ELBIT SYSTEMS LTD
Form 20-F
June 28, 2005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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, 2004

Commission File No. 0-28998

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)

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

NOT APPLICABLE

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

ORDINARY SHARES, NOMINAL VALUE 1.0 NEW ISRAELI SHEKELS PER SHARE
(Title of Class)

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

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:

40,561,126 SHARES

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 |_|

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

ITEM 17 |_| ITEM 18 |X|

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PART I

INTERNATIONAL DISCLOSURES STANDARDS

Elbit Systems Ltd.'s (Elbit Systems) consolidated financial statements are prepared based upon United States Generally Accepted Accounting Principles (U.S. GAAP). Unless otherwise indicated, all financial information contained in this Form 20-F is in U.S. dollars. References in this Form 20-F to the "Group" 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 for the years ended December 31, 2000, 2001, 2002, 2003 and 2004 are derived from our audited consolidated financial statements of which the financial statements as of December 31, 2003 and 2004 and for each of the years ended December 31, 2002, 2003 and 2004, appear later in this Form 20-F. The audited financial statements have been prepared in accordance with U.S. GAAP.

	YEAR ENDED DEC		
	2000	2001	2002
			(U.S. dolla
INCOME STATEMENT DATA:			
Revenues	$591	$765	$827
Cost of revenues	433	554	605
Gross profit	148	211	222
Research and development costs, net	44	59	57
Marketing, selling, general and administrative expenses, net	65	98	107
Operating income (loss)	(13)	54	58
Finance income (expense)	--	(3)	(3)
Income (loss) before taxes on income	(13)	52	54
Taxes on income	6	11	9
Equity in net earnings of affiliated companies and partnership	(1)	-	1
Net income (loss)	$(21)	$41	$45
Earnings (loss) per share:			
Basic net income (loss) per share	$(0.65)	$1.07	$1.17
Weighted average number of shares used in computation (in thousands)	31,572	37,975	38,489
Diluted net income (loss) per share	$(0.65)	$1.04	$1.13
Weighted average number of shares used in computation (in thousands)	31,572	39,359	39,863

	DECEMBER 31			
BALANCE SHEET DATA:	2000	2001	2002	2003
				(U.S. dollars in millions
Cash, cash equivalents and short-term cash				

investments	$55	$42	$78	$77
Long-term deposits and loans	4	3	4	2
Working capital	74	121	206	199
Short-term debt	51	47	31	15
Long-term debt	58	69	73	62
Shareholders' equity	341	378	411	452
Total assets	$827	$901	$1,000	$1,024
Dividends paid per ordinary share with respect to the applicable year	$0.32	$0.32	$0.34	$0.40

* 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 U.S. Securities Act of 1933 and Section 21E of the U.S. Securities and Exchange Act of 1934. These are statements that are not historical facts and include statements about our beliefs and expectations. These statements contain potential risks and uncertainties, and actual results may differ significantly.

Forward-looking statements are typically identified by the words "believe," "expect," "intend," "estimate" and similar expressions. Those statements appear in this Annual Report and include statements regarding the intent, belief or current expectation of Elbit Systems or our directors or officers. Actual results may differ materially from those projected, expressed or implied in the forward-looking statements as a result of several factors including, without limitation, the factors set forth below under the caption "Risk Factors" (we refer to these factors as Cautionary Statements). Any forward-looking statements contained in this Annual Report speak only as of the date of this Report, and we caution potential investors not to place undue reliance on these statements. We undertake no obligation to update or revise any forward-looking statements. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements.

RISK FACTORS

GENERAL RISKS RELATED TO OUR BUSINESS

OUR REVENUES DEPEND ON A CONTINUED LEVEL OF GOVERNMENT BUSINESS. A significant portion of our revenues come 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. For risks related to the IMOD budget see below "Risks Related to Our Israeli Operations".

THE LEVEL OF 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 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 outside Israel. We expect that international sales will continue to account for a significant portion of 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;
- 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 mainly are for fixed periods. These periods may be 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 often 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 if revenues from the award of new

contracts do not offset the loss of follow-on business.

OUR CONTRACTS MAY BE TERMINATED FOR CONVENIENCE OF THE CUSTOMER. 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 to reimbursement for our incurred contract costs and a proportionate share of our fee or profit for work actually performed. If, however, we are not entitled to such compensation, it could cause us to suffer corresponding losses.

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. Under these contracts, we often assume the risk that increased or unexpected costs may reduce profits or generate a loss. However, long-term contracts sometimes allow for price escalations based on specific labor and material indices. 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 Analysis and Review - Critical Accounting Policies. 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, although we have extensive experience in these types of programs, there is difficulty inforecasting long-term costs and schedules and the potential obsolescence of products or components related to long-term fixed-price contracts.

WE FACE FLUCTUATIONS IN REVENUES AND PROFIT MARGINS. The level of our revenues may fluctuate over different periods. These fluctuations may not relate directly to changes in pricing or sales volume. Instead they may be dependent on our mix of projects during any given period. In addition, since project revenues generally are recognized in connection with achievement of specific 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, the overall profit margin in a particular period is influenced by a number of conditions. These include the types, 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, and sometimes to provide, specific guarantees in connection with, the customer's financing of the project. However, in such cases we are not required to provide collateral covering the full amounts financed. These include guarantees of Elbit Systems 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. Also, we face exchange rate risks when our contracts call for payments in currencies other than the U.S. dollar. See below "Risk Related to Our Israeli Operations - Changes in the U.S. Dollar - New Israeli Shekel (NIS) Exchange Rate" and Item 4. Operating Financial Review and Prospects - Management Review and Analysis - Impact of Inflation and Exchange Rates.

