

|  |
|--|
| <b>ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES</b> |
|--|

**CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

**AS OF MARCH 31, 2006**

(Unaudited)

(In thousands of U.S. dollars)

|  |
|--|
| <b>ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES</b> |
|--|

**C O N T E N T S**

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

# # # # #

# ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

U. S. dollars (In thousands)

|   | <b>March 31,<br/>2006<br/>(Unaudited)</b> | <b>December 31,<br/>2005<br/>(Audited)</b> |
|---|---|--|
| <b>CURRENT ASSETS:</b>  |   |  |
| Cash and cash equivalents   | \$ 87,569                                 | \$ 93,887                                  |
| Short-term bank deposits  | 454                                       | 742  |
| Trading securities  | 2,236                                     | 2,282                                      |
| Trade receivables, (net of allowance for doubtful<br>accounts in the amount of \$3,038 and \$3,221 as of<br>March 31, 2006 and December 31, 2005, respectively) | 344,106                                   | 346,689                                    |
| Other receivables and prepaid expenses  | 75,218                                    | 67,096                                     |
| Inventories, net of advances  | 350,493                                   | 328,428                                    |
| Total current assets  | <u>860,076</u>                            | <u>839,124</u>                             |
| <b>INVESTMENTS AND LONG-TERM RECEIVABLES:</b>   |   |  |
| Investments in affiliated companies and a partnership   | 197,496                                   | 194,994                                    |
| Investments in other companies  | 6,345                                     | 6,345                                      |
| Compensation receivable in respect of fire damages, net   | 15,530                                    | 15,530                                     |
| Long-term bank deposits and trade receivables   | 5,581                                     | 2,457                                      |
| Severance pay fund  | 135,716                                   | 133,570                                    |
|   | <u>360,668</u>                            | <u>352,896</u>                             |
| <b>PROPERTY, PLANT AND EQUIPMENT, NET</b>   | <u>285,979</u>                            | <u>284,997</u>                             |
| <b>INTANGIBLE ASSETS:</b>   |   |  |
| Goodwill  | 63,957                                    | 63,957                                     |
| Other intangible assets, net  | 76,701                                    | 78,771                                     |
|   | <u>140,658</u>                            | <u>142,728</u>                             |
|   | <u><u>\$ 1,647,381</u></u>                | <u><u>\$ 1,619,745</u></u>                 |

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

# ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

U. S. dollars (In thousands)

|   | March 31,<br>2006<br>(Unaudited) | December 31,<br>2005<br>(Audited) |
|---|----------------------------------|-----------------------------------|
| <b>CURRENT LIABILITIES:</b>   |                                  |                                   |
| Short-term bank credit and loans  | \$ 25,300                        | \$ 30,296                         |
| Current maturities of long-term loans   | 6,862                            | 7,355                             |
| Trade payable   | 140,278                          | 120,260                           |
| Dividend payable  | 5,818                            | -                                 |
| Other payables and accrued expenses   | 227,521                          | 216,539                           |
| Customers advances and amounts in excess of<br>costs incurred on contracts in progress  | 273,072                          | 237,718                           |
| Total current liabilities   | 678,851                          | 612,168                           |
| <b>LONG-TERM LIABILITIES:</b>   |                                  |                                   |
| Long-term loans   | 161,296                          | 224,982                           |
| Advances from customers   | 140,341                          | 122,263                           |
| Deferred income taxes   | 30,324                           | 31,424                            |
| Accrued termination liability   | 164,936                          | 165,224                           |
|   | 496,897                          | 543,893                           |
| <b>MINORITY INTERESTS</b>   | 13,570                           | 12,907                            |
| <b>SHAREHOLDERS' EQUITY:</b>  |                                  |                                   |
| Share capital   |                                  |                                   |
| Ordinary shares of New Israeli Shekels (NIS) 1 par value;<br>Authorized – 80,000,000 shares as of March 31, 2006<br>and December 31, 2005;<br>Issued – 41,451,613 and 41,375,545 shares as of March 31, 2006<br>and December 31, 2005 respectively;<br>Outstanding – 41,042,692 and 40,966,624 shares as of March 31,<br>2006 and December 31, 2005, respectively | 11,653                           | 11,636                            |
| Additional paid-in capital  | 279,039                          | 278,679                           |
| Accumulated other comprehensive loss  | (3,081)                          | (1,340)                           |
| Retained earnings   | 174,773                          | 166,123                           |
| Treasury shares - 408,921 shares as of March 31, 2006 and<br>December 31, 2005  | (4,321)                          | (4,321)                           |
|   | 458,063                          | 450,777                           |
|   | <u>\$ 1,647,381</u>              | <u>\$ 1,619,745</u>               |

