allocating greater resources in this area in light of increasing terrorist threats around the world. This has led to increased opportunities for systems and products that meet the growing demand for perimeter and homeland security solutions.

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ELSEC, as well as Elbit Systems and Elop, develop and supply detection sensors and other products for facility security, border and coastal control and perimeter protection in Israel and numerous other countries. ESA leads the Company's homeland security business in the U.S. market. Products in this area include thermal imaging detection systems, remote controlled surveillance systems, communication products and smart perimeter protection systems. We are also involved in the field of aviation and transportation security applications and are investing in future fusion technologies for passenger screening at border gates and transportation terminals.

Customers in this field include the Israeli Ministry of Transportation, the IMOD, the U.S. Department of Homeland Security and several international defense forces and security organizations, including airport, border guard and coastal control authorities. ELSEC is a supplier of E-fences and surveillance electro-optic day/night sensors to the IMOD, as well as coastal surveillance systems, surveillance vehicles, airport security systems and boarder surveillance systems to a variety of customers, mainly in Europe.

SBInet. In 2006, the Boeing-led team, including ESA , was awarded the U.S. Secure Border Initiative Project (the SBInet Project). The SBInet Project is designed to provide the U.S. Department of Homeland Security with increased border security capabilities along a significant part of the United States' borders. ESA, as a team member to Boeing, has supplied, together with ELSEC, LORROS® long-range observation systems for the SBInet Project.

Perimeter Security. In 2006, ELSEC was selected by the IMOD to deploy a "smart" electronic deterrence system. The first phase of the project includes an electronic deference system to detect and assist in preventing crossing attempts 24-hours a day, in all weather conditions. The contract contains an option for the IMOD to significantly expand the system. The system is comprised of advanced sensors, an electronic fence, communications and computerized command and control posts. During 2003 and 2004, ELSEC was awarded contracts for a total of approximately 50 kilometers of electronic perimeter systems for military bases and municipalities. This followed Elbit Systems award from the IMOD of a contract to supply an electronic warning systems "smart" fence, and Elbit Systems is executing that program through ELSEC.

Mobile Surveillance Vehicles. In 2006, ELSEC was awarded a project for the supply of mobile surveillance vehicles and advanced cameras for the Ukraine Border Security Project. Deliveries were completed in 2007. These vehicles include a command and control station, monitoring sensors and additional security measures, allowing operation even in severe weather conditions. The vehicles can accommodate three operators simultaneously.

Surveillance Towers. In March 2007, ELSEC was awarded a project for the supply of surveillance towers for the border protection of a European country. Deliveries are ongoing in 2008.

***Airport Integrated Security System*s**. In August 2007, ELSEC was awarded a contract to provide an airport security system for a European customer, with deliveries to be completed in 2009. In 2006, ELSEC was awarded a contract to install a comprehensive airport integrated security system in a European country. Deliveries were completed in 2007. The system enables the integration of existing systems with new systems and includes surveillance systems for short and medium-range, access control and sensitive areas intruder detection. Also, the system is scalable to accommodate the customer's future requirements.

Peripheral Coastal Security Systems. In March 2007, Elbit Systems was awarded a European Union funded contract for delivery and commissioning of an integrated coastal surveillance system to Lithuania. Deliveries were completed in 2007. In 2006, ELSEC completed, for a customer in Asia, the deployment of its first peripheral coastal security system. ELSEC's contract for the project was awarded in 2005 and includes additional stages for deployment of other locations in the customer's country. ELSEC's coastal security system is remote controlled and enables its operators to track a large number of vessels simultaneously, for dozens of miles, using identification capabilities to send alerts regarding types of threats those vessels may pose. The system includes advanced night vision sensors, daylight surveillance and laser range-finders developed by Elop.

Israel Border Security Systems. In 2006, Elbit Systems' Border Control Management System for the Israeli Police was inaugurated. The innovative system interfaces with all government and security agencies in Israel, managing all entry and exit posts including airports, sea ports and land crossings. Also, the Israeli National Border Control Registration System (BCRS) was developed by Elbit Systems and has been fully operational since 2004. BCRS is a computerized system for registration and control of Israel's border crossing points. The system supports border inspection processes and assists in the control of the passage of vehicles and goods at all Israeli airports, seaports and land entry points.

MUSIC®. Elop applied its defense based technologies to develop a Multi-Spectral Infrared Countermeasure System (MUSIC®) for commercial aircraft applications in preventing terrorism. MUSIC® enables identification of anti-aircraft shoulder-launched missiles resulting in a break of the missile lock on the target. The Israeli Government is currently reviewing the system for use in Israel's civil aviation protection plan.

EW and SIGINT Systems

Through Elisra, in which Elbit Systems acquired a 70% interest in 2005, we supply a range of multi-spectral self-protection suites for airborne combat platforms, as well as modular SIGINT (ELINT, COMINT and DF) systems for air, ground and naval platforms and applications.

Multi-Spectral, Self-Protection Suites for Airborne Platforms. Elisra's airborne platform self-protection suites combine defense suites with electronic support measures. Its multi-spectral self-protection solutions include passive IR missile warning systems for fighter aircraft, helicopters, transport aircraft and maritime patrol aircraft. Elisra's self-protection suites include EW payloads with radar warning receivers, laser warning receivers and other measures. During 2007, Elisra was awarded two contracts to supply EW systems for international customers, with deliveries to take place through 2011. In 2006, Elisra entered into a contract to supply full EW suites for fighter aircraft for an international customer. The contract is to be performed over a multi-year period.

Intelligence Systems. Elisra supplies SIGINT systems designed for air, ground and naval platforms. These systems incorporate cutting-edge digital receiving, signal processing and direction finding technologies. During 2007, Elisra was awarded two contracts for the supply of SIGINT systems, with deliveries to take place through 2009. In 2006, Tadiran Systems was awarded a contract for the supply of EW systems to a European country. Deliveries are scheduled for completion in 2008. For UAVs Elisra provides systems that detect, identify and locate ground-based, airborne, ground and ship-based emitters. See above "Naval Systems – EW."

Data Links. Elisra's subsidiary, Tadiran Spectralink, develops and supplies advanced data links for airborne platforms, including UAVs and mini-UAVs, based on generic modules to conform to the full range of modern data payload systems and to support high rate digitalized analog data communications. Tadiran Spectralink also supplies tactical video links that download video and telemetry data from UAVs providing real-time video data to ground, airborne and naval forces, to enable comprehensive video networks.

Search and Rescue Solutions. Tadiran Spectralink develops and provides advanced airborne search and rescue systems, supporting the undetected, unimpeded first pass pick up of downed pilots and special forces within enemy territory. Tadiran Spectralink also provides personal search and rescue radio sets for non-combat use comprised of an emergency locator transmitter and a personal locator beacon and a voice transceiver. In 2006, Tadiran Spectralink won a contract for the supply of the advanced PSR-43G/SV Personal Survival Radio (PSR) to the German Air Force, with deliveries to be made through 2008.

Microwave and Microelectronic Products. Elisra supplies a variety of microwave products for EW, radar and communication systems and microelectronic products for a wide range of advanced applications – modems, cellular, telephone systems, industrial robotics and computerized control instrumentation.

Spectrum Control and Management. Elisra's subsidiary, Tadiran Systems, designs, develops and provides advanced spectrum monitoring, detection, identification and location systems, based on common, advanced and commercial hardware and software platforms with proprietary algorithms. The systems simplify the tasks of wireless traffic supervision and measurement of technical parameters pinpointing infringements and illegal transmission, thus providing a real-time picture of spectrum usage.

Technology Spin-Offs and Other Commercial Activities

Several of the Company's entities explore on an ongoing basis potential spin-offs of their defense related technologies for commercial applications. Our technology spin-offs are involved in intra-body navigation medical equipment, commercial satellites and internet communications for commercial aviation, commercial communications and microwave technologies. Several of our companies also engage in other commercial activities. The following is a description of our main technology spin-offs and other commercial activities.

MediGuide**.** Elbit Systems established MediGuide Inc. (MediGuide) in 2000 as a Delaware corporation. MediGuide, through its wholly-owned Israeli subsidiary, leverages specific technologies developed by Elbit Systems in the defense area for use in various medical procedures and intra-body navigation. Elbit Systems provided MediGuide with an exclusive license to use specific technologies for medical applications, and MediGuide provided Elbit Systems with a cross license to use MediGuide's developments for defense applications. Outside equity investments have been made in MediGuide by venture capital companies and strategic collaborators. As of April 30, 2008, Elbit Systems equity interest in MediGuide, on a fully-diluted "as converted" basis, was approximately 41.5%. In December 2007, MediGuide received a CE Mark certification for its gMPS™'s system and GMC™ catheter. In January 2008, MediGuide entered into co-development of medical positioning system (gMPS™) enabled products with Medtronic Inc. In April 2008, MediGuide initiated clinical trials in the U.S. under Investigational Device Exemption approval from the U.S. Food and Drug Administration.

Starling. Elbit Systems, Rafael Development Corporation Ltd. (RDC) and Elron Electronics Industries Ltd. (Elron) own Starling Advanced Communications Ltd. (Starling). Starling, an Israeli company, develops products in the area of internet communications through satellite transmissions and broadband information transfer for commercial aircraft. In May 2007, Starling issued an initial public offering (IPO) on the TASE following which Starling became a publicly-traded company in which Elbit Systems' shareholdings were diluted from approximately 21% to approximately 16% (approximately 10% on a fully-diluted basis). Starling's 2007 annual financial statements indicated that its losses and negative equity raised an uncertainty as to Starling's abililty to continue its operations as a going concern.

ImageSat. Elop has an approximately 14% equity interest and approximately 12.5% voting power in ImageSat International N.V. (ImageSat). Other shareholders include IAI and private equity companies. ImageSat, which is incorporated in the Netherlands Antilles, is involved in the operation of satellites for commercial and other applications and providing satellite imagery. ImageSat's EROS A and EROS B satellites contain advanced high resolution cameras developed by Elop. See above "Electro-Optics and Countermeasures Systems – Space Systems – Space Cameras." Also see below – Item 8. Financial Information – Legal Proceedings – ImageSat.

***Chip PC*.** In 2005, Elbit Systems acquired an approximately 20% interest (18.5% plus a loan convertible into additional shares) in Chip PC Ltd. (Chip PC). Chip PC is an Israeli company located in Haifa, Israel, engaged in the development and manufacture of "thin client" solutions enabling server based computing technologies to replace traditional personal computers and deploy and control large numbers of work stations. In July 2007, Chip PC completed an IPO on the TASE. Following the IPO, Chip PC became a publicly-traded company, in which Elbit Systems holds approximately 19% of its shares (16.3% on a fully diluted basis). In addition, Elbit Systems holds an option to purchase up to an additional 5% of Chip PC's ordinary shares.

Other Commercial Activities. The Company conducts a number of other activities in the commercial area. These activities include medical equipment designed and produced by ESA through KMC, commercial communications and mobile and wireless telephone network encryptions by business units in the Land and C4I – Tadiran area, microwave technologies and components produced by Elisra and its subsidiaries, night vision products for the automotive industry developed by an Elbit Systems' business unit, commercial automotive fleet management products by AEL in Brazil and general manufacturing and machinery services by a number of Company entities, including our Romanian subsidiary, Elmet International SRL.

Property, Plant and Equipment

Facilities in Israel

Facilities owned or leased by Company entities in Israel include:

Haifa vicinity: Our executive offices and main research and development facilities are located on approximately 768,000 square feet of property in the Advanced Technology Center in Haifa. We own approximately 311,000 square feet of our main facilities in Haifa. The remainder of our facilities in Haifa is leased. We also have ownership and long-term leasehold rights in a facility of approximately 65,000 square feet near our headquarters building in Haifa.

Karmiel vicinity: We maintain manufacturing operations in a leased facility of approximately 253,000 square feet in Karmiel. In May 2007, Elbit Systems entered into an agreement that provides an option to purchase the Karmiel facility after a three-year period. Cyclone owns approximately 1,406,000 square feet of property near Karmiel. This includes approximately 275,000 square feet on which Cyclone's offices, manufacturing, maintenance and hangar facilities are located.

Rehovot/Nes Ziona: Elop owns or has long-term leasehold rights to approximately 525,000 square feet, and leases on a shorter-term basis approximately 5,000 square feet, of its facilities in Rehovot. These facilities contain Elop's headquarters, offices, development facilities and manufacturing operations. Silver Arrow leases facilities in Nes Ziona, covering approximately 91,000 square feet. A new building of approximately 64,000 square feet has been leased, and is planned to be occupied in September 2008. Land and C4I - Tadiran leases approximately 7,500 square feet in Rehovot.

Netanya: Land and C4I - Tadiran leases approximately 106,000 square feet in Netanya, which contain offices and engineering facilities.