WE MAY EXPERIENCE PRODUCTION DELAYS OR LIABILITY IF SUPPLIERS FAIL TO MAKE TIMELY DELIVERIES. The manufacturing process for some of our products consists in large part of the assembly, integration and testing of purchased components. Although generally we can obtain materials and purchase components from a number of different suppliers, some components are available from a small number of suppliers. In a few cases we work with suppliers that are effectively sole source. If a supplier should stop delivery of such components, we would probably be able to find other sources; however, this 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. Therefore, we attempt to impose liability on our subcontractors on a "back-to-back" basis to our liability to our customers. However, 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.

WE OPERATE IN A COMPETITIVE INDUSTRY. The defense electronics and electro-optics, platform upgrade, homeland security and commercial aircraft product markets in which we participate are highly competitive and characterized by rapid 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.

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 patent, trade secret, copyright and trademark laws, 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 and develop similar products or obtain and use information that we regard as proprietary; and

- competitors may independently develop products that are substantially equivalent or superior to our products or circumvent intellectual property rights.

In addition, others may allege infringement claims against us and affiliated companies. The cost of responding to infringement claims could be significant, regardless of whether the claims are valid.

WE WOULD BE ADVERSELY AFFECTED IF WE ARE UNABLE TO RETAIN KEY EMPLOYEES. Our success depends in part on a limited number of 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.

OUR INDUSTRY HAS EXPERIENCED SIGNIFICANT CONSOLIDATION. As the number of companies in the overall defense industry has decreased in recent years, the industry has experienced substantial consolidation, 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. 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 integrate and manage our growth may have a material adverse effect on our business, financial condition, results of operations or prospects. We may also encounter anti-trust issues in certain areas as our operations expand.

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 in the future. Examples of these liabilities include employee benefits contribution obligations and non-compliance with applicable environmental requirements 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 without performing due diligence.

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, despite Israel having signed peace agreements with Egypt and Jordan. Since 2000, there has been ongoing hostilities between Israel and the Palestinians, which has adversely affected the peace process and at times has negatively influenced Israel's economy as well as its relationship with several other countries. Despite recent Palestinian elections and discussion between the Israeli Government and the Palestinian Authority, there is no assurance that the current situation with the Palestinians will improve or, if it did, that the political and economic situation in Israel would improve as a result.

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. To date, these measures have not had a material adverse effect on our business. However, 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. Since we began operations, we have operated effectively under these requirements, including during hostilities in recent years with the Palestinians. However, no assessment can be made as to the full impact of such requirements on our workforce or business if conditions should change.

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. Although in recent years the stability of the Israeli economy has increased, and the Israeli Government has liberalized many economic regulations, reoccurrence of previous destabilizing factors could make it more difficult for us to operate our business as we have in the past.

CHANGES IN THE U.S. DOLLAR - NEW ISRAELI SHEKEL (NIS) EXCHANGE RATE. The exchange rate between the NIS and the U.S. dollar has fluctuated in recent years, although it was relatively stable in 2004. While most of our sales and expenses are denominated in dollars, a 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, a change in the value of the NIS compared to the dollar 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 Review 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. In recent years, the overall Israeli Government budget as well as the IMOD NIS budget have been subject to reductions as part of an economic reform initiative. To date, our current programs have not been significantly impacted by such reductions, but 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, our revenues and earnings could be reduced.

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. The benefits available under these programs depend on our meetings 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 and Investment Center Funding. We cannot assure you that these benefits will be available in the future at their current levels or at all.

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

MAIN ACTIVITIES

We develop, manufacture and integrate advanced, high-performance defense electronic and electro-optic systems for customers throughout the world. We focus on designing, developing, manufacturing and integrating command, control, communication, computer, intelligence, surveillance and reconnaissance (C4ISR) network centric systems for defense and homeland security applications. We also perform upgrade programs for airborne, land and naval defense platforms, often as a prime contractor.

Our major areas of operations include:

- aircraft and helicopter systems and upgrades;
- helmet mounted systems;
- unmanned air vehicle (UAV) systems;
- C4I and government information systems;
- land vehicle systems and upgrades;
- electro-optic and countermeasures systems and products;
- naval systems;
- homeland security systems;
- services; and
- technology spin-offs for commercial applications.

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.

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. We continue to perform platform upgrades. However, more emphasis is being placed on command, control, computers, communications and intelligence (C4I) systems,

as well as intelligence, surveillance and reconnaissance (ISR) systems. These include network centric information systems, intelligence gathering, border and perimeter security, UAVs, space and satellite based defense capabilities and homeland security applications. There is also a growing demand for cost effective logistic support and training services. We believe our existing systems, products and capabilities place us in a position to meet emerging customer requirements in many of these areas. We also 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.

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 view positively the declared policy of the Government of Israel to privatize portions of government-owned industries and view us 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 Group'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 Systems was formed in 1996 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, and Elbit Systems continues these activities.

In 2000, Elbit Systems merged with Elop Electro-Optics Industries, Ltd. (El-Op). Following the merger, El-Op became a wholly-owned subsidiary of Elbit Systems. El-Op has more than 60 years of experience in the electro-optics area. The merger enhanced our position as the largest non-government owned defense company in Israel. This position was further enhanced by the agreement we signed in December 2004 to purchase the major shareholder interest in Tadiran Communications Ltd. and the completion of the first phase of that purchase in April 2005. See below - Item 7. Major Shareholders and Related Party Transactions - Related Party Transactions - Agreements Relating to the Tadiran Acquisition.