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

# ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

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

|  | Three months ended<br>March 31, |            | Year ended<br>December 31, |
|--|---------------------------------|------------|----------------------------|
|  | 2006                            | 2005       | 2005                       |
|  | (Unaudited)                     |            | (Audited)                  |
| Revenues   | \$ 334,370                      | \$ 230,688 | \$ 1,069,876               |
| Cost of revenues   | 246,830                         | 169,126    | 786,616                    |
| Restructuring expenses   | -                               | -          | 3,488                      |
| Gross profit   | 87,540                          | 61,562     | 279,772                    |
| Research and development costs, net                                    | 21,438                          | 15,166     | 71,903                     |
| Marketing and selling expenses   | 26,248                          | 16,646     | 78,648                     |
| General and administrative expenses                                    | 19,007                          | 12,772     | 54,417                     |
| In process research and development write-off                          | -                               | -          | 7,490                      |
|  | 66,693                          | 44,584     | 212,458                    |
| Operating income   | 20,847                          | 16,978     | 67,314                     |
| Financial expenses, net  | (4,241)                         | (1,732)    | (11,472)                   |
| Other income (expenses), net   | 908                             | 169        | (5,326)                    |
| Income before taxes on income  | 17,514                          | 15,415     | 50,516                     |
| Taxes on income  | 4,604                           | 3,987      | 16,335                     |
|  | 12,910                          | 11,428     | 34,181                     |
| Equity in net earnings of affiliated companies and partnership         | 2,267                           | *1,042     | (1,636)                    |
| Minority interests in losses (earnings) of subsidiaries                | (709)                           | 220        | (58)                       |
| Net income   | \$ 14,468                       | *\$ 12,690 | \$ 32,487                  |
| Earnings per share   |                                 |            |                            |
| Basic net earnings per share   | \$ 0.35                         | *\$ 0.31   | \$ 0.80                    |
| Diluted net earnings per share   | \$ 0.35                         | *\$ 0.30   | \$ 0.78                    |
| Number of shares used in computation of basic net earnings per share   | 41,010                          | 40,645     | 40,750                     |
| Number of shares used in computation of diluted net earnings per share | 41,736                          | 41,617     | 41,623                     |

\* Restated see Note 1B.