Holon: Tadiran Systems and Tadiran Spectralink, have long-term leasehold rights to approximately 188,300 and 71,300 square feet, respectively, in Holon containing offices, development facilities and manufacturing operations. Land and C4I – Tadiran's manufacturing facilities in Holon occupy approximately 182,000 square feet.

Bnei Barak: Elisra owns approximately 122,000 square feet and has leasehold rights of approximately 148,000 square feet in Bnei Brak. These facilities contain Elisra's headquarters, development facilities and manufacturing operations.

Kiryat Shmona and Northern Israel vicinity: Land and C4I – Tadiran leases facilities of approximately 6,800 share feet in Kiryat Shmona, and 22,700 square feet in Tel Chai. Elbit Systems'UAS operations lease a landing strip in northern Israel of approximately 3,900 feet.

Petach Tikva: Land and C4I – Tadiran leases approximately 80,000 square feet of offices and engineering facilities in Petach Tikva.

Sderot: ELSEC owns approximately 109,000 square feet of property in Sderot, which includes approximately 20,200 square feet of offices and manufacturing facilities. ELSEC anticipates adding an additional 24,000 square feet of office facilities by the first quarter of 2009.

Airport City: Kinetics owns office, laboratory and manufacturing facilities in Airport City, covering approximately 32,000 square feet.

Lod: Kinetics leases manufacturing facilities of approximately 22,000 square feet.

Tel-Aviv: The Company's headquarters leases offices in Tel-Aviv of approximately 5,000 square feet.

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Facilities in the United States

Facilities owned or leased by ESA entities include:

Fort Worth, Texas: ownership of approximately 25 acres, including approximately 219,000 square feet of offices, engineering and manufacturing facilities.

Merrimack, New Hampshire: ownership of approximately 66 acres, including approximately 352,000 square feet of offices and manufacturing operations.

Tallahassee, Florida: approximately 109,000 square feet of offices and manufacturing facilities, of which 80,000 square feet is owned and the rest is leased on a long-term basis.

Talladega, Alabama: ownership of approximately 38 acres, including approximately 68,000 square feet of offices and manufacturing facilities.

Warner Robins, Georgia: lease of approximately 13,000 square feet of maintenance and repair facilities.

Wichita, Kansas: lease of approximately 4,000 square feet of commercial aviation maintenance facilities.

Arlington, Virginia: lease of approximately 6,000 square feet for ESA's Washington office.

Quantico, Virginia: lease of approximately 3,000 square feet.

Other U.S. Facilities. Our wholly-owned subsidiary Elmec Inc., leases approximately 4,600 square feet of offices and warehouse facilities in Chelmsford, Massachusetts. Real-Time Laboratories, Inc., a subsidiary of Kinetics, leases approximately 20,000 square feet of offices and manufacturing facilities in Boca Raton, Florida, and approximately 20,000 square feet of manufacturing facilities in Choctaw, Mississippi.

***Facilities in Other Countries*.** AEL owns approximately 282,000 square feet of property in Brazil, including offices and buildings covering approximately 23,000 square feet. The European Subsidiary leases approximately 118,000 square feet in Belgium. In the U.K., Ferranti maintains freehold lease rights to facilities of approximately 180,000 square feet; U-TacS leases approximately 3,800 square feet, and UAV Engines leases approximately 13,000 square feet. Elmet and AE Electronics in Romania lease approximately 91,000 square feet and 35,000 square feet, respectively. Telefunken RACOMS, leases facilities in Germany of approximately 30,000 square feet.

***Recent Investment in Facilities*.** Over the last two years the average annual investment in our facilities, including building projects , as well as equipment, machinery and vehicles, amounted to approximately $85 million. There are no material plans to construct, expand or improve existing facilities, however, ongoing improvements and minor expansions are planned at the facilities in Karmiel and Sderot, Israel and in Fort Worth, Texas, in the U.S. Each of our manufacturing facilities generally operate at or near full capacity. Accordingly, we believe that our current facilities are adequate for our operations as now conducted.

Governmental Regulation

Government Contracting Regulations. We operate under laws, regulations and administrative rules governing defense contracts, mainly in Israel and the United States. Some of these carry major penalty provisions for non-compliance, including disqualification from participating in future contracts. In addition, our participation in governmental procurement processes in Israel, the United States and other countries is subject to specific regulations governing the conduct of the procurement process.

Israeli Export Regulations. Israel's defense export policy regulates the sale of a number of our systems and products. Current Israeli policy encourages exports to approved customers of defense systems and products such as ours, as long as the export is consistent with Israeli Government policy. A license is required to initiate marketing activities. We also must receive a specific export license for any hardware eventually exported from Israel. In 2007, approximately 50% of our revenue was derived from exports subject to Israeli export regulations. In 2006, the Israeli Parliament (Knesset) passed a law regulating export of "dual use" items (items that are typically sold in the commercial market but that also may be used in the defense market) which entered into effect in January 2007. In July 2007, a new Defense Export Control Law was passed by the Knesset, and the law's implementing regulations went into effect in February 2008. The new law enhances enforcement of export control legislation, provides certain exemptions from license requirements and broadens certain areas of licensing, particularly with respect to transfer of technology.

U.S. and Other Export Regulations. ESA's export of defense products, military technical data and technical services to Israel and other countries is subject to applicable approvals of the U.S. Government. Such approvals are typically in the form of an export license or a technical assistance agreement (TAA). Other U.S. companies wishing to export defense products or military related services and technology to our Israeli entities are also required to obtain such export licenses and TAAs. This applies to data required by our Israeli entities to perform work for U.S. programs. Licenses are also required for Israeli nationals assigned to work in defense-related technical areas at our U.S. affiliated companies. An application for an export license or a TAA requires disclosure of the intended sales of the product and the use of the technology. In recent years, the U.S. has implemented enhanced scrutiny of its export control regulations, and the U.S. Government may deny an export authorization if it determines that a transaction is counter to U.S. policy or national security. Other governments' export regulations also affect our business from time to time, particularly with respect to end user restrictions of our suppliers' governments.

Approval of Israeli Defense Acquisitions

The Israeli Defense Entities Law (Protection of Defense Interests) became effective in 2006. Among other matters, this law establishes conditions for the approval of an acquisition or transfer of control of an entity that is determined to be an Israeli "defense entity" under the terms of the law. Designation as a "defense entity" is to occur through an order to be issued jointly by the Israeli Prime Minister, Defense Minister and Trade and Industry Minister. Although no such orders have been issued as of the date of this Annual Report on Form 20-F, it is assumed that Elbit Systems and most of our Israeli subsidiaries will be designated as "defense entities" under the law. Elbit Systems and our major Israeli subsidiaries have been designated as "defense entities" under an order of the Defense Minister with respect to Israeli law governing various aspects of defense security arrangements.

Orders to be issued under the Israeli Defense Entities Law will also establish other conditions and restrictions. It is anticipated that in the case of a publicly traded company such as Elbit Systems, Israeli government approval will be required for acquisition of 25% or more of the voting securities or a smaller percentage of shares that grant "means of control." Means of control for purposes of the law include the right to control the vote at a shareholders meeting or to appoint a director. Orders relating to defense entities are also anticipated to, among other matters, (1) impose restrictions on the ability of non-Israeli resident citizens to hold "means of control" or to be able to "substantially influence" defense entities; (2) require that senior officers of defense entities have appropriate Israeli security clearances; (3) require that a defense entity headquarters be in Israel and (4) subject a defense entity's international joint ventures and various technology transfers to the approval of the IMOD.

Approval of U.S. and Other Defense Acquisitions. Many other countries also require governmental approval of acquisitions of local defense companies or assets by foreign entities. Mergers and acquisitions of defense related businesses in the U.S. are subject to the Foreign Investment and National Security Act (FINSA) of 2007 that was implemented by Executive Order in January 2008. Under FINSA, our acquisitions of defense related businesses in the U.S. require review, and in some cases approval, by the Committee on Foreign Investment in the United States (CFIUS).

"Buy American" Laws. The U.S. "Buy American" laws impose price differentials or prohibitions on procurement of products purchased under U.S. Government programs. The price differentials or prohibitions apply to products that are not made in the United States or that do not contain U.S. components making up at least 50% of the total cost of all components in the product. However, a Memorandum of Agreement between the United States and Israeli Governments waives the Buy American laws for specified products, including almost all the products currently sold in the United States by Elbit Systems and our Israeli subsidiaries.

Foreign Military Funding (FMF). ESA participates in United States FMF programs. These programs require countries, including Israel, receiving military aid from the United States to use the funds to purchase products containing mainly U.S. origin components. In most cases, subcontracting under FMF contracts to non-U.S. entities is not permitted. As a consequence, ESA generally either performs FMF contracts itself or subcontracts with U.S. suppliers. The U.S. Government may authorize the IMOD to utilize a portion of the FMF budget under the United States Subcontracting Procurement (USSP) channel. In such cases, companies such as Elbit Systems or our Israeli subsidiaries, who are acting as the Israeli prime contractor to the IMOD under the NIS funded portion of an a IMOD program, are authorized to negotiate and enter into a subcontract directly with a U.S. supplier. However, payment of the funds under a USSP channel subcontract is administered by the IMOD Purchasing Mission to the U.S. ESA also participates in U.S. Foreign Military Sales (FMS) programs.

Antitrust Laws. Antitrust laws and regulations in Israel, the United States and other countries often require governmental approvals for transactions that are considered to limit competition. Such transactions may include cooperative agreements for specific programs or areas, as well as mergers and acquisitions. In connection with the acquisition of our interest in Elisra, the Israeli Antitrust Authority imposed stringent conditions for us to meet so long as Elisra is jointly held by us and IAI.

Civil Aviation Regulations. Several of the products sold by Company entities for commercial aviation applications are subject to flight safety and airworthiness standards of the U.S. Federal Aviation Administration (FAA) and similar civil aviation authorities in Israel, Europe and other countries.

Federal Drug Administration Regulations. Medical products designed and manufactured by ESA through KMC are subject to the U.S. Federal Drug Administration (FDA) regulations.

Buy-Back

As part of their standard contractual requirements for defense programs, several of our customers include “buy-back” provisions. These provisions are typically best efforts obligations to make, or to facilitate third parties to make, specified transactions in the customer’s country. Such transactions may include the purchase of local goods and services; cooperative ventures with, or investment in, local entities; and transfers of equipment, infrastructure or know-how for the benefit of local parties. In most cases, the buy-back transactions are to be fulfilled over a multi-year period that in some cases extends after completion of deliveries under the contract.

To date, we have not encountered significant difficulties in identifying qualified local suppliers and placing purchase orders.

We typically have the right to apply multiplier factors in calculating the amount of buy-back credit recognized, and certain types of investments and transactions receive buy-back credit of up to several times the value of the specific transaction. Therefore, even if the buy-back provisions apply in an aggregate amount of up to 100% of the price of the contract with our customer, the actual effective buy-back obligation amount in some cases could be significantly less due to the application of the multiplier factors.

Although failure to meet a best efforts buy-back obligation may limit our ability to be awarded future business from the applicable customer, in the majority of the cases buy-back is not linked to delivery payments or subject to specific or material contractual monetary penalties. The buy-back activities are a normal part of doing business in the defense industry with these customers. Over the number of years that we have been performing buy-back activities, we have not experienced significant difficulties in meeting our buy-back obligations, and therefore these buy-back activities are not believed to represent a material financial risk to our operations. Our maximum aggregate buy-back undertakings as of December 31, 2007 were approximately $883 million, to be fulfilled over a period of up to 10 years.

Financing Terms

Types of Financing. There are several types of financing terms applicable to our defense contracts. In some cases, we receive progress payments according to a percentage of the cost incurred in performing the contract. Sometimes we receive advances from the customer at the beginning of or during the course of the project, and sometimes we also receive milestone payments for achievement of specific milestones. In some programs we extend credit to the customer, sometimes based on receipt of guarantees or other security. In other situations work is performed before receipt of the payment, which means that we finance all or part of the project's costs for various periods of time. Financing arrangements may extend beyond the term of the contract's performance. When we believe it is necessary, we seek to protect all or part of our financial exposure by letters of credit, insurance or other measures, although in some cases such measures may not be available.

Advance Payment Guarantees. In some cases where we receive advances prior to incurring contract costs or making deliveries, the customer may require guarantees against advances paid. These guarantees are issued either by financial institutions or by us. We have received substantial advances from customers under some of our contracts. Under certain circumstances, such as if a contract is canceled for default and there has been an advance or progress payment, we may be required to return payments to the customer as provided in the specific guarantee. As part of the guarantees we provide to receive progress payments or advance payments, some of our customers require us to transfer to them title in inventory acquired with such payments. As of December 31, 2007, the amount of guarantees relating to customer advances was approximately $748 million.