TRADING SYMBOLS AND ADDRESS

Elbit Systems' shares are traded on the Nasdaq National Market (Nasdaq) 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

AIRCRAFT AND HELICOPTER PROGRAMS AND SYSTEMS. We supply advanced airborne electronic and electro-optic systems and products to leading aircraft manufacturers and end users. 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, cockpit instruments, stabilized line-of-sight payloads, aerial reconnaissance systems, store management systems, digital video recording systems, laser and infrared 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 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, MiG-21, SU-25, SU-30, C-130, A-4, A-10, Mirage, AL-X, AM-X, IAR-99, AT-63 Pampa, Beechcraft, Gulfstream-550, MD-10, MD-11, Airbus A300 and A310; and

- helicopters such as the CH-47, CH-53, Cobra, Puma, Super Puma, OH-58 Kiowa Warrior, AH-64 Apache, H-60 Black Hawk, S-70 Blackhawk, MI-8, MI-17, MI-24, Linx EC225 and EC725 and 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. Our helmet mounted systems are supplied as part of Elbit Systems' upgrade programs as well as on a stand-alone basis.

UAV SYSTEMS. We design and supply integrated UAV systems and mini-UAV systems. We design and manufacture a variety of UAV platforms, including the Hermes family of UAVs and the Skylark man-packed UAV. We also design and supply command and control ground stations 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.

C4I AND GOVERNMENT INFORMATION SYSTEMS. We design, manufacture and integrate C4I systems for ground forces and battlefield management and control applications. 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 and radios that provide infrastructure and connectivity for network centric architecture solutions, tactical ground reconnaissance systems and tactical battle group trainers. This includes our prime contractor role for the Israeli Digital Army 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.

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 systems include fire control systems, electric gun, turret drive and stabilization systems, overhead remote control weapon stations, battle management systems, FLIRs, gunner's and commander's sights, lasers range finders, laser warning systems, displays, life support systems and hydraulic systems for tanks, personnel carriers and other combat vehicles. We develop and supply unmanned ground vehicles for a variety of land based missions. We also supply training systems for tanks and fighting vehicles. Land vehicle programs containing our systems and products include the Merkava, M1 Abrams, Centurion, M-60, T-55, T-72, Bradley A-3, MLRS, HIMARS, AMX-30, SK-105, MK-109, ULAN, Pandur and LAV.

ELECTRO-OPTIC AND COUNTERMEASURES SYSTEMS. Through El-Op, our wholly-owned subsidiary, we design and manufacture a full range of electro-optics sensors and systems for space, air, land and sea applications. The range of electro-optics products includes space cameras and specialized sensors, airborne reconnaissance and observation systems, FLIRs for land, naval and airborne applications, laser range finders and laser designators based on flash lamp pumped and diode pumped technologies used 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. El-Op's ISR related business activities - space cameras, airborne reconnaissance and observation & surveillance - share a broad infrastructure of technologies that provide imagery intelligence, long range observation solutions for space, air, sea and land based sources. In the space area, El-Op also maintains in-house Israel's national space electro-optics infrastructure and is currently a principal subcontractor for the Israeli Ofek satellites. In addition, El-Op supplies dedicated satellite payloads for space research and advanced multi-spectral and high resolution pan-chromatic cameras for commercial satellites.

NAVAL SYSTEMS. Our naval systems include naval combat management systems, shipboard combat system integration, naval electro-optic observation systems, naval tactical trainers, submarine electronic support management systems and shipboard decoy countermeasure launching systems.

HOMELAND SECURITY SYSTEMS. We design, manufacture and integrate a range of security systems and products for air, ground and sea homeland security and homeland defense applications. These include maritime and coastal control and surveillance systems, harbor protection systems, border control systems automatic access gates for border control, C4I homeland security applications, facility perimeter security products, remote suspect identification systems for aviation security, electronic fences and electro-optic warning systems for defense, police, border and coast guards and homeland security uses.

SERVICES. We provide a wide range of logistic support, training, simulation, maintenance and repair services for our customers around the world. This includes cutting edge simulators for air, land and naval platforms; "power by the hour" flight training under private finance initiatives; and establishing and operating maintenance and repair centers.

TECHNOLOGY SPIN-OFFS. We are engaged in spin-offs of our defense technologies to commercial applications. Our spin-off activities to date are in the areas of medical equipment, optical communications, commercial satellites and satellite communication for commercial aircraft.

REVENUES

The table below shows our consolidated revenues for groups of major areas of operations for the years ended December 31, 2002, 2003 and 2004:

	2002	2003	2004
Airborne Systems:	$373	$374	$368
Land Vehicle Systems:	136	200	199
C4ISR Systems:	123	134	109
Electro-Optic Systems:	148	140	200
Other (mainly non-defense engineering and production):	48	50	64

Total:	$828	$898	$940

SYSTEMS AND PRODUCTS

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

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 and infrared kits for guiding precision weapons launched from aircraft.

ENHANCED VISION SYSTEMS - for all weather landing of commercial and military aircraft.

COCKPIT INSTRUMENTATION - altimeters, pressure meters, cockpit indicators and avionics test equipment for civil and military aircraft.

SIMULATORS - for airborne and ground flight 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 – advanced adaptive technologies for line of sight alignment in a cockpit.

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 UAV system designed for Corps and Command level support missions and for maritime patrol.

HERMES 450 – tactical long endurance UAV system designed for Division level support missions.

HERMES 180 – tactical short range UAV system designed for Brigade level support missions.

SKYLARK – man-packed close range UAV system for Company and Battalion level support missions.

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.

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.

ARTILLERY C4I SYSTEMS – for C4I applications among field artillery units deployed from the platform to brigade levels, managing all aspects of artillery operations..

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.

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.

ENHANCED TACTICAL COMPUTERS - tactical PCs for military field use.

MILITARY WIRELESS LAN - immune wireless systems for wideband data transmission, with high survivability in dynamic and noisy military environments.

TACTICAL BATTLE GROUP TRAINERS - for training commanders and staff from company level to battalion battle group and brigade-sized operations.