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

# ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

|  | Number of<br>outstanding<br>shares | Share<br>capital | Additional<br>paid-in<br>capital | Accumulated<br>other<br>comprehensive<br>loss | Retained<br>earnings | Treasury<br>shares | Total<br>shareholders'<br>equity | Total<br>comprehensive<br>income |
|--|------------------------------------|------------------|----------------------------------|---|----------------------|--------------------|----------------------------------|----------------------------------|
| <b>Balance as of January 1, 2005</b>             |                                    |                  |                                  |   |                      |                    |                                  |                                  |
| <b>(Audited)</b>                                 | 40,561,026                         | \$ 11,548        | \$ 274,432                       | \$ (4,742)                                    | \$ 155,267           | \$ (4,321)         | \$ 432,184                       |                                  |
| Exercise of options                              | 405,598                            | 88               | 3,423                            | -   | -                    | -                  | 3,511                            |                                  |
| Tax benefit in respect of options exercised      | -                                  | -                | 652                              | -   | -                    | -                  | 652                              |                                  |
| Stock based compensation                         | -                                  | -                | 172                              | -   | -                    | -                  | 172                              |                                  |
| Dividends paid                                   | -                                  | -                | -                                | -   | (21,631)             | -                  | (21,631)                         |                                  |
| Other comprehensive income (loss)<br>net of tax: |                                    |                  |                                  |   |                      |                    |                                  |                                  |
| Unrealized gains on derivative instruments       | -                                  | -                | -                                | 6,412   | -                    | -                  | 6,412                            | 6,412                            |
| Foreign currency translation differences         | -                                  | -                | -                                | (924)   | -                    | -                  | (924)                            | (924)                            |
| Minimum pension liability adjustment             | -                                  | -                | -                                | (2,086)                                       | -                    | -                  | (2,086)                          | (2,086)                          |
| Net income                                       | -                                  | -                | -                                | -   | 32,487               | -                  | 32,487                           | 32,487                           |
| Total comprehensive income                       |                                    |                  |                                  |   |                      |                    |                                  | <u>\$ 35,889</u>                 |
| <b>Balance as of December 31, 2005</b>           |                                    |                  |                                  |   |                      |                    |                                  |                                  |
| <b>(Audited)</b>                                 | 40,966,624                         | \$ 11,636        | \$ 278,679                       | \$ (1,340)                                    | \$ 166,123           | \$ (4,321)         | \$ 450,777                       |                                  |
| Exercise of options                              | 76,068                             | 17               | 438                              | -   | -                    | -                  | 455                              |                                  |
| Tax benefit in respect of options exercised      | -                                  | -                | (78)                             | -   | -                    | -                  | (78)                             |                                  |
| Dividends declared                               | -                                  | -                | -                                | -   | (5,818)              | -                  | (5,818)                          |                                  |
| Other comprehensive income (loss), net of tax:   |                                    |                  |                                  |   |                      |                    |                                  |                                  |
| Unrealized losses on derivative<br>instruments   | -                                  | -                | -                                | (1,788)                                       | -                    | -                  | (1,788)                          | (1,788)                          |
| Foreign currency translation differences         | -                                  | -                | -                                | 77  | -                    | -                  | 77                               | 77                               |
| Minimum pension liability adjustment             | -                                  | -                | -                                | (30)  | -                    | -                  | (30)                             | (30)                             |
| Net income                                       | -                                  | -                | -                                | -   | 14,468               | -                  | 14,468                           | 14,468                           |
| Total comprehensive income                       |                                    |                  |                                  |   |                      |                    |                                  | <u>\$ 12,727</u>                 |
| <b>Balance as of March 31, 2006</b>              |                                    |                  |                                  |   |                      |                    |                                  |                                  |
| <b>(Unaudited)</b>                               | <u>41,042,692</u>                  | <u>\$ 11,653</u> | <u>\$ 279,039</u>                | <u>\$ (3,081)</u>                             | <u>\$ 174,773</u>    | <u>\$ (4,321)</u>  | <u>\$ 458,063</u>                |                                  |

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

# ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONT.)

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

|   | Number of<br>outstanding<br>shares | Share<br>capital | Additional<br>paid-in<br>capital | Accumulated<br>other<br>comprehensive<br>income (loss) | Retained<br>earnings | Treasury<br>shares | Total<br>shareholders'<br>equity | Total other<br>comprehensive<br>income |
|---|------------------------------------|------------------|----------------------------------|--|----------------------|--------------------|----------------------------------|--|
| <b>Balance as of January 1, 2005</b>        |                                    |                  |                                  |  |                      |                    |                                  |  |
| <b>(Audited)</b>                            | 40,561,126                         | \$ 11,548        | \$ 274,432                       | \$ (4,742)   | \$ 155,267           | \$ (4,321)         | \$ 432,184                       |  |
| Exercise of options                         | 121,816                            | 28               | 1,047                            | -  | -                    | -                  | 1,075                            |  |
| Tax benefit in respect of options exercised | -                                  | -                | 287                              | -  | -                    | -                  | 287                              |  |
| Stock-based compensation                    | -                                  | -                | -                                | 212  | -                    | -                  | 212                              | 212                                    |
| Dividends paid                              | -                                  | -                | -                                | -  | (5,296)              | -                  | (5,296)                          |  |
| Unrealized gains on derivative instruments  |                                    |                  |                                  | (425)  |                      |                    | (425)                            | (425)                                  |
| Foreign currency translation differences    | -                                  | -                | -                                | (175)  | -                    | -                  | (175)                            | (175)                                  |
| Net income                                  | -                                  | -                | -                                | -  | 12,690               | -                  | 12,690                           | 12,690                                 |
| Total comprehensive income                  |                                    |                  |                                  |  |                      |                    |                                  | \$12,302                               |
| <b>Balance as of March 31, 2005</b>         |                                    |                  |                                  |  |                      |                    |                                  |  |
| <b>(Unaudited) (*)</b>                      | 40,682,942                         | \$ 11,576        | \$ 275,766                       | \$ (5,130)   | \$ 162,661           | \$ (4,321)         | \$ 440,552                       |  |