Performance Guarantees. A number of projects require us to provide performance guarantees in an amount equal to a percentage of the contract price. Some of our contracts contain clauses that impose penalties or reduce the amount payable to us if there is a delay or failure in performing in accordance with the contract or the completion of a phase of work, including in some cases during the warranty period. These types of guarantees may remain in effect for a period of time after completion of deliveries under the contract. Such guarantees are customary in defense transactions, and we provide them in the normal course of our business. As of December 31, 2007, the balance of performance guarantees for Company entities amounted to approximately $129 million.

Financial Risks Relating to Our Projects. The nature of our projects and contracts creates some potential financial risks, including risks relating to dependence on governmental budgets, fixed price contracts for development effort and production, schedule extensions beyond our control, termination for the customer's convenience, potential for monetary penalties for late deliveries or failure to perform in accordance with the contract requirements and liability for subcontractors. In addition, we receive payments for some of our projects in currencies other than U.S. dollars. In such cases, we sometimes elect to adopt measures to reduce the risk of exchange rate fluctuations. See above – Item 3. Key Information – Risk Factors.

Audit Regulations. The IMOD audits our books and records relating to its contracts with us. Our books and records and other aspects of projects related to U.S. defense contracts are subject to audit by the U.S. Defense Contract Audit Agency. Such audits review compliance with applicable government contracting cost accounting and other applicable standards. If discrepancies were found this could result in a downward adjustment of the applicable contract's price. Some other customers have similar rights under specific contract provisions.

Intellectual Property

Patents, Trademarks and Trade Secrets. The Company owns approximately 140 living patent families including patents and applications registered or filed in Israel, the United States, the European Patent Office and other countries. Our technology spin-off companies often rely in part on our patented technology. We also hold approximately 40 living trademark families relating to specific products. A significant part of our intellectual property assets relates to unique applications of advanced software-based technologies, development processes and production technologies. These applications are often not easily patentable, but are considered as our trade secrets and proprietary information. We take a number of measures to safeguard our intellectual property against infringement as well as to avoid infringement of other parties' intellectual property.

Governmental Customers' Rights in Data. The IMOD usually retains specific rights to technologies and inventions resulting from our performance under Israeli Government contracts. This generally includes the right to disclose the information to third parties, including other defense contractors that may be our competitors. Consistent with common practice in the defense industry, approximately 35% of our revenues in 2007 was dependent on products incorporating technology that a government customer may disclose to third parties. When the Israeli Government funds research and development, it usually acquires rights to data and title to inventions. We often may retain a non-exclusive license for such inventions. The Israeli Government usually is entitled to receive royalties on export sales in relation to sales resulting from government financed development. However, if only the end product is purchased, we normally retain the principal rights to the technology. Sales of our products to the U.S. Government and some other customers are subject to similar conditions. Subject to applicable law, regulations and contract requirements, we attempt to maintain our intellectual property rights and provide customers with the right to use the technology only for the specific project under contract.

Licensing. There are relatively few cases where we manufacture under license. In such cases, the licensor typically is entitled to royalties or other types of compensation. In some cases where we have acquired business lines we obtain a royalty free license to use the applicable technology for specified applications. Occasionally, we license parts of our intellectual property to customers as part of the requirements of a particular contract. We also sometimes license technology to other companies for specific purposes or markets. Our technology spin-offs typically receive licenses to use relevant parts of our intellectual property for their designated business purposes. See above "Technology Spin-Offs – MediGuide and - Starling."

Research and Development

We invest in research and development (R&D) according to a long-term plan based on estimated market needs. Our R&D efforts focus on anticipating operational needs of our customers, achieving reduced time to market and increasing affordability. We emphasize improving existing systems and products and developing new ones using emerging or existing technologies.

We perform R&D projects to produce new systems for the IMOD and other customers. These projects give us the opportunity to develop and test emerging technologies. We developed new tools for fast prototyping for both the design and development process. This permits the operational team members to effectively specify requirements and to automatically transfer them into software code. Examples of our ongoing defense-related R&D projects include those for night operation capabilities, laser systems, display systems, helmet mounted systems, other avionics systems, UAVs, UGVs, USVs, space based cameras, Recce systems, C4I systems, electric tank turret drive systems, unmanned turret systems, communication systems and homeland security systems. We also perform R&D in the area of commercial aviation and commercial night vision products for automobiles. In addition, our technology spin-offs perform R&D in their areas of operation, mainly in the fields of medial instrumentation and broadband communications.

We employ more than 3,800 software and hardware development and systems engineers engaged in advance programs for airborne, ground and naval defense, homeland security and space applications. In addition, most of our program and business line managers have engineering backgrounds. More than 50% of our total workforce is engaged in research, development and engineering.

Our customers fund part of our R&D, and we also invest in our research and development activities. This investment is in accordance with our strategy and plan of operations. The table below shows amounts we invested in R&D activities for the years ended December 31, 2005, 2006 and 2007:

	2005	2006	2007
	(U.S. dollars in million)		
Total Investment	$ 92.4	$ 115.6	$ 155.3
Less Participation*	20.5	23.4	28.3
Net Investment	$ 71.9	$ 92.2	$ 127.0

*See above – “Government Rights in Data” and see below – “Conditions in Israel - Chief Scientist and Investment Center Funding.”

Manufacturing

We manufacture and assemble most of our systems at Company operational facilities in Israel, the U.S. and Europe. These facilities contain warehouses, electronic manufacturing areas, test equipment and final assembly and test stations. We also have mechanical workshops, fully automated surface mount technology lines and clean rooms**.** We have fully independent capabilities in electronic card assembly, electro-optic components, solid state components integration, environmental testing and final testing, including space simulation and thermal chambers. We also have computerized logistics systems for managing manufacturing and material supply. At ESA’s facilities in Merrimack, we also manufacture commercial avionics and medical equipment in U.S. FAA and FDA registered facilities.

We manufacture UAVs at our facilities in Karmiel, Israel and at UAS operations in Rehovot, Israel. Cyclone performs manufacturing and assembly of composite materials and other products at its facilities in Karmiel, Israel. SCD has a high technology semiconductor manufacturing facility in Leshem, Israel, in which it performs electronic integration and assembly of thermal imaging sensors and laser diodes. ESA has facilities for manufacturing and repair of test equipment and other items. Some components of our products are manufactured in Romania at S.C. A-E Electronics S.A., a majority-owned Romanian subsidiary of Elbit Systems that manufactures metal parts and at Elmet International SRL, a wholly-owned subsidiary of Elbit Systems involved in machining and metal works.

Environmental Compliance

As part of overall Company policy, we are committed to environmental, health and safety standards in all aspects of our operations. This includes ISO 14001 compliance.

Purchasing

The Company's operational units each conduct purchasing activities. In the U.S., in addition to the purchasing activities conducted by the ESA companies, Elmec Inc., a wholly-owned subsidiary of Elbit Systems located in Chelmsford, Massachusetts, also provides procurement services. A number of purchasing and related support and logistic services are performed on a shared services basis by central service providers, in the Company, for various Company units and entities.

We generally are not dependent on single sources of supply. We manage our inventory according to project requirements. In some projects, specific major subcontractors are designated by the customer. Raw materials used by us are generally available from a range of suppliers internationally, and the prices of such materials are generally not subject to volatility.

Customer Satisfaction and Quality Assurance

We invest in continuous improvement of processes to ensure customer satisfaction throughout all stages of our operations. This includes development, design, integration, manufacturing and services for software and hardware, for the range of our systems and products. Our quality teams are involved in assuring compliance with processes and administrating quality plans. These activities begin at the pre-contract stage and continue through the customer's acceptance of the product or services.

Elbit Systems uses a project management method based on Theory of Constraints (TOC) in most of our development projects. Using advanced software, work plans are continuously updated and are available to all integrated product team members. This method makes management more efficient and improves our ability to meet schedule demands of complex projects. Another TOC methodology is used successfully to manage our manufacturing lines in Karmiel, Israel. We also use methods such as Kaizen and Lean.

Our processes are based on a cutting edge tool case and CAD-CAM tools. This infrastructure, together with well defined development methodology and management tools, assists us in providing high quality and on time implementation of projects.

Representatives of our customers generally test our products before acceptance. Branches of the IDF and other customers have authorized us to conduct acceptance testing of our products on their behalf. In addition, Elbit Systems and Tadiran Spectralink are certified for Software Compatibility Maturity Model Integration (CMMI) Level 3 of the U.S. Software Engineering Institute (SEI), indicating a high level of program management and control, system engineering, software and hardware maturity and development capability. Elbit Systems has an approval certificate of the European Aviation Safety Agency (EASA) part 145 for maintaining civil products. Elbit Systems is certified for ISO-9001:2000 including ISO-90003 for software, AS9100, ISO-14001 and OSHAS 18001. Cyclone is certified for ISO-9001:2000, AS9100, ISO-14001 and OSHAS 18001. Elisra is certified for ISO-9001:2000 including ISO-90003 for software, AS9100, ISO-14001 and OSHAS 18001. Tadiran Systems and Tadiran Spectralink are certified for ISO-9001:2000 and ISO-90003 for software. All of the above are certified by the National Standard Institution of Israel and by the National Quality Assurance (NQA) authority for AS9100.

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ESA – Fort Worth is certified for Software CMMI Level 2 of the SEI. ESA – Forth Worth, ESA – Talladega and ESA - Merrimack are certified for ISO-9001:2000 and AS9100. ESA – Tallahassee is certified for ISO-9001. ESA – Merrimack also holds an EASA certificate, and the quality systems of ESA - Merrimack and ESA - Talladega comply with NATO AQAP requirements. ESA's commercial aviation operations maintain FAA Part 145 approved repair stations in both New Hampshire and Kansas. Such operations are FAA Part 21 approved, holding a variety of FAA certifications in support of ESA's commercial avionics business line. ESA medical instruments' business is registered to ISO 13485:2003, is registered with the FDA as a GMP manufacturer and is FDA compliant with Quality Systems Regulations 21 CFR Part 820, 803 and 806.

Ethics

We conduct our business activities and develop Company policies based on a firm commitment to ethical practices. In addition to our Code of Conduct (see below Item 16.B) and compliance with applicable laws and regulations, we have an active Company-wide ethics compliance program, incorporating ongoing training awareness and enforcement. In March 2008, Elbit Systems' ethics program received the top ranking for a non-U.S.-based organization, in the Ethisphere Institute's U.S. Government Contractor Ethics Program Survey.

Service and Warranty

We instruct our customers on the proper maintenance of our systems and products. In addition, we often offer training and provide equipment to assist our customers in performing their own maintenance. When required, support may be provided by a local support team or by experts sent from our main facilities.

We generally offer a one - two-year warranty for our systems and products following delivery to, or installation by, the customer. In some cases we offer extended warranty periods. We maintain reserves for warranty obligations specifically determined for each project based on our experience and engineering estimates. These reserves are intended to cover post-delivery functionality and operating issues for which we are responsible under the applicable contract.

Marketing and Sales

We actively take the initiative in identifying the individual defense needs of our customers throughout the world. We then focus our research and development activities on systems designed to provide tailored solutions to those needs. We often provide demonstrations of prototypes and existing systems to potential customers.

We market our systems and products either as a prime contractor or as a subcontractor to various governments and defense contractors worldwide. In Israel, we sell our military systems and products mainly to the IMOD, which procures all equipment for the IDF. Our marketing and technical support personnel for sales in Israel operate out of all of our major facilities in Israel. A number of marketing related support services are provided on a central shared services basis to various units in the Company. We are assisted in marketing our systems, products and services in other parts of the world through subsidiaries, joint ventures, consultants and representatives.

In the U.S., the ESA companies lead our marketing activities, from the Fort Worth, Merrimack, Talladega and Tallahassee facilities and from offices in the Washington, D.C. area. A number of marketing related support services are provided on a central shared services basis to various units in the Company. ESA operates under a Special Security Agreement that allows it and its subsidiaries to work on certain classified U.S. Government programs. See above “Principal Subsidiaries – ESA.”

Our subsidiaries in other countries typically lead the marketing activities in their home countries, often assisted by marketing and business development personnel based in Israel.

Over the past several years, a number of the major entities in the Company have entered into cooperation agreements with major defense contractors in the United States, Europe and certain other key markets. These agreements provide for joint participation in marketing and performance of a range of projects. In other countries, we actively pursue business opportunities as either a prime contractor or a subcontractor, usually together with local companies. Often we enter into cooperation agreements with other companies for such opportunities.

Competition

We operate in a competitive environment for most of our projects, systems and products. Competition is based on product and program performance, price, reputation, reliability, life cycle costs and responsiveness to customer requirements. This includes the ability to respond to rapid changes in technology. In addition, our competitive position sometimes is affected by specific requirements in particular markets.