BORDER, PERIMETER AND FACILITY SECURITY SYSTEMS - for use by armed forces, police, border patrols, coast guards and security personnel to monitor by innovative means border crossing points, airports, seaports, military bases, high risk installations and other sensitive areas.

INFORMATION TECHNOLOGY SYSTEMS - for crime prevention, and other governmental applications.

INTEGRATIVE COMPONENT-BASED EXPLOITATION (ICE) SYSTEM - fully integrative multi-sensor exploitation system providing 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.

BORDER CONTROL AND MANAGEMENT SYSTEMS - automatic systems that supervise and control all movements across borders.

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 vehicle crews and commanders.

OVERHEAD REMOTE WEAPON STATIONS - 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.

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(0) independent panoramic target location and identification and gun-turret direction, using day and night vision systems.

LASER WARNING SYSTEMS - for identifying and pinpointing the angular direction of laser sources generated by laser range finders and laser guided and laser beamrider missiles.

UNMANNED GROUND VEHICLES (UGVS) - dedicated autonomous vehicles, equipped with sensory perception and artificial intelligence capabilities for various land based applications.

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.

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 flash lamp and solid state diode pumped technologies, including eye-safe systems.

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 airborne and naval applications.

AERIAL RECONNAISSANCE SYSTEMS - for long-range and day/night 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.

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 ELECTRONIC WARFARE SYSTEMS - electronic support measurements (ESM) for threat identification and electro-magnetic analysis.

SHIPBOARD DECOY COUNTERMEASURE LAUNCHING SYSTEMS - sophisticated countermeasures deployment of chaff and flair against missile threats.

UNMANNED NAVAL VEHICLES - unmanned naval systems for various maritime applications that adapt the capabilities and applications of UAVs.

SATELLITE COMMUNICATION SYSTEMS - VSAT communication systems with high band rate data and voice transfer for land and naval forces.

HOMELAND SECURITY SYSTEMS

BORDER AND COASTAL SURVEILLANCE AND CONTROL SYSTEMS - turn-key solutions including a wide variety of day and night electro-optical sensors with perimeter security, image processing, acoustic sensing technology, command and control and systems integration capabilities for monitoring and information gathering at border entry points and coastal areas.

HARBOR PROTECTION SYSTEMS - for securing and monitoring access to harbors.

FACILITY SECURITY SYSTEMS - for protecting unauthorized access and exit to and from sensitive facilities.

AVIATION SECURITY APPLICATIONS - for protection of commercial aircraft, airports and air travelers, including remote suspect identification systems.

AUTOMATIC BORDER ACCESS GATES - for controlling access of passengers, vehicles and carriages at border entry points.

CRITICAL INFRASTRUCTURE SECURITY SYSTEMS - a wide range of electro-optical intruder detection sensors with advance day and night capabilities for monitoring and securing critical infrastructure

facilities and assets, including integrated pipeline security system solutions based on acoustic detection fusion technology.

ELECTRONIC AND ELECTRO-OPTICAL PERIMETER AND ACCESS CONTROL SYSTEMS - for night and day "smart" monitoring of perimeter fences and entry/exit points.

PRINCIPAL SUBSIDIARIES

EL-OP

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

El-Op designs, engineers, manufactures and supports a wide range of advanced electro-optic airborne, land, naval and space systems and products described elsewhere in this Form 20-F. These include IMINT solutions, airborne reconnaissance systems, spaceborne reconnaissance systems, observation and surveillance stabilized payloads, laser systems, head-up displays, thermal imaging systems, integrated sights for ground forces and electro-optical homeland security and defense security systems. See below "Current Business Operations - Aircraft and Helicopter Systems - Aircraft Head-Up Displays, Aircraft Electro-Optic Systems, Aerial Reconnaissance Systems and Electro-Optics Products for Helicopters; Land Vehicle Systems - Merkava and Thermal Imaging Systems - Electro-Optical and Countermeasures Systems - Naval Systems and - Homeland Security Systems."

EFW

We conduct most of our business in the United States through our wholly-owned subsidiary, EFW Inc. (EFW) and EFW's subsidiaries, collectively the Elbit Systems of America group of companies. Elbit Systems holds its shares in EFW through a Delaware holding company Elbit Systems U.S. Corp. (ESC). EFW is incorporated in Delaware and based in Fort Worth, Texas. In 1993, EFW acquired most of the assets of General Dynamics Corporation's (General Dynamics) Electronics Manufacturing Center in Fort Worth, which mainly manufactured and supplied electronic components for F-16 aircraft. Over the last decade EFW has expanded its activities to a number of additional areas involving tactical aircraft, helicopters, land vehicles, UAVs and smart munitions. These include programs for the V-22 Osprey tilt rotorcraft, the Bradley A-3 fighting vehicle, the Multiple Launch Rocket System, JDAM munitions, the AH-64 Apache helicopter, the UH-60 Blackhawk helicopter, the OH-58D Kiowa Warrior helicopter, the A-10 aircraft, the F/A-18 aircraft, the C-130 transport aircraft as well as additional systems for the F-16. EFW is involved in a number of joint projects with Elbit Systems Group companies and with other U.S. defense companies.

As described below, EFW and Rockwell Collins Inc. each own 50% of Vision Systems International LLC, which is engaged in the area of helmet mounted systems for fighter aircraft.

EFW has expanded significantly through mergers and acquisitions.

KOLLSMAN. EFW acquired Kollsman, Inc. (Kollsman), a wholly-owned

Delaware subsidiary located in Merrimack, New Hampshire. Kollsman is engaged mainly in developing and manufacturing cockpit instruments and enhanced vision systems for civil and military aircraft and observation and targeting systems for land vehicles and aircraft. Kollsman has also recently begun activities in the U.S. homeland security market. Kollsman through its wholly-owned subsidiary, KMC Systems, Inc., is also involved in manufacturing medical instrumentation.