\* Restated see Note 1B.

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

# ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U. S. dollars (In thousands)

|   | Three months ended<br>March 31, |           | Year ended<br>December 31, |
|---|---------------------------------|-----------|----------------------------|
|   | 2006                            | **2005    | 2005                       |
|   | (Unaudited)                     |           | (Audited)                  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                 |           |                            |
| Net income  | \$ 14,468                       | \$ 12,690 | \$ 32,487                  |
| Adjustments to reconcile net income to net cash provided by operating activities:                     |                                 |           |                            |
| Depreciation and amortization   | 14,649                          | 10,794    | 57,718                     |
| Purchased in process R&D  | -                               | -         | 7,490                      |
| Stock based compensation  | -                               | -         | 172                        |
| Deferred income taxes   | (1,698)                         | (527)     | 6,551                      |
| Accrued severance pay, net  | (2,464)                         | (2,114)   | (6,707)                    |
| Gain on sale of property, plant and equipment   | (231)                           | (250)     | (731)                      |
| Tax benefit in respect of options exercised   | -                               | 287       | 652                        |
| Minority interests in earnings (losses) of subsidiaries   | 709                             | (220)     | 58                         |
| Equity in net losses (earnings) of affiliated companies and partnership, net of dividend received (*) | (1,736)                         | (42)      | 13,805                     |
| Changes in operating assets and liabilities:  |                                 |           |                            |
| Decrease (increase) in short and long-term receivables and prepaid expenses                           | (9,806)                         | 5,978     | (43,420)                   |
| Increase in inventories   | (20,933)                        | (28,778)  | (43,679)                   |
| Increase (decrease) in trade payable, other payables and accrued expenses                             | 30,251                          | (21,197)  | (37,859)                   |
| Increase in advances received from customers  | 52,300                          | 72,897    | 202,450                    |
| Settlement of royalties with the Office of the Chief Scientist  | -                               | -         | (1,371)                    |
| Other adjustments   | (98)                            | 45        | -                          |
| Net cash provided by operating activities   | 75,411                          | 49,563    | 187,616                    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                                 |           |                            |
| Purchase of property, plant and equipment   | (14,628)                        | (15,235)  | (58,735)                   |
| Acquisition of subsidiaries and businesses (Schedule A)   | -                               | (318)     | (28,331)                   |
| Investments in affiliated companies   | -                               | (9,681)   | (160,861)                  |
| Proceeds from sale of property, plant and equipment   | 1,323                           | 829       | 2,712                      |
| Proceeds from sale of investment  | -                               | 3,100     | 3,100                      |
| Investment in long-term bank deposits   | (215)                           | (359)     | (1,089)                    |
| Proceeds from sale of long-term bank deposits   | 168                             | 535       | 1,501                      |
| Short-term bank deposits, net   | 334                             | (525)     | (4)                        |
| Net cash used in investing activities   | (13,018)                        | (21,654)  | (241,707)                  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                                 |           |                            |
| Proceeds from exercise of options   | 455                             | 1,075     | 3,511                      |
| Repayment of long-term bank loans   | (82,031)                        | (12,613)  | (85,035)                   |
| Receipt of long-term bank loans   | 18,353                          | -         | 216,500                    |
| Dividends paid  | -                               | -         | (21,631)                   |
| Change in short-term bank credit and loans, net   | (5,488)                         | (871)     | 524                        |
| Net cash provided by (used in) financing activities   | (68,711)                        | (12,409)  | 113,869                    |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  | (6,318)                         | 15,500    | 59,778                     |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD  | 93,887                          | 34,109    | 34,109                     |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD  | \$ 87,569                       | \$ 49,609 | \$ 93,887                  |
| * Dividend received   | \$ 500                          | \$ 1,000  | \$ 12,169                  |