In recent years consolidation in the defense industry has affected competition. This has decreased the number but increased the relative size and resources of our competitors. We adapt to market conditions by adjusting our business strategy to changing defense market conditions. We also anticipate continued competition in defense markets due to declining defense budgets in many countries.

Competitors in the sale of some of our products to the Government of Israel include IAI and Rafael among others. From time to time we also cooperate with some of our competitors on specific projects.

Outside of Israel, we compete in a number of areas with major international defense contractors. Our main competitors include divisions and subsidiaries of Northrop Grumman Corporation, Raytheon Inc., Honeywell, BAE Systems Ltd., Rockwell Collins, L-3 Communications Holdings, Inc., Thales S.A., Harris Corporation, European Aerospace Defense and Space Company EADS N.V., Goodrich Corporation, FLIR Systems, Inc., CMC Electronics Inc., Rhode and Schwartz GmbH, Selex Communications Ltd. and ITT Defense Limited. Our competitors also include a number of other major defense contractors in the United States and Europe. Many of these competitors have greater financial, marketing and other resources than ours. We also compete in the worldwide defense market with numerous smaller companies as well as other large and small Israeli companies. In addition, we compete with a range of companies in the commercial avionics market. In certain cases we also engage in strategic cooperative activities with some of our competitors.

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Overall, we believe we are able to compete on the basis of our systems development and technological expertise, our systems' combat-proven performance and our policy of offering customers overall solutions to technological, operational and financial needs.

Major Customers

Sometimes, our revenues from an individual customer account for more than 10% of our revenues in a specific year. Our only such customers during the last three years were the IMOD, that accounted for 26% in 2005, 24% in 2006 and 21% in 2007, and the U.S. Government, that accounted for 10% of our revenues in 2005 and 15% of our revenues in 2006.

Social Responsibility

We place importance on social responsibility to the communities in which we live and work. This is consistent with our policy of emphasizing ethics in our business practices. Our policy encourages the voluntary efforts of our Company entities and employees who donate their time and efforts in the support of members of our communities who are in need. In this regard, we place priority on initiatives to promote educational advancement, particularly in the technology sectors. A major activity resulting from our social responsibility policy is facilitating the placement of our employees as tutors in peripheral communities and less developed neighborhoods, providing technology-related knowledge as well as other educational resources generally lacking in those areas. We also promote numerous other community support activities. Our commitment to social responsibility initiatives has been reflected in our ongoing ranking among the top Israeli companies in the "Maala" social responsibility index.

Conditions in Israel

Political, Military and Economic Risks. Our operations in Israel are subject to several potential political, military and economic risks. See above - Item 3. Key Information – Risk Factors – Risks Related to Our Israeli Operations.

Trade Agreements

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. Israel also is a party to the General Agreement on Tariffs and Trade, which provides for reciprocal lowering of trade barriers among its members. In addition, Israel has been granted preferences under the Generalized System of Preferences from the United States, Australia, Canada and Japan. These preferences allow Israel to export products covered by such programs either duty-free or at reduced tariffs.

Israel and the European Community are parties to a Free Trade Agreement that provides some advantages for Israeli exports to most European countries and requires Israel to lower its tariffs on imports from these countries over a number of years. Israel and the United States entered into an agreement to establish a Free Trade Area that eliminates tariff and some non-tariff barriers on most trade between the two countries. An agreement between Israel and the European Free Trade Association, which includes Austria, Norway, Finland, Sweden, Switzerland, Iceland and Liechtenstein, established a free-trade zone between Israel and those nations.

Chief Scientist (OCS) and Investment Center Funding

The Government of Israel, through the OCS and the Israel Investment Center (the Investment Center), encourages research and development projects oriented towards export products and participates in the funding of such projects as well as company investments in manufacturing infrastructures.

Under the terms currently applying to OCS funding, companies receiving funding for development of products must pay the Israeli Government a royalty of usually 0% (in the case of non-royalty bearing grants) to 5% of the sales of products developed from a project funded by the OCS. These payments start with the beginning of sales of such products and typically end when 100% of the dollar value of the grant is repaid. For grants provided starting in 1999, the recipient must also pay interest payments to the OCS on the amount of the grant. The annual interest payment rate is LIBOR. The terms of Israeli Government participation also require that the rate of manufacture of products developed with government grants be performed in Israel at a rate equal to or higher than the rate contained in the funding proposal, unless a special approval has been granted. Separate Israeli Government consent is required to transfer to third parties technologies developed through projects in which the Government participates in the funding of the development effort.

In 2002, Elop reached agreement with the OCS to join an OCS initiative applicable to large, research and development intensive Israeli companies. This initiative allows participating companies to receive OCS funding for generic research and development without the need for payment of future royalties. However, as a condition to joining the initiative, companies are required to reach agreement with the OCS on an unconditional prepayment for existing OCS funded programs in exchange for a release by the OCS from all obligations. Under Elop's agreement with the OCS, Elop paid $10.6 million over a five-year period beginning in 2002 in exchange for a release of Elop's obligations to pay further royalties.

The Investment Center promotes Israeli export products and increased industrialization of peripheral areas through investment in industrial infrastructure. The Investment Center either provides grants for qualified projects or provides tax benefits for qualified industrial investments by Israeli companies. In 2005, the regulations relating to the tax benefit programs of the Investment Center were revised to provide for review and approval of the tax benefit by the Israel Tax Authority only after a company has made the applicable investment.

Israeli Labor Laws. Our employees in Israel are subject to Israeli labor laws. Some employees are also affected by some provisions of collective bargaining agreements between the Histadrut - General Federation of Labor in Israel and the Coordination Bureau of Economic Organizations, which includes the Industrialists' Association. These labor laws and collective bargaining provisions mainly concern the length of the work day, minimum daily wages for professional workers, insurance for work-related accidents, procedures for dismissing certain employees, determination of severance pay, employment of "manpower" employees and other conditions of employment.

Severance Pay. Under Israeli law, our Israeli companies are required to make severance payments to terminated Israeli employees, other than in some cases of termination for cause. The severance reserve is calculated based on the employee's last salary and period of employment. A portion of the severance pay and pension obligation is covered by payment of premiums to insurance companies under approved plans and to pension funds. The deposits presented in the balance sheet include profits accumulated to the balance sheet date. The amounts deposited may be withdrawn only after fulfillment of the obligations under the Israeli laws relating to severance pay.

National Insurance Institute. Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute, which is similar to the U.S. Social Security Administration. These amounts also include payments for national health insurance. As of December 31, 2007, the payments to the National Insurance Institute were equal to approximately 17.7% of wages,, subject to a cap if an employee's monthly wages exceed a specified amount. The employee contributes approximately 66% and the employer contributes approximately 34%.

Enforcement of Judgments

Israeli courts may enforce U.S. and other foreign jurisdiction final executory judgments for liquidated amounts in civil matters, obtained after due process before a court of competent jurisdiction. This enforcement is made according to the private international law rules currently applicable in Israel, which recognize and enforce similar Israeli judgments, provided that:

- adequate service of process has been made and the defendant has had a reasonable opportunity to be heard;
- the judgment and its enforcement are not contrary to the law, public policy, security or sovereignty of the State of Israel;
- the judgment was not obtained by fraud and does not conflict with any other valid judgment in the same matter between the same parties;
- an action between the same parties in the same matter is not pending in any Israeli court at the time the lawsuit is instituted in the foreign court; and
- the judgment is no longer subject to a right of appeal.

Foreign judgments enforced by Israeli courts generally will be payable in Israeli currency. The usual practice in Israel in an action to recover an amount in a non-Israeli currency is for the Israeli court to provide for payment of the equivalent amount in Israeli currency at the exchange rate in effect on the judgment date. Under existing Israeli law, a foreign judgment payable in foreign currency may be paid in Israeli currency at the foreign currency's exchange rate on the payment date or in foreign currency. Until collection, an Israeli court judgment stated in Israeli currency will ordinarily be linked to the Israeli Consumer Price Index (CPI) plus interest at the annual rate (set by Israeli regulations) in effect at that time. Judgment creditors must bear the risk of unfavorable exchange rates.

Item 4A. Unresolved Staff Comments

None

Item 5. Operating Financial Review and Prospects – Management's Discussion and Analysis

The following discussion and analysis should be read together with our audited consolidated financial statements and notes appearing in Item 18 below.

General

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 2 to the audited consolidated financial statements for the year ended December 31, 2007.

Our results of operations and financial condition are based on the preparation of consolidated financial statements in conformity with United States generally accepted accounting principles (U.S. GAAP). The preparation of the consolidated financial statements requires management to select accounting policies for critical accounting areas as well as estimates and assumptions and to make judgments that involve the accounting policies described below that affect the amounts reported in the consolidated financial statements. Significant changes in assumptions and/or conditions and changes in critical accounting policies could materially impact our operating results and financial condition.

We believe our most critical accounting policies relate to:

- Revenue Recognition.
- Business Combinations and Purchase Price Allocation.
- Impairment of Goodwill and Other Long-Lived Assets.
- Other-Than-Temporary Decline in Value of Investments in Investee Companies.
- Useful Life of Long-Lived Assets.
- Tax Accounting.
- Valuation of Securities.

Revenue Recognition

We generate revenues, mainly from long-term contracts involving the design, development, manufacture and integration of defense systems and products. In addition, to a minor extent we provide support and services for such systems and products.

Revenues from long-term contracts are recognized based on Statement of Position 81-1 “Accounting for Performance of Construction-Type and Certain Production-Type Contracts” (SOP 81-1) according to which revenues are recognized on the percentage-of-completion basis.

Sales under long-term fixed-price contracts which provide for a substantial level of development efforts in relation to total contract efforts are recorded using the cost-to-cost method of accounting as the basis to measure progress toward completing the contract and recognizing revenues. According to this method, sales and profits are recorded based on the ratio of costs incurred to estimated total costs at completion. In certain circumstances, when measuring progress toward completion, we consider other factors, such as achievement of performance milestones.

Sales and anticipated profit under long-term fixed-price production type contracts are recorded on a percentage-of-completion basis, using the units-of-delivery as the basis to measure progress toward completing the contract and recognizing revenues. In certain circumstances, which involve long-term fixed-price production type contracts for non-homogenous or small quantity of units, revenue is recognized based on the achievement of performance milestones, which provide a more reliable, and objective, measure to the extent of progress toward completion.

Sales and anticipated profit under long-term fixed-price contracts that involve both development and production are recorded using the cost-to-cost method and units-of-delivery method as applicable to the phase of the contract, as the basis to measure progress toward completion. In addition, when measuring progress toward completion under the development portion of the contract, we consider other factors, such as achievement of performance milestones.

The percentage-of-completion method of accounting requires management to estimate the cost and gross profit margin for each individual contract. Estimated gross profit or loss from long-term contracts may change due to changes in estimates resulting from differences between actual performance and original estimated forecasts. Such changes in estimated gross profit are recorded in results of operations when they are reasonably determinable by management, on a cumulative catch-up basis. Anticipated losses on contracts are charged to earnings when determined to be probable.

Sales under cost-reimbursement-type contracts are recorded as costs are incurred. Applicable estimated profits are included in earnings in the proportion that incurred costs bear to total estimated costs.

Amounts representing contract change orders, claims or other items are included in sales only when they can be reliably estimated and realization is probable. Penalties and awards applicable to performance on contracts are considered in estimating sales and profit rates and are recorded when there is sufficient information to assess anticipated contract performance.

We believe that the use of the percentage-of-completion method is appropriate as the Company has the ability to make reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs. In addition, contracts executed include provisions that clearly specify the enforceable rights regarding services to be provided and received by the parties to the contracts, the consideration to be exchanged and the manner and terms of settlement. In all cases the Company expects to perform our contractual obligations, and our customers are expected to satisfy their obligations under the contract.

In cases where the contract involves the delivery of products and performance of services, we follow the guidelines specified in EITF 00-21, “Revenue Arrangements with Multiple Deliverables” in order to allocate the contract fees between the products accounted for under SOP 81-1 and the services.

In certain circumstances, sales under short-term fixed-price production type contracts are accounted for in accordance with SAB No. 104, “Revenue Recognition in Financial Statements” (SAB 104). In such cases sales are recognized when the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the seller’s price to the buyer is fixed or determinable, no further obligation exists and collectability is reasonably assured. When such contracts involve the delivery of multiple products that are delivered at different times, EITF-00-21 is applied in allocating contract fees to the various items.

Management reviews periodically the estimates of progress towards completion and project costs. These estimates are determined based on engineering estimates and past experience, by personnel having the appropriate authority and expertise to make reasonable estimates of progress towards contract completion and the related costs. Such engineering estimates are reviewed periodically for each specific contract by professional personnel from various disciplines within the organization. These estimates take into consideration the probability of achievement of certain milestones, as well as other factors that might impact the contract's completion.