IEI. EFW also acquired International Enterprises, Inc. (IEI), a wholly-owned Alabama subsidiary located in Talladega, Alabama, that provides repair, maintenance and logistics support for a number of military electronic systems and components installed on aircraft, helicopters and ground support equipment for the U.S. military and other customers worldwide. IEI serves as EFW's focal point for after-market support capability.

HONEYWELL DISPLAY BUSINESS. Another acquisition of EFW was the purchase of the Display and Orientation Products business of Honeywell Inc. (Honeywell). This business includes the military helmet display and tracker activities that were performed by Honeywell, a major part of which is the production and support of helmet mounted systems for the U.S. Army's Apache helicopters. Part of this business is based in Warner Robins, Georgia, and the other activities are carried out at EFW's Fort Worth facilities and at IEI's facilities in Alabama.

EFW'S MAJOR CUSTOMERS. Major customers of EFW and its subsidiaries include Lockheed Martin Corporation (Lockheed Martin), the Boeing Company (Boeing), the U.S. Army, U.S. Navy, U.S. Air Force, U.S. Marine Corps, the IMOD, United Defense, Gulfstream Aircraft Corporation, Federal Express, Honeywell International Inc., Oto Melara S.p.A. and CMI - Cockerill Mechanical Industries S.A.

EFW'S RECENT CONTRACTS. Recent contract awards include development of displays for F/A-18 E/F aircraft, design of an electronic unit for the helmet mounted system and design of a new mission computer for the AH-64 Apache helicopter, development and supply of smart displays for the UH-60 Q/L Blackhawk helicopter, development and supply of Enhanced Vision Systems and head-up displays for Federal Express wide body aircraft, multi-year supply of commercial data entry electronic units, commercial central interface units, color multi-function displays and digital video recorders for the F-16, development and supply of multi-function displays for the C-130, supply of displays for the A-10 and semi-active laser seekers for JDAM munitions. See below "Current Business Operations - Aircraft and Helicopter Systems - Helmet Mounted Systems and - Land Vehicle Systems".

FMF. EFW and its subsidiaries also act as prime contractors for U.S. Foreign Military Funding programs. See below "Governmental Regulations - Foreign Military Funding".

ENGINEERING AND MANUFACTURING. EFW has extensive engineering and manufacturing capabilities at its Fort Worth facilities as does Kollsman at its facilities in New Hampshire. IEI's facilities in Alabama and EFW's facilities in Georgia have significant maintenance and repair capabilities. See below "Manufacturing" and "Customer Satisfaction and Quality Assurance".

SSA. EFW, 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 EFW and its subsidiaries in performing U.S. Government contracts. The SSA allows EFW and its subsidiaries to participate in classified U.S. Government programs even though,

due to its ownership by Elbit Systems, EFW is considered under the control of a non-U.S. interest. Under the SSA, a Government Security Committee of EFW's board of directors was permanently established to supervise and monitor compliance with EFW's security procedures. The SSA also requires EFW's board of directors to include outside directors who have no other affiliation with the Elbit Systems Group. EFW's board of directors also contains officers of EFW and up to two inside directors, who have other affiliations with the Elbit Systems Group. The SSA requires outside directors and officers of EFW who are directors, and some 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), through Kaiser Electronics, each own 50% of VSI. Founded in 1996, VSI acts on a world-wide basis on behalf of Rockwell Collins/Kaiser and Elbit Systems/EFW 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, EFW and Kaiser 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 on 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 U.S. Air Force and U.S. Navy F-15, F-16 and F/A-18 aircraft. VSI also has contracts to supply helmet mounted systems for fighter aircraft to the Israel Air Force (IAF), the Danish Air Force and other customers. In 2003, VSI was selected to develop a dual-seater version of the JHMCS and in January 2004 was authorized to begin full scale JHMCS production. In addition, in 2003, Lockheed Martin selected VSI as its team member to develop the helmet mounted system for the U.S. F-35 Joint Strike Fighter (JSF). See below "Current Business Operations - Helmet Mounted Systems".

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 structural parts for civil and military aircraft. Cyclone also performs maintenance, integration of systems and upgrades for aircraft and helicopters. Cyclone recently acquired the assets of IMI's Aircraft Systems Division, which is involved in manufacturing weapons pylons and external fuel tanks for fighter aircraft. See below - "Recent Acquisitions". Both directly and through its affiliated company Snunit, Cyclone works with Elbit Systems in supplying flight training services for fixed-wing aircraft and helicopters of the IAF. Cyclone's customers include the IMOD, the U.S. Air Force, Boeing, Lockheed Martin, Vought Aircraft Industries Inc., Bell Helicopters Textron Inc., Sikorsky Aircraft Company (Sikorsky), Israel Aircraft Industries Ltd. (IAI) and other aircraft manufacturers and end users around the world. See below "Current Business Operations - Aircraft and Helicopter Systems - Civil Aviation and - Logistics Support Services"..

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 operates as an integral part of Elbit Systems' UAV Systems business, which is located both in Nes Ziona and Haifa, Israel. Silver Arrow develops and manufactures UAVs. UEL - UAV Engines Ltd., a

wholly-owned British subsidiary of Silver Arrow, manufactures engines for UAVs and other applications. See below "Current Business Operations - UAV Systems".