\*\* Restated see Note 1B.

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

# ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOW

U. S. dollars (In thousands)

|   | Three months ended<br>March 31, |          | Year ended<br>December 31, |
|---|---------------------------------|----------|----------------------------|
|   | 2006                            | 2005     | 2005                       |
|   | (Unaudited)                     |          | (Audited)                  |
| <b>SUPPLEMENTARY CASH FLOWS ACTIVITIES:</b> |                                 |          |                            |
| Cash paid during the period for:            |                                 |          |                            |
| Income taxes                                | \$ 4,218                        | \$ 4,818 | \$ 21,475                  |
| Interest                                    | \$ 4,930                        | \$ 1,695 | \$ 13,151                  |

### SCHEDULE A:

Subsidiaries and businesses acquired

Estimated net fair value of assets acquired and liabilities  
at the date of acquisition assumed:

|  |   |            |             |
|--|---|------------|-------------|
| Working capital, net (excluding cash and cash equivalents) | - | \$ (3,281) | \$ 39,273   |
| Property, plant and equipment                              | - | -          | (28,875)    |
| Other long-term assets                                     | - | -          | (74,363)    |
| Goodwill and other intangible assets                       | - | (1,514)    | (53,291)    |
| In process R&D   | - | -          | (7,490)     |
| Deferred income taxes                                      | - | -          | 5,404       |
| Long-term liabilities                                      | - | 4,477      | 82,730      |
| Minority interest  | - | -          | 8,281       |
|  | - | \$ (318)   | \$ (28,331) |

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

# ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

U. S. dollars (In thousands)

### Note 1 - GENERAL

- A. The accompanying financial statements have been prepared in a condensed format as of March 31, 2006, and for the three months then ended in accordance with generally accepted accounting principles in the United States (U.S. GAAP) relating to the preparation of financial statements for interim periods. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States but which are not required for interim reporting purposes, have been condensed or omitted. See Note 4 for the reconciliation from U.S. GAAP to accounting principles generally accepted in Israel (Israeli GAAP).

These statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of December 31, 2005.

The interim financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation. All such adjustments were of a normal recurring nature. Reclassifications have been made to comparative data in the balance sheet as of December 31, 2005 in order to conform to the current year's presentation.

Operating results for the three months ended March 31, 2006, are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

- B. During 2004, the Company acquired 4.3% of Tadiran's outstanding shares on the Tel Aviv Stock Exchange in consideration for \$15,900. In 2004 and in the first quarter of 2005 the investment in Tadiran's shares was accounted for as available-for-sale securities.

In the first and the second quarters of 2005, the Company acquired additional 17% of Tadiran's outstanding shares in consideration for \$74,100.

As a result of the acquisition in the second quarter of 2005, the Company was able to exercise significant influence on Tadiran. In accordance with APB 18, "The Equity Method of Accounting for Investments in Common Stock", the Company's interest in Tadiran, which was previously accounted for as available-for-sale securities, was accounted retroactively under the equity method of accounting ("step-by-step acquisition"). Implementing the step-by-step acquisition method resulted in an adjustment of the Company's financial statements for the first quarter of 2005, in which the Company's investment in Tadiran was accounted for as available-for-sale securities.