A number of internal and external factors affect our cost estimates, including labor rates, estimated future material prices, revised estimates of uncompleted work, efficiency variances, linkage to indices and exchange rates, customer specifications and testing requirement changes. If any of the above factors were to change, or if different assumptions were used in estimating progress cost and measuring progress towards completion, it is likely that materially different amounts would be reported in our consolidated financial statements.

Business Combinations and Purchase Price Allocation

Business combinations are accounted for using the purchase method of accounting, under which the total purchase price of the acquired companies is allocated to the tangible and intangible assets acquired and liabilities assumed, as well as to in-process research and development (IPR&D) based on their estimated fair values, and the excess of the purchase price over the fair value of the net assets of the purchased businesses is recorded as goodwill. The aggregate purchase price of any investment accounted for under either the consolidation or the equity method of accounting is allocated to identifiable net tangible assets, intangible assets other than goodwill, IPR&D activities and to goodwill. The amount allocated to IPR&D is charged immediately to the Company's results of operations in accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method" (FIN 4). The amounts allocated to finite-lived intangible assets other than goodwill are amortized on a straight-line basis over their weighted average expected useful life.

We engage third-party appraisal firms to assist management in determining the fair values of certain assets acquired and liabilities assumed. Estimating the fair value of certain assets acquired and liabilities assumed is judgmental in nature and often involves the use of significant estimates and assumptions, mainly with respect to intangible assets. Management makes estimates of fair value based upon assumptions believed to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. While there are a number of different methods for estimating the value of intangibles acquired, the primary method used is the discounted cash flow approach. Some of the more significant estimates and assumptions inherent in the discounted cash flow approach include projected future cash flows, including their timing, a discount rate reflecting the risk inherent in the future cash flows and a terminal growth rate. Another area which requires judgment and can impact our results of operations is estimating the expected useful lives of the intangible assets. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results.

To the extent intangible assets are ascribed with longer useful lives, there may be less amortization expenses recorded in any given period. As the Company operates in industries which are extremely competitive, the value of the intangible assets, including goodwill and their respective useful lives, are exposed to future adverse changes, which can result in an impairment charge to our results of operations.

Impairment of Goodwill and Long-Lived Assets

Consistent with Statement of Financial Accounting Standards (SFAS) No. 142, “Goodwill and Other Intangible Assets” (SFAS 142), goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to periodic impairment tests, at least on an annual basis. According to SFAS 142, goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. We conduct a goodwill impairment review at least annually and more frequently whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important which could trigger an impairment review include significant underperformance relative to historical or expected future operating results and significant negative industry or economic trends. We test for impairment at a level referred to as a reporting unit. Determining fair value of a reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions could have an impact on whether or not an impairment charge is recognized. To determine fair value, we may use a number of valuation methods.

The methods commonly used to value reporting units are the Income, Market and Cost approaches. Our reporting units’ fair market value is estimated using either of two valuation methodologies: the Income Approach and the Market Approach. As mentioned above, these approaches use estimates and assumptions including projected future cash flows, discount rate and terminal growth rate. Using different assumptions could result in different results.

As of December 31, 2007, our goodwill amounted to $332 million. We tested our goodwill for impairment as of December 31, 2007 and concluded that no impairment loss was identified.

Consistent with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” we evaluate long-lived assets for impairment and assess their recoverability whenever events or circumstances indicate that carrying amount of an asset may not be recoverable. The recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. In the evaluation of fair value, we use significant estimates and assumptions such as projected future cash flows which are subject to high degree of judgment. If the carrying value of a long-lived asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. In the valuation of fair value we use judgment as to which is the most appropriate method to use for measuring fair value and as to what assumptions to use in implementing the methodology chosen. As we operate in industries which are extremely competitive, changes in the assumptions and estimates may affect the carrying value of the intangible assets, and could result in an impairment charge to our results of operations. As of December 31, 2007, our long-lived assets amounted to $649.4 million, including $298.7 million identifiable in intangible assets, and we concluded that there were no indicators of impairment present during and up to the end of the year.

Should our future impairment tests determine that impairment has occurred in the value of our goodwill or long-lived assets, such impairment may have a material effect on our financial results in the period in which the impairment is determined. See also “2007 Compared to 2006 - Finance Expenses (Net)” below.

Other-Than-Temporary Decline in Value of Investments in Investee Companies

At the end of each reported period we evaluate whether an other-than-temporary decline in the value of an investment in investee companies has been sustained. This evaluation is judgmental in nature. If it has been determined that an investment has sustained an other-than-temporary

decline in its fair value relative to its carrying value, the investment is written down to its fair value by a charge to our results of operations.

An evaluation of fair value is dependent upon specific facts and circumstances. Factors that are considered in this determination include financial information (including, among others, budgets, business plans and financial statements) and independent appraisals, if available. Factors indicative of an other-than-temporary decline include recurring operating losses, credit defaults, specific conditions affecting the investment, such as in the industry or in a geographic area, and subsequent rounds of financing at an amount below the cost basis of the investment. This list is not all inclusive, and we weigh all quantitative and qualitative factors in determining if an other-than-temporary decline in value of an investment has occurred. As the Company operates in industries that are extremely competitive, it is possible that estimates could change in the near term, and there can be no assurance that an additional write-down or write-off of the carrying value of an investment will not be required in the future. See also “2006 Compared to 2005 - Other Income (Expenses) (Net)” below.

Useful Life of Long-Lived Assets

Intangible assets and property, plant and equipment are amortized over their estimated useful lives. Determining the useful life of such assets involves the use of estimates and judgments. In determining the useful life we take into account various factors such as the expected use of the assets, effects of obsolescence, including technological developments, competition, demand, changes in business, acquisitions and other economic factors. If we estimate changes and the useful lives of such assets increase or decrease, it will affect our results of operations. See above – “Impairment of Goodwill and Long-Lived Assets” for further discussion of the effects of changes in useful lives.

Tax Accounting

We record income taxes using the asset and liability approach. Management judgment is required in determining our provision for income taxes in each of the jurisdictions in which we operate. The provision for income tax is calculated based on our assumptions as to our entitlement to various benefits under the applicable tax laws in the jurisdictions in which we operate. The entitlement to such benefits depends upon our compliance with the terms and conditions set out in these laws. We have considered future taxable income, prudent and feasible tax planning strategies and other available evidence in determining the need for a valuation allowance. Although we believe that our estimates are reasonable and that we have considered future taxable income and ongoing prudent and feasible tax strategies in estimating our tax outcome, there is no assurance that the final tax outcome will not be different than those which are reflected in our historical income tax provisions and accruals. Such differences could have a material effect on our income tax provision, net income and cash balances in the period in which such determination is made.

On January 1, 2007, we adopted FIN No. 48, "Accounting for Uncertainty in Income Taxes" (FIN No. 48), which contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes" (SFAS No. 109). The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. Prior to January 1, 2007, we estimated our uncertain income tax obligations in accordance with SFAS No. 109 and SFAS No. 5 "Accounting for Contingencies."

The impact on our consolidated financial position and results of operations as a result of the adoption of the provisions of FIN 48 was approximately $4.85 million, which was recognized as an adjustment to opening retained earnings.

We recorded interest related to its unrecognized tax benefit as income tax expense. Our January 1, 2007 unrecognized tax benefit included approximately $2.45 million of interest.

Valuation of Securities

We account for our marketable securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115).

Our marketable securities at December 31, 2007 included principal investments in Auction Rate Securities (ARS). The ARS held by us as a result of the acquisition of Tadiran are private placement securities with long-term nominal maturities for which the interest rates are reset through a "dutch" auction each month. The monthly auctions historically have provided a liquid market for these securities. Our investments in ARS represent interests in collateralized debt obligations supported by pools of residential and commercial mortgages or credit cards, insurance securitizations and other structured credits, including corporate bonds. Some of the underlying collateral for the ARS held by us consists of sub-prime mortgages.

Although the ARS continue to pay interest according to their stated terms, based on fair value indications received and valuation models applied by the investment banks and an analysis of other-than-temporary impairment factors, we recorded an impairment charge of approximately $10

million in the fourth quarter of 2007, reflecting the portion of ARS holdings that we concluded have an other-than-temporary decline in value, and the cost was included in Finance Expenses net. In addition, we recorded an unrealized pre-tax loss of approximately $0.9 million in other comprehensive income, reflecting an adjustment to ARS holdings that we concluded to have a temporary decline in value.

Historically, given the liquidity created by the auctions, ARS were presented as current assets under marketable securities on our balance sheet. As a result of the failed auctions, in recent periods the Company's ARS are illiquid until there is a successful auction for them. Accordingly, the entire amount of such remaining ARS has been reclassified from current to non-current assets on our balance sheet.

The valuation of our investment portfolio is subject to uncertainties that are difficult to predict. Factors that may impact our valuation include changes to credit ratings of the securities as well as to the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral value, discount rates, counterparty risk and ongoing strength and quality of market credit and liquidity.

The credit and capital markets have continued to deteriorate in 2008. If uncertainties in these markets continue, these markets deteriorate further or we experience any additional ratings downgrades on any investments in our portfolio, we may incur additional impairments to our investment portfolio, which could negatively affect our financial condition, cash flow and reported earnings. See also the discussion below in this Item 5 under the caption "Liquidity and Capital Resources—Auction Rate Securities."

Sarbanes-Oxley Act

According to Section 404 of the U.S. Sarbanes-Oxley Act of 2002, Elbit Systems is required to include in our annual report for the fiscal year ending December 31, 2007 an assessment, as of the end of the fiscal year, of the effectiveness of our internal controls over financial reporting.

During 2007, we took steps to assure compliance of our documentation and internal controls over financial reporting with the guidelines stipulated in the Sarbanes-Oxley Act. We completed the required activities for the 2007 year end financial statements. See below – Item 15. Controls and Procedures – Management's Annual Report on Internal Control Over Financial Reporting.

New Accounting Standards

The following are the recently issued accounting standards that may have an impact on our future financial statements:

- **SFAS 157.** In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and enhances fair value measurement disclosure. In February 2008, the FASB issued FASB Staff Position (FSP) 157-1, "Application of FASB Statement No. 157 FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" (FSP 157-1) and FSP 157-2, "Effective Date of FASB Statement No. 157" (FSP 157-2). FSP 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the first quarter of 2009. The measurement and disclosure requirements related to financial assets and financial liabilities are effective for the Company beginning in the first quarter of 2008.

  The resulting fair values calculated under SFAS No. 157 after adoption may be different from the fair values that would have been calculated under previous guidance. We are currently evaluating the impact that SFAS No. 157 will have on our consolidated financial statements when it is applied to non-financial assets and non-financial liabilities beginning in the first quarter of 2009.

- **SFAS 159.** In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159). SFAS 159 permits companies to record certain financial instruments and other items at fair value. The standard requires unrealized gains and losses to be reported in earnings for items measured using the fair value option. SFAS 159 is effective for the Company beginning in the first quarter of 2008. The adoption of SFAS 159 did not have a significant impact on our consolidated financial statements.

- **EITF 07-3.** In June 2007, the FASB ratified EITF 07-3, "Accounting for Non-Refundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities" (EITF 07-3). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred, capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. The adoption of EITF 07-3 did not have a material impact on our consolidated results of operations and financial condition.

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- **SFAS 141(R).** In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" (SFAS 141(R)). Under SFAS 141(R), an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies and contingent consideration at their fair value on the acquisition date. SFAS 141(R) further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period will impact income tax expense. In addition, acquired IPR&D is capitalized as an intangible asset and amortized over its estimated useful life. The adoption of SFAS 141(R) will change our accounting treatment for business combinations consummated beginning in the first quarter of 2009, and we are currently assessing that impact.

- **SFAS 160.** In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51" (SFAS 160). SFAS 160 addresses the accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008, and will be adopted by the Company in 2009. We are currently assessing the impact of this standard on our future consolidated results of operations and financial condition.

- **SFAS 161.** 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. We are currently evaluating the future impacts and disclosures relating to SFAS 161.

Off Balance Sheet and Other Long-Term Arrangements and Commitments

Buy-Back. In connection with projects in certain countries, Elbit Systems and certain of our subsidiaries undertook to make or facilitate purchases or investments in those countries at specified percentages (typically up to 100%) of the amount of the specific contract. The maximum aggregate undertaking as of December 31, 2007 amounted to approximately $883 million to be performed over a period of up to 10 years. In the opinion of our management, the actual amount of the investments and purchases should be less than that mentioned above, since certain investments and purchases can result in reducing the overall undertaking on more than a one-to-one basis. See above – Item 4. Information on the Company – Buy-Back.