ORTEK . Ortek Ltd. (Ortek) is a wholly-owned Israeli subsidiary of Elbit Systems. Located in Sderot, Israel, Ortek operates mainly in the field of defense security and surveillance systems and tactical products including day and night vision instruments based on starlight amplification. It develops and manufactures electro-optical systems for day and night use, counter-terrorism systems, command and control, image processing and intruder detection, night vision goggles, sniper vision systems and other defense and homeland security systems including for border, perimeter and access control. See below "Current Business Operations - Battlefield Management and Government Information Systems and - Homeland Security Systems"

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

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. Some of these other shareholders have a "put" option that, if exercised, would require Elbit Systems to acquire their shares in Kinetics at a specified price. 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". Elbit Systems has a "call" option to purchase the shares of the other shareholders in Kinetics at a specific price. With regard to a "put" option of other shareholders in Kinetics, see below - Item 5. Operating Financial Review and Prospects - Management's Discussion and Analysis - General - Off-Balance Sheet and Other Long-Term Arrangements and Commitments.

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. SCD also owns approximately 8%, on a fully-diluted basis, of CyOptics Inc., a spin-off company engaged in the development of optical communications components based on Indium Phosphide technology. See below "Current Business Operations - Electro-Optical and Countermeasures Systems and - Technology Spin-Offs".

OPGAL. Opgal - Optronics Industries Ltd. (Opgal) is an Israeli investee company owned 50.1% by Elbit Systems and 49.9% by a subsidiary of 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 - Aircraft and Helicopter Systems - Civil Aviation and - Electro-Optical and Countermeasures Systems."

TADIRAN COMMUNICATIONS

Tadiran Communications Ltd. (Tadiran Communications) is a publicly traded Israeli investee company owned as of May 31, 2005, approximately 20% by Elbit Systems and approximately 18% by Koor Industries Ltd. (Koor), with the balance of the shares traded on the TASE. Located in Holon and Petach Tikva, Israel, Tadiran Communications has over 40 years of experience in military communications technologies, with internationally recognized expertise in the fields of RF design and development in frequencies ranging from 1.5 MHz - 5 GHz and 50 GHz to 60 GHz, spread spectrum techniques (e.g. frequency hopping and direct sequence), crypto algorithms, wireless data transfer application modems, error detection and correction adapted to radio channels, advanced synchronization techniques, communications protocols, including radio over IP (RoIP) and voice over IP (VoIP), and radio channel control.

In addition to being the main supplier of communication equipment to the IDF's Signal Corps, Tadiran Communications is active in the global military and civilian communication markets. Tadiran Communications has a large worldwide customer base for which it provides advanced communications technology, equipment, systems and solutions. Over 90% of its 2004 revenues was derived from its international exports. Tadiran Communications' wholly-owned subsidiary, Talla-Com, Tallahassee Communications Industries Inc. (Talla-Com), and Talla-Com's wholly-owned subsidiary, Tallahassee Technologies Inc., both based in Tallahassee, Florida, serve as Tadiran Communications' U.S. development, production and marketing arm and as a base for participation in FMS projects. Tadiran Communications' 75%-owned Ulm, Germany-based subsidiary, Telefunken RACOMS, is active in both military and civilian communications and serves as Tadiran Communications' base for the German and European communications markets.

For further information on Elbit Systems agreements regarding the purchase of shares in Tadiran Communications see below - Item 7. Major Shareholders and Related Party Transactions - Related Party Transactions - Agreements Relating to the Tadiran Acquisition.

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

RECENT ACQUISITIONS

During the past year we have expanded our capabilities through several acquisitions as well as divested our shareholdings in one of our non-core businesses.

TADIRAN COMMUNICATIONS. In April 2005, Elbit Systems completed the first stage of the acquisition of Koor's shares in Tadiran Communications, acquiring from Koor approximately 13.7% of Tadiran Communications shares, for an aggregate purchase price of approximately $62.5 million. Including shares purchased by Elbit Systems on the stock market, as of May 31, 2005, we hold in the aggregate approximately 20% of Tadiran Communications' shares. Subject to the terms of agreements between Elbit Systems and Koor, Elbit Systems is to purchase the balance of the Tadiran Communications' shares held by Koor (approximately 18%). See above "Principal Subsidiaries - Tadiran Communications" and below - Item 7. Major Shareholders and Related Party Transactions - Related Party Transactions - Agreements Relating to the Tadiran Acquisition.

IMI AIRCRAFT SYSTEMS DIVISION. In March 2005, Cyclone acquired the assets of Israel Military Industries Ltd.'s (IMI) Aircraft Systems Division (the Aircraft Division) located in Tirat Hacarmel, Israel, for a price of approximately $7 million, subject to adjustments, a portion of which was paid in cash and the balance through assumption of obligations of the Aircraft Division. The transaction was made through a wholly-owned subsidiary of Cyclone. The Aircraft Division manufactures weapon pylons and external fuel tanks for fighter aircraft. The Aircraft Division's customers include the IMOD, the DOD, U.S. aircraft manufacturers and other customers worldwide.

CIC. In September 2004, Kollsman acquired the product line and assets of Computer Instruments Company (CIC), located in Westbury New York, for approximately $2.3 million. The CIC business line relates to the manufacture of air data computers and modules and air data pressure probes for military and commercial aircraft. Following the acquisition, the CIC business was relocated to Kollsman's facilities in New Hampshire. The acquisition positions Kollsman as a key supplier of air data probes for tactical missile and UAV programs and enhances Kollsman's product line for commercial and military aircraft.

REDC. In November 2004, El-Op acquired the preferred shares of RedC Optical Networks Inc. (RedC) held by MRV Communications Inc. for a purchase price of $2 million, which together with the 36.5% of RedC's shares previously held by El-Op, brought El-Op's shareholdings in RedC's voting shares to approximately 72.5%. RedC is a Delaware corporation, which together with its Israeli subsidiary, designs and manufactures optical amplifiers for dense wave-length multiplexing optical networks for telecommunications. In December 2004, El-Op entered into an agreement for the sale of its entire interest in RedC in consideration for approximately $3.1 million. The closing conditions for that sale were completed in January 2005. Approximately 90% of El-Op's equity interest in RedC was sold to the Cedar Fund with the balance redeemed by RedC itself.