The following are the effects of the adjustments on the consolidated statement of income:

|  | Three months ended March 31, 2005 |                       |             |
|--|-----------------------------------|-----------------------|-------------|
|  | As reported                       | Effect of adjustments | As adjusted |
| Equity in net earnings of affiliated companies and partnership | \$ 1,493                          | \$ (451)              | \$ 1,042    |
| Net income   | 13,141                            | (451)                 | 12,690      |
| Basic net earnings per share                                   | 0.32                              | (0.01)                | 0.31        |
| Diluted net earnings per share                                 | \$ 0.32                           | \$ (0.02)             | \$ 0.30     |

## ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

U. S. dollars (In thousands)

#### Note 2 - SIGNIFICANT ACCOUNTING POLICIES

- A. The significant accounting policies followed in the preparation of these statements are identical to those applied in preparation of the latest annual financial statements, except for the adoption of FASB Statement No. 123 (revised 2004), "Share-Based Payments" ("Statement 123(R)") as follows:

Through December 31, 2005 the Company adopted the fair value based method of recording stock options for all employee stock option grants consistent with SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123"). Effective January 1, 2006, the Company adopted the provisions of Statement 123(R), using the modified prospective method. The adoption of Statement 123(R) had an immaterial effect on the Company's financial position and results of operations.

- B. The accompanying financial statements have been prepared in U.S. dollars since the functional currency of the primary economic environment in which the operations of the Group (which includes Elbit Systems Ltd. and its subsidiaries) are conducted is the U.S. dollar.

#### Note 3 - INVENTORIES, NET OF ADVANCES

|  | <b>March 31,<br/>2006<br/>(Unaudited)</b> | <b>December 31,<br/>2005<br/>(Audited)</b> |
|--|---|--|
| Cost of long-term contracts in progress  | \$ 323,920                                | \$ 311,800                                 |
| Raw materials  | 88,533                                    | 84,343                                     |
| Advances to suppliers and subcontractors   | 45,733                                    | 40,095                                     |
|  | <u>458,186</u>                            | <u>436,238</u>                             |
| Less - Cost incurred on contracts in progress<br>deducted from customer advances | 20,299                                    | 16,178                                     |
|  | <u>437,887</u>                            | <u>420,060</u>                             |
| Less -Advances received from customers   | 78,830                                    | 84,083                                     |
| Provision for losses   | 8,564                                     | 7,549                                      |
|  | <u><u>\$ 350,493</u></u>                  | <u><u>\$ 328,428</u></u>                   |

# ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

U. S. dollars (In thousands)

### Note 4 - RECONCILIATION TO ISRAELI GAAP

As described in Note 1, the Company prepares its financial statements in accordance with U.S. GAAP. See Note 23 to the 2005 annual financial statements for a description of the differences between U.S. GAAP and Israeli GAAP in respect to the Company. The effects of the differences between U.S. GAAP and Israeli GAAP on the Company's financial statements are detailed below.

#### A. Effect on net income

|  | Three months ended<br>March 31, |                  | Year ended<br>December 31, |
|--|---------------------------------|------------------|----------------------------|
|  | 2006                            | 2005             | 2005                       |
|  | (Unaudited)                     |                  | (Audited)                  |
| Net income as reported according to<br>U.S. GAAP | \$ 14,468                       | \$ 12,690        | \$ 32,487                  |
| Adjustments to Israeli GAAP                      | (633)                           | (1,522)          | (9,637)                    |
| Net income according to Israeli GAAP             | <u>\$ 13,835</u>                | <u>\$ 11,168</u> | <u>\$ 22,850</u>           |

#### B. Effect on shareholders' equity

|  | As reported       | Adjustments        | As per<br>Israeli GAAP |
|--|-------------------|--------------------|------------------------|
| <b>As of March 31, 2006 (Unaudited)</b>  |                   |                    |                        |
| Shareholders' equity                     | <u>\$ 458,063</u> | <u>\$ (19,912)</u> | <u>\$ 438,151</u>      |
| <b>As of December 31, 2005 (Audited)</b> |                   |                    |                        |
| Shareholders' equity                     | <u>\$ 450,777</u> | <u>\$ (19,279)</u> | <u>\$ 431,498</u>      |

#####