Government Funding of Development. Elbit Systems and certain Israeli subsidiaries partially finance our research and development expenditures under programs sponsored by the Government of Israel Chief Scientist Office (OCS) for the support of research and development activities conducted in Israel. At the time the participations were received, successful development of the related projects was not assured. In exchange for participation in the programs by the OCS, Elbit Systems and the subsidiaries agreed to pay 0% - 5% of total sales of products developed within the framework of these programs. The obligation to pay these royalties is contingent on actual sales of the products. Elbit Systems and some of our subsidiaries may also be obligated to pay certain amounts to the IMOD and others on certain sales including sales resulting from the development of some of the technologies developed with their participation. See above – Item 4. Information on the Company – Conditions in Israel – Chief Scientist (OCS) and Investment Center Funding.

Lease Commitments. The future minimum lease commitments of the Company under various non-cancelable operating lease agreements in respect of premises, motor vehicles and office equipment as of December 31, 2007 were as follows: $26 million for 2008, $23 million for 2009, $19 million for 2010 and $28 million for 2011 and thereafter.

Bank Covenants. In connection with bank credits and loans, including performance guarantees issued by banks and bank guarantees in order to secure certain advances from customers, Elbit Systems and certain subsidiaries are obligated to meet certain financial covenants. See below – “Liquidity and Capital Resources – Financial Resources.” Such covenants include requirements for shareholders’ equity, current ratio, operating profit margin, tangible net worth, EBITDA, interest coverage ratio and total leverage. As of December 31, 2007, Elbit Systems and our subsidiaries, except Elisra, were in compliance with all covenants. As of December 31, 2007 and 2006, Elisra did not comply with its financial covenants. As a result, the banks requested to register a general floating lien on the assets of Elisra. In February 2007, Elisra’s Board of Directors approved the banks’ request. Subsequent to balance sheet date, Elisra granted first priority liens and/or floating liens on all of its property and assets with no limitations as to amount. See below - Item 18. Financial Statements – Note 17(F) (Commitments and Contingent Liabilities – Covenants).

Bank Guarantees. As of December 31, 2007, guarantees in the aggregate amount of approximately $963 million were issued by banks on behalf of several Company entities primarily in order to secure mainly certain advances from customers and performance bonds.

Purchase Commitments. As of December 31, 2007 and 2006, the Company had purchase commitments that amounted to approximately $906 and $681 million, respectively. These purchase orders and subcontracts are typically in a standard format proposed by us, with the subcontracts and purchase orders also reflecting provisions from the applicable prime contract that are appropriate to flow down to subcontractors and vendors. The terms typically included in these purchase orders and subcontracts are consistent with Uniform Commercial Code provisions in the United States for sales of goods, as well as with specific terms called for by our customers in international contracts. These terms include our right to terminate the purchase order or subcontract in the event of the vendors' or subcontractors' default, as well as our right to terminate the order or subcontract for our convenience (or if our prime contractor has so terminated the prime contract). Such purchase orders and subcontracts typically are not subject to variable price provisions.

Cancellation of Export Authorizations for Elisra Project. As a result of cancellation of the export authorization in 2006 to a foreign country (the Customer), Elisra and one of its subsidiaries were forced to terminate four projects. Most of the activity in respect of the projects, of which the total amount was approximately $40 million, has already been executed and the deliveries have been made to the Customer. For those projects, Elisra and its subsidiary provided to the Customer advances and performance guarantees issued by banks and financial institutions. As of December 31, 2007, the total of these advance payment and performance guarantees was approximately $7 million (as of December 31, 2006 - $10 million). Elisra's and Elbit Systems' management, based on the opinion of our legal advisors, believe that the financial impact of the four projects' termination in excess of the accruals recorded in the financial statements will not have a material adverse effect on the financial position or results of operations of Elbit Systems. The Customer financed the projects by means of bank loans. The banks received indemnity letters as security for repayment of the loans. Most of the indemnity was provided to the banks by International Foreign Trade Risks Insurance Company (IFTRIC) (since renamed ASHRA), and the balance was provided by Elisra and its subsidiary. In addition, Elisra provided indemnity letters to IFTRIC that can be exercised upon the occurrence of specific unusual events and is subject to IFTRIC fulfilling its commitments to the banks. In the opinion of Elisra's and Elbit Systems' management, no provisions are required in respect of these indemnity letters.

Acquisitions and Divestitures During 2007

See above – Item 4. Information on the Company – Recent Acquisitions and Divestitures.

TadComm

In April 2007, we completed a cash tender offer (the Offer) for the balance of the ordinary shares of TadComm that we did not already own. Prior to the completion of the Offer, TadComm was a publicly traded company in Israel in which we held 42% of TadComm's outstanding shares, which we recorded as an investment on the equity basis of accounting.

As a result of the Offer, TadComm became a private company and our wholly-owned subsidiary. We paid an aggregate of approximately $383 million for the TadComm shares acquired in the Offer. The results of TadComm are consolidated in the Company's financial statements commencing May 1, 2007, the beginning of the month after the date of completion of the Offer.

TadComm operates mainly in the defense communication area. We are active in the radio communication and computer area, and use integrated communication equipment in our systems. We foresee synergies between our Land and C^4I systems operations and TadComm, by providing advanced integrated network and communication solutions to our customers.

The table below summarizes the Purchase Price Allocation (PPA), based on a PPA performed by an independent advisor, for the aggregate assets acquired, and liabilities assumed, in connection with the acquisition of the TadComm shares as follows:

	Book value of acquired interest in TadComm	Excess cost	Total	Expected useful lives
	(in thousands of U.S. dollars)			
Working capital	$ 67,600	(17,400)	$ 50,200	
Long-term assets and investments	34,800	—	34,800	
Property, plant and equipment	9,300	1,100	10,400	20 years
Long-term liabilities	(53,000)	800	(52,200)	
Brand name	5,700	18,200	23,900	15 years
Customer relationships and backlog	—	96,800	96,800	2-10 years
Technology	2,700	40,800	43,500	10 years
IPR&D	—	16,600	16,600	Immediate write-off
Deferred taxes	—	(35,100)	(35,100)	
Goodwill	32,800	161,300	194,100	Indefinite – subject to annual impairment test
	$ 99,900	$ 283,100	$ 383,000	

The assets and liabilities recorded in connection with the PPA for the TadComm acquisition were based upon estimates of fair values for contracts in process, inventories, estimated costs in excess of estimated contract value to complete contracts in process in a loss position, contingent assets and liabilities, identifiable intangibles, goodwill, property, plant and equipment and deferred income taxes.

Following the acquisition of the TadComm shares in the second quarter of 2007, we identified and wrote-off duplicated inventories and equipment and accrued termination costs relating to existing Elbit Systems' business in a total amount of approximately $10.5 million, which was recorded as restructuring costs in the cost of revenues.

The following unaudited proforma data is based on historical financial statements of the Company and TadComm and is provided for comparative purposes only. The proforma information does not purport to be indicative of the results that actually would have occurred had the purchase of the shares been consummated prior to the beginning of the reported periods.

The proforma information reflects the results of the Company's operations assuming that TadComm's results were included in the Company's consolidated results prior to each of the reported periods and under the following assumptions:

(1) Intangible assets (customer relationships, backlog, brand name and technology) arising from the acquisition of the TadComm shares of approximately $228 million net of related deferred taxes of approximately $57 million, is amortized over periods ranging from two to fifteen years.

(2) Excess of cost over equity purchased allocated to real estate assets of approximately $1.8 million net of related deferred taxes of approximately $450 thousand is amortized over a period of 20 years.

(3) The cost attributed to purchased IPR&D projects, in the amount of approximately $16.56 million, was charged to operations immediately as a non-recurring item and is not included in the proforma consolidated results.

(4) Intercompany balances and transactions, if any, have been eliminated.

	Year ended December 31,	
	2007	2006
	(in thousands of U.S. dollars except per share data)	
Proforma sales	$ 2,067,805	$ 1,775,247
Proforma income	$ 97,575	$ 85,890
Proforma earnings per share		
Basic	$ 2.32	$ 2.08
Diluted	$ 2.30	$ 2.05

Ferranti

In July 2007, we acquired the entire share capital of Ferranti, a U.K. company, for £15 million (approximately $31 million). See above – Item 4. Information on the Company – Principal Subsidiaries – Ferranti.

Based on a PPA performed by an independent advisor, the purchase price was attributed to the fair value of the assets acquired and liabilities assumed as follows:

	Book value of acquired interest in Ferranti	Excess cost	Total	Expected useful lives of excess cost
	(in thousands of U.S. dollars)			
Working capital	$ 3,873	$ 582	$ 4,455	
Long-term assets and investments	3,845	3,376	7,221	20 years
Non-competition	—	436	436	2 years
Brand name	—	1,119	1,119	15 years
Customer relationships and backlog	—	8,933	8,933	4-15 years
Technology	—	750	750	15 years
Deferred taxes	—	(4,559)	(4,559)	
Goodwill	—	12,055	12,055	Indefinite — subject to annual impairment test
	$ 7,718	$ 22,692	$ 30,410	

Proforma information has not been provided, since the acquisition of Ferranti did not have a material effect on the revenues and net income of the Company.

Backlog of Orders

Our backlog includes firm orders received from customers for systems, products and projects that have yet to be completed. Our policy is to include orders in our backlog only when specific conditions are met. Examples of these conditions may include, among others, program funding, receipt of advances, letters of credit and guarantees from customers. As a result, from time to time we could have unbooked orders in excess of the level of backlog.

We reduce backlog when revenues for a specific contract are recognized. We reduce project backlog as delivery or acceptance occurs or when contract milestones or engineering progress under the long-term contracts are recognized as achieved. In some cases we reduce project backlog when costs are incurred. In the unusual event of a contract cancellation, we would also be required to reduce our backlog accordingly. The method of backlog recognition used may differ depending on the particular contract.

Our backlog of orders as of December 31, 2007 reached $4,624 million, of which 70% were for orders outside Israel. The Company's backlog as of December 31, 2006 was $3,786 million, of which 68% were for orders outside Israel. Approximately 70% of our backlog as of December 31, 2007 is scheduled to be performed during 2008 and 2009. The majority of the 30% balance is scheduled to be performed in 2010 and 2011. Backlog information and any comparison of backlog as of different dates may not necessarily represent an indication of future sales.

Trends

Trends in the defense electronics and homeland security markets in which we operate have been impacted by the nature of recent conflicts and terrorism activities throughout the world. Lessons learned in Operation Iraqi Freedom, Afghanistan and various terrorist actions worldwide have increased the focus of defense forces on low intensity conflicts and homeland security.

In the defense electronics market, there is an increasing demand for products and systems in the areas of C^4ISR and UAVs. Accordingly, while we continue to perform platform upgrades, in recent years more emphasis is being placed on C^4ISR, including information systems, intelligence gathering, situational awareness, precision guidance, all weather and day/night operations, border and perimeter security, UAVs, other unmanned vehicles, space and satellite based defense capabilities and homeland security systems. We believe that our core technologies and abilities will enable us to take advantage of many of these emerging trends, as well as to continue to participate in the "Current Force" legacy operations of our customers.

In recent years consolidation in the defense industry has affected competition. This consolidation has decreased the number but increased the relative size and resources of our competitors. We adapt to evolving market conditions by adjusting our business strategy to changing defense market conditions. Our business strategy also anticipates continued competition in defense markets due to declining defense budgets in some countries. We believe in our ability to compete on the basis of our systems development and technological expertise, combat-proven performance and policy of offering customers overall solutions to technological, operational and financial needs and in the same time enhancing the industrial capabilities at these countries.

Summary of Operating Results

The following table summarizes the consolidated statements of operations of Elbit Systems and our subsidiaries for the years ended December 31, 2007 and December 31, 2006.

The financial statements of Elbit Systems include consolidation of TadComm's financial results, commencing May 1, 2007, therefore TadComm's results are included in the 2007 results and are not included in the 2006 results, which were prior to the date of the completion of the acquisition of TadComm. Previously, TadComm's financial results were included on the equity basis of ownership.