CURRENT BUSINESS OPERATIONS

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

AIRCRAFT AND HELICOPTER SYSTEMS

NATURE OF OUR AIRBORNE SYSTEMS AND UPGRADES

Fighter 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, cockpit instruments, 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 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.

AIRCRAFT AVIONICS SYSTEMS AND UPGRADE PROGRAMS

IAR 99. In November 2004, Elbit Systems, in cooperation with the Romanian aircraft manufacturer Avioane Craiova, was awarded a $43 million contract from the Romanian Defense Ministry to supply eight IAR-99 lead-in trainer aircraft. The project will be executed in cooperation with Romanian industries over a period of approximately four years. This contract followed our upgrade project of four IAR-99 aircraft which was announced in 2001. The first program has been completed and the aircraft are currently used by the Romanian Air Force.

F-18 DISPLAYS. In April 2004, EFW was awarded a contract from Boeing for the design and development of Upfront Control Display (UFCD) and Multi-Purpose Color Display (MPCD) units for F/A-18E/F aircraft. Under the terms of the contract, EFW will provide Form, Fit, Function and Interface (FFFI) replacements of the existing aircraft configuration in support of the F/A-18E/F Multi-Year II program, to take place from 2005 to 2009. The contract award provides options for production units of up to 360 aircraft. The first of these production options was awarded to EFW in October 2004. The development, production and support contract for the full program is estimated to be at a value of more than $45 million.

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. The contracts are valued at more than $80 million and are being performed over a period of approximately four years. 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 production aircraft in January 2004. The avionics system for the AL-X includes an advanced mission computer, liquid crystal displays, head-up display and a navigation system. 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 Elbit Systems' Braziliansubsidiary Aeroeletronica - Industria de Componentes Avionicos S.A. (AEL), located in Porto Alegre, Brazil. Program funding is provided in part through a financing arrangement between the Brazilian Government and commercial banks. The contracts call for "buy-back" to be performed over a multi-year period. See below "Buy Back".

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. Ours contracts for the program are with Embraer and the Brazilian Government, with a total value of approximately $230 million to be performed over a six-year period. The contract with Embraer provides for an avionics upgrade, which includes an electronic warfare (EW) suite, mission computers, radar, displays and other avionics products. Prototype flight testing began in January 2004 and delivery of production aircraft is scheduled during 2005. 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 (IFTRIC) covering up to 90% of our financial exposure under the program, subject to the policy's terms. The program also includes buy-back provisions.

MIG-21 ROMANIA. During 2003, we completed work and received the remaining payments under the contract for the upgrade of MiG-21 aircraft for the Romanian Air Force. Following completion of aircraft deliveries, we are supplying ACTS, an Advanced Combat Training System, which aids pilot training and the transition to upgraded MiG-21 aircraft and other future fighters.

SU-25 SCORPION. In 2003 and 2004, Elbit Systems was awarded contracts to deliver to Georgia avionics for upgraded SU-25 Scorpion aircraft, with deliveries scheduled for 2005 and 2006, respectively. This followed Elbit Systems and TAM, the Georgian aircraft manufacturer, conduct of the maiden flight of an upgraded SU-25 Scorpion aircraft in 2001.

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. In 2002, completion of the contract was delayed due to the economic situation in Argentina. Based on an understanding reached between Lockheed Martin and the Argentinean Government the program was resumed and roll-out of the first upgraded aircraft occurred in the third quarter of 2004. We anticipate completing deliveries by 2007.

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 U.S. Air Force and other air forces.

In recent years, Elbit Systems, EFW, El-Op 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, EFW was awarded F-16 related contracts to develop and supply the commercial central interface unit, color multi-function display systems (CMFDS) and a digital video recorder. EFW 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 February 2004, EFW was awarded a contract by the U.S. Air Force to provide more than 1,200 CDEEUs in support of the CCIP program for pre-Block 40 F-16 aircraft. The contract will be performed over a three-year period.

El-Op was awarded a contract in 2001 to supply the head-up display for the F-16I. El-Op also supplies aerial reconnaissance systems for the F-16.

Since its March 2005 acquisition of IMI's Aviation Systems Division, Cyclone manufacturers weapons for pylons and F-16 aircraft. See above "Recent Acquisitions". Cyclone also manufactures the leading edge flap for U.S. Air Force F-16 aircraft. During 2002, Cyclone was awarded orders for the supply of other structural parts for the F-16, including the horizontal stabilizer, the rudder, the ventral fin and the engine access doors.

As of December 31, 2004, our overall F-16 related systems and components backlog, which extends through 2008, totaled approximately $175 million.

AIRCRAFT HEAD-UP DISPLAYS. El-Op 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, Mig-29, SU-25, SU-30, A-4, AL-X. AM-X, AT-63 Pampa, IAR-99, Jaguar, KO-1, IDF, L-39, Mirage, MD-10/11 and Airbus 300/310.

AIRCRAFT ELECTRO-OPTIC SYSTEMS. El-Op supplies laser range finders for a range of airborne platforms. El-Op also has supplied laser designators for other airborne applications such as the laser designator for the U.S. Kiowa Warrior helicopter, the U.S. Navy's Nite Hawk pod and for pods of other customers.

AERIAL RECONNAISSANCE SYSTEMS. El-Op supplies airborne reconnaissance systems for a range of fighter aircraft including the F-16. In 2000, El-Op was awarded a contract to supply advanced airborne reconnaissance systems for the Turkish Air Force's RF-4E aircraft. The program is expected to be completed during 2005.