	For the year ended December 31			
	2007		2006	
	$	%	$	%
	(In thousands of U.S. dollars except per share data)			
Total revenues	$ 1,981,761	100.0	$ 1,523,243	100.0
Cost of revenues	1,454,913	73.4	1,149,768	75.5
Restructuring expenses	10,452	0.5	—	—
Gross profit	516,366	26.1	373,475	24.5
Research and development (R&D) expenses	155,303	7.8	115,648	7.6
Less - participation	(28,308)	(1.4)	(23,416)	(1.5)
R&D expenses, net	126,995	6.4	92,232	6.1
Marketing and selling expenses	157,411	7.9	111,880	7.3
General and administrative expenses	107,447	5.4	77,505	5.1
IPR&D write-off	16,560	0.8	—	—
	$ 408,413	20.6	$ 281,617	18.5
Operating income	107,953	5.5	91,858	6.0
Financial expenses, net	(19,329)	(1.0)	(21,456)	(1.4)
Other income (expenses), net	368	0.0	1,814	0.1
Income before taxes on income	88,992	4.5	72,216	4.7

Taxes on income	13,810	0.7	20,694	1.3
	75,182	3.8	51,522	3.4
Minority interest in losses (gains) of subsidiaries	(13.038)	(0.7)	5,977	0.4
Equity in net earnings (losses) of affiliated companies and partnership	14,565	0.7	14,743	1.0
Net earnings	$ 76,709	3.9	$ 72,242	4.7
Diluted earnings per share	1.81		1.72	

2007 Compared to 2006

The consolidation of TadComm's financial results starting in May 2007 impacted most of our financial parameters in 2007 as compared to 2006.

Revenues

Our sales are primarily to governmental entities and prime contractors under government defense programs. Accordingly, the level of our revenues is subject to governmental budgetary constraints.

Our consolidated revenues increased by 30%, from $1,523.2 million in 2006 to $1,981.8 million in 2007.

The following table sets forth our revenue distribution by areas of operation:

	Year ended			
	December 31, 2007		December 31, 2006	
	$ millions	%	$ millions	%
Airborne systems	596.0	30.1	547.8	35.9
Land systems	381.0	19.2	317.7	20.9
C4ISR systems	582.0	29.4	313.5	20.6
Electro-optics	271.3	13.7	223.3	14.7
Other (mainly non-defense engineering and production services)	151.5	7.6	120.9	7.9
Total	1,981.8	100.0	1,523.2	100.0

The changes in revenue distribution by areas of operation are due mainly to the inclusion of the results of TadComm in the C4ISR category, starting in the second quarter of 2007.

The following table sets forth our distribution of revenues by geographical regions:

	Year ended			
	December 31, 2007		December 31, 2006	
	$ millions	%	$ millions	%
Israel	408.9	20.6	407.1	26.7
United States	702.7	35.5	609.5	40.0
Europe*	485.2	24.5	233.7	15.3
Other countries	385.0	19.4	272.9	18.0
Total	1,981.8	100.0	1,523.2	100.0

* includes most of the former Soviet bloc countries

The changes in revenues by geographic distribution were influenced by the consolidation of TadComm's results with strong international content, and increased revenues in Europe, mainly from United Kingdom UAV operations.

Gross Profit

Our gross profit represents the aggregate results of our activities and projects and is based on the mix of programs in which we are engaged during the reported period.

Gross profit in 2007 was $516.4 million (with a gross profit margin of 26.1%), as compared to $373.5 million (gross profit margin of 24.5%) in 2006. In 2007, gross profit includes restructuring expenses of $10.5 million (which constituted 0.5% of revenues).

Research and Development (R&D)

We continually invest in R&D in order to maintain and further advance our technologies, in accordance with a long-term plan, based on our estimate of future market needs.

Our R&D included programs which are partially funded by third parties, including the IMOD, the OCS and bi-national and European development funds. The R&D was performed in all major areas of core technological activities of the Company and mainly in the areas of advanced airborne systems, cutting edge electro-optics technology and products for surveillance, aerial reconnaissance, lasers and space based sensors, radio communication equipment and homeland security technologies and products.

Gross R&D expenses in 2007 totaled $155.3 million (7.8% of revenues), as compared with $115.6 million (7.6% of revenues) in 2006.

Net R&D expenses (after deduction of third party participation) in 2007 totaled $127 million (6.4% of revenues), as compared to $92.2 million (6.1% of revenues) in 2006.

Marketing and Selling Expenses

We are active in developing new markets and pursue at any given time various business opportunities according to our plan.

Marketing and selling expenses in 2007 were $157.4 million (7.9% of revenues), as compared to $111.9 million (7.3% of revenues) in 2006.

General and Administrative (G&A) Expenses

G&A expenses in 2007 were $107.4 million (5.4% of revenues), as compared to $77.5 million (5.1% of revenues) in 2006.

The increase in G&A expenses in 2007 compared to 2006 was related to the cost of various exploratory merger and acquisition, legal, audit and control activities, including expenses related to compliance with the Sarbanes-Oxley Act.

Operating Income

Our operating income in 2007 was $108 million, as compared to $92 million in 2006. As a result of the restructuring expenses and an aggregate IPR&D write-off of approximately $27 million (before tax) relating to the TadComm acquisition (which constituted 1.3% of revenues) in the second quarter of 2007, the operating income margin in 2007 decreased to 5.5%, as compared to 6.0% in 2006.

Financing Expenses (Net)

Net financing expenses in 2007 were $19.3 million, as compared to $21.5 million in 2006.

The net financing expenses include the impact of a write-off relating to Auction Rate Securities in the amount of approximately $10 million (see "Liquidity and Capital Resources" below).

Other Income (Expenses) (Net)

Other income in 2007 was a $0.4 million gain, which was mainly a result of the sale of our investment in AeroAstro Inc. in the fourth quarter of 2007, as compared to a $1.8 million gain in 2006, which was mainly as a result of the capital gain related to the sale of Soltam Systems Ltd. shares in 2006.

Taxes on Income

Our tax rate represents a weighted average of the tax rates to which the various Company entities are subject. The change in the effective tax rate is attributable mainly to the mix of the tax rates in the various tax jurisdictions in which the Company entities generating the taxable income operate.

Provision for taxes in 2007 was $13.8 million (effective tax rate of 15.5%), as compared to a provision for taxes of $20.7 million (effective tax rate of 28.7%) in 2006. The change in the effective tax rate is attributable mainly to a reduction of approximately $10 million related to prior years due to executing tax settlements by Elbit Systems and some of our subsidiaries in the last quarter of 2007, and to the mix of the tax rates in the various tax jurisdictions in which the Company entities generating the taxable income operate. This decrease in the percentage of provision for taxes in 2007 as compared to 2006 was partly offset by the IPR&D write-off in the second quarter of 2007, related to the acquisition of the TadComm shares not being deductible for tax purposes.

Company's Share in Earnings of Affiliated Entities

In 2007, we had income of $14.6 million from our share in earnings of affiliated entities, as compared to $14.7 million in 2006.

The companies and partnerships, in which the Company holds 50% or less in shares or voting rights and are therefore not consolidated in our financial statements, operate in complementary areas to the Company's core business activities, including electro-optics and airborne systems. Our share in TadComm's earnings was included until May 1, 2007, the date of commencement of consolidation of TadComm's results following the acquisition.

Net Earnings and Earnings Per Share (EPS)

Net earnings in 2007 were $76.7 million (3.9% of revenues), as compared to reported net earnings of $72.2 million (4.7% of revenues) in 2006. Diluted EPS was $1.81 in 2007, as compared to $1.72 in 2006.

The number of shares used for computation of diluted EPS in the year ended December 31, 2007 was 42,342 thousand shares, as compared to 41,880 thousand shares in the year ended December 31, 2006.

The net earnings in 2007 include $24.4 million in IPR&D and restructuring net expenses (representing $0.58 per share), due to the acquisition of TadComm in April 2007.

2006 Compared to 2005

Elisra

The results of Elisra were included in our consolidated financial reports commencing December 1, 2005. The effect on 2005 results was mainly a $7.5 million IPR&D write-off. Because of the acquisition date (November 30, 2005), the effects of Elisra's results on our consolidated results in 2005 were not material.

Accordingly, in light of the immaterial effect of Elisra on our 2005 results, in order to facilitate comparison of our 2006 results to those of 2005, the following information is provided on Elisra's 2006 results: revenues - $219 million, gross profit - $29 million and net loss – $26 million. Our net share in the loss (70%) was $18 million.

The results of Elisra reflected increased costs in the performance of several programs, mainly in the fourth quarter of 2006. Elisra's results reduced our gross profit, operational profit and net profit percentages.

Revenues

Our consolidated revenues increased by 42.4%, from $1,069.9 million in 2005 to $1,523.2 million in 2006.

The following table sets forth our revenue distribution by areas of operation:

	Year ended			
	December 31, 2006		December 31, 2005	
	$ millions	%	$ millions	%
Airborne systems	547.8	35.9	420.8	39.3
Land systems	317.7	20.9	117.4	11.0
C^4ISR systems	313.5	20.6	217.3	20.3
Electro-optics	223.3	14.7	242.3	22.7
Other (mainly non-defense engineering and production services)	120.9	7.9	72.1	6.7
Total	1,523.2	100.0	1,069.9	100.0

The following table sets forth our distribution of revenues by geographical regions:

	Year ended			
	December 31, 2006		December 31, 2005	
	$ millions	%	$ millions	%
Israel	407.1	26.7	315.4	29.5
United States	609.5	40.0	397.5	37.2
Europe	233.7	15.3	104.2	9.7
Other countries	272.9	18.0	252.8	23.6
Total	1,523.2	100.0	1,069.9	100.0

The changes in revenues by areas of operation, other than the inclusion of Elisra, were in revenues from customers for land systems, which were increased mainly as a result of sales related to systems supplied to the USMC.

The changes in revenues by geographic distribution, other than standard quarterly fluctuations, were in the revenues from customers in Europe and the U.S., which were increased mainly as a result of the Watchkeeper project in the United Kingdom and systems to the USMC.

Gross Profit

Our gross profit represents the aggregate results of our activities and projects and is based on the mix of programs in which we are engaged during the reported period.

Gross profit in 2006 was $373.5 million (with a gross profit margin of 24.5%), as compared to $279.8 million (gross profit margin of 26.1%) in 2005. The decrease in the gross profit margin was mainly as a result of the lower gross profit margin generated by Elisra.

R&D

Gross R&D expenses in 2006 totaled $115.6 million (7.6% of revenues), as compared with $92.4 million (8.6% of revenues) in 2005.

Net R&D expenses (after deduction of third party participation) in 2006 totaled $92.2 million (6.1% of revenues), as compared to $71.9 million (6.7% of revenues) in 2005.

Marketing and Selling Expenses

Marketing and selling expenses in 2006 were $111.9 million (7.3% of revenues), as compared to $78.6 million (7.4% of revenues) in 2005.

G&A Expenses

G&A expenses in 2006 were $77.5 million (5.1% of revenues), as compared to $54.4 million (5.1% of revenues) in 2005.

The increase in G&A expenses in 2006 compared to 2005 was related to the cost of various exploratory merger and acquisition, legal, audit and control activities, including expenses related to compliance with the Sarbanes-Oxley Act.

Financing Expenses (Net)

Net financing expenses in 2006 were $21.5 million, as compared to $11.5 million in 2005.

The increase in the net financing expenses resulted mainly from a higher level of long-term loans during the first half of 2006.

Other Income (Expenses) (Net)

Other income in 2006 was a $1.8 million gain, which was mainly as a result of the capital gain related to the selling of Soltam Systems Ltd. shares, as compared to a $5.3 million loss in 2005, which included a write-off of $5.4 million related to our investment in ImageSat International B.V.

Taxes on Income

Provision for taxes in 2006 was $20.7 million (tax rate of 28.7%), as compared to a provision for taxes of $16.3 million (tax rate of 32.3%) in 2005. The change in the effective tax rate is attributable mainly to the mix of the tax rates in the various tax jurisdictions in which the Company's entities generating the taxable income operate.

Company's Share in Earnings of Affiliated Entities

In 2006, we had income of $14.7 million from our share in earnings of affiliated entities, as compared to a loss of $1.6 million in 2005. Our share in earnings of affiliated entities in 2005 included $8.5 million in IPR&D write-offs related to TadComm.

Net Earnings and EPS

Net earnings in 2006 were $72.2 million (4.7% of revenues), as compared to reported net earnings of $32.5 million (3.0% of revenues) in 2005. Diluted EPS was $1.72 in 2006, as compared to $0.78 in 2005.

The number of shares used for computation of diluted EPS in the year ended December 31, 2006 was 41,880 thousand shares, as compared to 41,623 thousand shares in the year ended December 31, 2005.

Net earnings in 2005 included an $8.5 million IPR&D write-off related to the acquisition of TadComm's shares in 2005.

Conditions in Israel

For information on how our operating results may be affected by conditions in Israel see above – Item 3. Key Information – Risks Factors – Risks Related to Our Israeli Operations; and Item 4. Information on the Company – Conditions in Israel.

Liquidity and Capital Resources

Cash Flow

Our operating cash flow is affected by the cumulative cash flow of our various projects in the reported periods. Project cash flows are affected by the timing of the receipt of advances and the collection of accounts receivable from customers, as well as the timing of payments made by us in connection with the performance of the project. The receipt of payments usually relates to specific events during the project, while expenses are ongoing. As a result, our cash flow may vary from one period to another. Our policy is to invest our cash surplus mainly in interest bearing deposits, in accordance with our projected needs. Also see below "Auction Rate Securities."

Financial Resources

The financial resources available to us include profits, collection of accounts receivable, advances from customers and Government of Israel and other third parties' programs such as the OCS and development grants. In addition, the Company has access to bank credit lines and financing in Israel and abroad based on our capital, assets and activities. Elbit Systems and some subsidiaries are obligated to meet various financial covenants set forth in our respective loan and credit agreements. Such covenants include requirements such as for shareholders' equity, current ratio, operating profit margin, tangible net worth, EBITDA, interest coverage ratio and total leverage. As of December 31, 2007, each of the companies subject to financial covenants, except Elisra, was in compliance with the applicable covenants. With respect to Elisra's financial covenants as of December 31, 2007 see above "Off-Balance Sheet and Other Long-Term Arrangements and Commitments – Bank Covenants."

On December 31, 2007, we had total borrowings in the amount of $460.4 million, including $431.3 million in long-term loans, and $963 million in guarantees issued on our behalf by banks, mainly in respect of advance payment and performance guarantees provided in the regular course of business. On December 31, 2007, we had a cash balance amounting to $363.9 million. We also have the ability to raise funds on the capital market and through expansion of our credit lines.

As of December 31, 2007, we had working capital of $156.9 million and a current ratio of 1.12.

We believe that our current cash balances, cash generated from operations and lines of credit and financing arrangements will provide sufficient resources to meet our operational needs for at least the next fiscal year.

For further information on the level and maturity of our borrowings, see below – Item 18. Financial Statements – Note 11 (Short-Term Bank Credit and Loans) and Note 14 (Long-Term Loans). We believe our working capital is sufficient to support our current requirements and financial covenants.

Auction Rate Securities

As of December 31, 2007, the Company (through TadComm) had approximately $31.7 million of principal invested in Auction Rate Securities (ARS). The ARS held by the Company are private placement securities with long-term nominal maturities for which the interest rates are reset through a “dutch” auction each month. The monthly auctions historically have provided a liquid market for these securities. The Company’s investments in ARS represent interests in collateralized debt obligations supported by pools of residential and commercial mortgages or credit cards, insurance securitizations and other structured credits, including corporate bonds. Some of the underlying collateral for the ARS held by the Company consists of sub-prime mortgages.

The majority of ARS investments held by the Company all had AAA/Aaa credit ratings at the time of purchase with some having AA rating. With the liquidity issues experienced in global credit and capital markets, the ARS held by the Company at December 31, 2007 have experienced multiple failed auctions as the amount of securities submitted for sale has exceeded the amount of purchase orders.

The estimated market value of the Company’s ARS holdings at December 31, 2007 was approximately $20.8 million, which reflects an approximately $10.9 million adjustment to the principal value of approximately $31.7 million. Although the ARS continue to pay interest according to their stated terms, based on third-party valuation and an analysis of other-than-temporary impairment factors, the Company recorded an impairment charge of approximately $10 million in the fourth quarter of 2007, reflecting the portion of ARS holdings that the Company concluded, based on the above valuations, have an other-than-temporary decline in value. In addition, the Company recorded an unrealized pre-tax loss of approximately $0.9 million in other comprehensive income, reflecting an adjustment to certain ARS holdings that the Company concluded to have a temporary decline in value.

Historically, given the liquidity created by the auctions, ARS were presented by TadComm as current assets under marketable securities on its balance sheet. As a result of the failed auctions in recent periods, the Company’s ARS are illiquid until there is a successful auction for them. Accordingly, the entire amount of such remaining ARS has been classified as non-current assets on the Company’s balance sheet. See also the discussion above in this Item 5 under the caption “Critical Accounting Policies and Estimates—Valuation of Securities.”

2007 Cash Flow

The Company's net cash flow generated from operating activities in 2007 was approximately $262 million, resulting mainly from net income and advances received from customers, which were partially offset, mainly by an increase in inventories.

Net cash flow used in investment activities in 2007 was approximately $262.6 million, which was used mainly for the acquisition of the TadComm and Ferranti shares and in the purchase of property, plant and equipment.

Net cash flow from financing activities in 2007 was approximately $280 million, resulting mainly from long-term loans received.

2006 Cash Flow

Our net cash flow generated from operating activities in 2006 was approximately $201 million, resulting mainly from net income and advances received from customers. The cash inflows were partially offset, mainly by an increase in inventories. Net cash flow used in investment activities in the year ended December 31, 2006 was approximately $87 million, which was used mainly for acquisition of TadComm's and Sandel's shares in the second quarter of 2006 and purchase of various assets and equipment. Net cash flow used in financing activities in 2006 was approximately $123.3 million, which was mainly for repayment of long-term loans.

Material Commitments for Capital Expenditures

We believe that we have adequate sources of funds to meet our material commitments for capital expenditures for the fiscal year ended December 31, 2008 and the subsequent fiscal year. See above "Financial Resources." Our specific material commitments for capital expenditures (which include mainly the purchase of equipment, vehicles and buildings) as of December 31, 2007 and April 30, 2008 were approximately $8 million, payable out of cash from operations. See also below – Item 18. Financial Statements – Consolidated Statements of Cash Flows and Note 9 (Property, Plant and Equipment, Net) to the Financial Statements.

In general, subsidiaries are able to freely transfer cash dividends, loans or advances to Elbit Systems, subject to tax considerations in their applicable jurisdictions. Such tax considerations have not had in the past, and are not anticipated to have, a material impact on our ability to meet cash obligations.

Impact of Inflation and Exchange Rates

Functional Currency

Our reporting currency is the U.S. dollar, which is also the functional currency for most of our consolidated operations. A majority of our sales are made outside of Israel in non-Israeli currency, mainly U.S. dollars, as are a majority of our purchases of materials and components. A significant portion of our expenses, mainly labor costs, are in NIS. Some of our subsidiaries have functional currencies in Euro, GBP and other currencies. Transactions and balances originally denominated in U.S. dollars are presented in their original amounts. Transactions and balances in currencies other than the U.S. dollar are remeasured in U.S. dollars according to the principles set forth in Statement No. 52 of the Financial Accounting Standards Board. Exchange gains and losses arising from remeasurement are reflected in the income statement.

Market Risks and Variable Interest Rates

Market risks relating to our operations result mainly from changes in interest rates and exchange rates. We use financial instruments to limit exposure to changes in exchange rates in certain cases. We also typically enter into forward contracts in connection with transactions where the contract has been signed and that are denominated in currencies other than U.S. dollars and NIS. We also enter from time to time into forward contracts and other hedging instruments related to NIS based on marked conditions.

On December 31, 2007, our liquid assets were comprised of bank deposits, and short and long-term bonds. Our deposits and loans are based on variable interest rates, and their value as of December 31, 2007 was therefore not exposed to changes in interest rates. Should interest rates either increase or decrease, such change may affect our results of operations due to changes in the cost of the liabilities and the return on the assets that are based on variable rates. Reference is also made to the discussion of our exposure to auction rate securities set forth above under the caption “Auction Rate Securities.” See also below – Item 11. Quantitative and Qualitative Disclosure of Market Risk.

NIS/U.S. Dollar Exchange Rates

We attempt to manage our financial activities in order to reduce material financial losses in U.S. dollar terms resulting from the impact of inflation and exchange rate fluctuations on our non-U.S. dollar assets and liabilities. Our income and expenses in Israeli currency are translated into U.S. dollars at the prevailing exchange rates as of the date of the transaction. Consequently, we are affected by changes in the NIS/U.S. dollar exchange rates. On December 31, 2006 and 2007, we had exposure due to NIS denominated liabilities of approximately $88 million and $144.7 million, respectively, in excess of NIS denominated assets. These liabilities represent mostly provisions for wages and trade payables. The amount of our exposure to the changes in the NIS/U.S. dollar exchange rate may vary from time to time. Reference is made to the disclosure elsewhere in this Annual Report on Form 20-F above in Item 3 – Key Information – Risk Factors – Risks Relating to Our Israeli Operations – Changes in the U.S. Dollar – NIS Exchange Rate.

Most of our future cash flows that will be in currencies other than the NIS and the U.S. dollar were covered as of December 31, 2007 by forward contracts. On December 31, 2007, we had forward contracts for the sale and purchase of such foreign currencies totaling approximately $354.2 million ($176.3 million in Euro, $170.4 million in GBP and the balance of $7.5 million in other currencies). The fair value of financial derivatives as of December 31, 2007 accumulated to an unrealized net loss of approximately $15.1 million, which was recorded as accumulated other comprehensive income.

Inflation and Devaluation

The U.S. dollar cost of our operations in Israel is influenced by any increase in the rate of inflation in Israel that is not fully offset by the devaluation of the NIS in relation to the U.S. dollar. Unless inflation in Israel is offset by a devaluation of the NIS, such inflation may have a negative effect on the profitability of contracts where Elbit Systems or any of our Israeli subsidiaries receives payment in U.S. dollars, NIS linked to U.S. dollars or other foreign currencies, but incurs expenses in NIS linked to the CPI. Inflation in Israel and currency fluctuations may also have a negative effect on the profitability of fixed price contracts where we receive payments in NIS.

In the past, our profitability was somewhat negatively affected when inflation in Israel (measured by the change in CPI from the beginning to the end of the calendar year) exceeded the devaluation of the NIS against the U.S. dollar and at the same time we experienced corresponding increases in the U.S. dollar cost of our operations in Israel. For example, in 2004, the inflation rate was approximately 1.2% and the devaluation rate was negative 1.6% (representing a strengthening of the NIS vis-à-vis the U.S. dollar). In 2005, the inflation rate was approximately 2.4% and the devaluation rate was 6.8%. In 2006, the inflation rate was approximately negative 0.1% and the devaluation rate was negative 8.2%. In 2007, the inflation rate was approximately 3.4% and the devaluation rate was negative 9%. There can be no assurance that we will not be materially adversely affected in the future if inflation in Israel exceeds the devaluation of the NIS against the U.S. dollar or if the timing of such devaluation lags behind increases in inflation in Israel.

A devaluation of the NIS in relation to the U.S. dollar also has the effect of decreasing the dollar value of any of our assets that consist of NIS or accounts receivable denominated in NIS, unless such assets or accounts receivable are linked to the U.S. dollar. Such a devaluation also has the effect of reducing the U.S. dollar amount of any of our liabilities that are payable in NIS, unless such payables are linked to the U.S. dollar. On the other hand, any increase in the value of the NIS in relation to the U.S. dollar will have the effect of increasing the U.S. dollar value of any unlinked NIS assets as well as the U.S. dollar amount of any unlinked NIS liabilities and expenses.

Foreign Currency Expenses, Derivatives and Hedging

While our functional currency is the U.S. dollar, we also have some non-U.S. dollar or non-U.S. dollar linked currency exposure to currencies other than NIS. These are mainly non-U.S. dollar customer debts, payments to suppliers and subcontractors, obligations in other currencies, assets or undertakings. Some subcontractors are paid in local currency under prime contracts where we are paid in U.S. dollars. The exposure on these transactions has not been in amounts that are material to Elbit Systems. However, when we view it necessary, we seek to minimize our foreign currency exposure, by entering into hedging arrangements, obtaining periodic payments upon the completion of milestones, obtaining guarantees and security from customers and sharing currency risks with subcontractors.

Most of our future cash flows that will be denominated in currencies other than the NIS and the U.S. dollar were covered as of December 31, 2007 by forward contracts. On December 31, 2007, we had forward contracts for the sale and purchase of Euro, GBP and various other currencies. As of December 31, 2007, the forward contracts to buy U.S. dollars and sell GBP are expected to mature during the years 2008 – 2014. All of the other forward contracts are expected to mature during 2008.

The table below presents the balance of the hedging acquired in derivative instruments in order to limit the exposure to exchange rate fluctuations as of December 31, 2007 and is presented in millions of U.S. dollar equivalent terms.

Forward Buy US$ and Sell:	Notional Amount	Fair Value of Derivative
Euro	146.7	(7.9)
GBP	168.8	(8.0)
Other various currencies	6.6	(0.3)

Forward Sell US$ and Buy:	Notional Amount	Fair Value of Derivative
Euro	29.6	1.1
GBP	0.9	0
Other various currencies	1.6	0

Contractual Obligations

		Less than 1 year	1-3 years	4-5 years	More than 5 years
		(U.S. dollars in millions)			
1.	Long-Term Debt Obligations	$ 19	$ 429	$ 0	$ 2
2.	Operating Lease Obligations	26	42	23	5
3.	Purchase Obligations*	656	186	41	23
4.	Other Long-Term Liabilities Reflected on the Company's Balance Sheet under U.S. GAAP**	—			