HELICOPTER UPGRADE PROGRAMS

IAF MISSION MANAGEMENT SYSTEM. In February 2005, Elbit Systems was awarded a contract to provide the Israeli Air Force with a command and control mission management system for helicopter platforms. This advanced system provides the combat forces with a real-time updated situational picture, which enables them to share mission critical data based on data communication. The system will allow 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.

APACHE MISSION COMPUTER. In April 2004, EFW was selected by Boeing to design a new mission computer for the Apache AH-64 helicopter. The contract is to be performed over a two-year period.

TURKISH S-70 BLACKHAWK. In 2003, Elbit Systems' contract with Turkish Aerospace Industries became effective for the modernization of the Turkish Armed Forces Command Sikorsky S-70 Blackhawk helicopters. we act as the avionics systems integrator and is developing and supplying "glass cockpit" avionics and advanced mission equipment. The program is to be performed in two stages, development and production, over a four-year period.

BLACK HAWK WEAPON MANAGEMENT SYSTEMS. In 2002 and 2003, Elbit Systems was awarded follow-on orders by Sikorsky to provide the weapons management system for the upgrade of Black Hawk helicopters. This followed award of the original contract from Sikorsky in 2001. We completed deliveries of these systems during 2002 and anticipate completing logistic support orders during 2005.

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. We developed and supplied the digital map system for the V-22 under a contract of EFW with Boeing. In 1998, Boeing awarded EFW a contract for the V-22 Active Matrix Liquid Crystal Multi-function Display Upgrade Program. The program calls for delivery of display subsystems for 246 V-22 aircraft over seven years. EFW is also under contract from Boeing to produce a series of interface units for the V-22. In 2002, EFW was awarded orders by Boeing to redesign the V-22's display electronic unit and digital map. During November 2004, EFW received initial production orders for these second generation digital map and display electronics for the V-22. Additional production orders were received in January 2005.

DIGITAL MAPS AND DISPLAYS FOR EUROCOPTER. In 2003, we received an order from Eurocopter S.A. (Eurocopter) to supply 120 smart displays for French search and rescue helicopters. This followed earlier contracts from Eurocopter for display development and supply of digital map systems and displays.

ELECTRO-OPTIC PRODUCTS FOR HELICOPTERS. El-Op 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, El-Op was awarded a contract to develop and supply its Laser Obstacle Ranging & Display Systems (LORD) for IAF helicopters, which has successfully completed its first flight test series. Performance of the contract is through 2006. In June 2005, El-Op's LORD system received Flight International's Aerospace Industry Award in the Avionics and Electronics category. El-Op is developing a laser designator for an upgrade of the OH-58D Kiowa Warrior surveillance helicopter. El-Op also supplies the laser-spot tracker integrated with the fire-control system, as well as display monitors, for the AH-64 Apache helicopter. Kollsman supplies the upgraded FLIR enhanced night targeting system for the U.S. Marines' AH-IW Super Cobra helicopters. El-Op also supplies electro-optic payloads for a variety of helicopters.

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.

JDAM. In July 2004, EFW 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. To date, two successful guidance tests have been completed, one against a stationary target and the second against a moving target. After completion of the design phase of this program, low rate initial production and serial production orders are anticipated.

VIPER STRIKE. In 2003, under an order received by EFW 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 in 2003, 2004 and 2005. These munitions are used in connection with the Hunter UAV. New derivatives of this product are being modified for use on other platforms.

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CIVIL AVIATION

KOLLSMAN COMMERCIAL AVIONICS. Kollsman designs and manufactures a range of altimeters, pressure monitors, other cockpit indicators and avionics test equipment for commercial as well as military aircraft. Kollsman is also supplying air data computers and air data pressure probes for commercial aircraft following its acquisition in September 2004 of the assets of CIC. Following the CIC acquisition, Kollsman obtained an FAA Technical Service Order (TSO) for an RVSM-compliant air data computer that is designed to interface with a wide variety of avionics systems and is currently being supplied for RVSM upgrades for older corporate and commercial aircraft. See above "Recent Acquisitions".

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EVS

Kollsman designs and produces the 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. In 2001, the U.S. Federal Aviation Administration (FAA) certified the installation of the EVS on General Dynamics' Gulfstream-550 business jet. EVS is installed as a baseline system on Gulfstream-550 aircraft and is an option on Gulfstream-500 aircraft. In 2003, EVS also was installed and became operational on the Gulfstream-400.

In October 2004 and January 2005, Kollsman was awarded additional follow-on orders for EVS by Gulfstream for all their large cabin aircraft models. These additional orders bring the total EVS orders from Gulfstream to approximately $70 million. The EVS will be installed on the top of the line Gulfstream G450 and ultra long-range G550 as production standard items. The system will also be available as optional equipment on the Gulfstream G200, G350, G400 AND G500.

During 2004, Kollsman was awarded the National Aeronautic Association's 2003 Collier Trophy for aviation safety technological advances as a team member for the Gulfstream G550. Kollsman's EVS was a significant part of the basis for the award and was sited as the G550's greatest safety feature.

In October 2003, EVS was selected for installation on FedEx Express' Boeing MD-10, MD-11 and Airbus A300 and A310 aircraft fleet. The contract calls for certification by 2006 and installations on aircraft beginning in 2007.

COMMERCIAL HUDS. In 2003, Kollsman entered into a contract with Honeywell International Inc. to develop and supply, together with El-Op, head-up display overhead projection units for the Federal Express (FedEx) fleet. The contract calls for deliveries through 2012. In addition, Kollsman and El-Op are currently working on a cost sharing research and development contract with the Maryland Advanced Design Laboratory awarded in 2002 to develop a low cost solution for head-up displays for the General Aviation market. The project is being performed for the U.S. National Air and Space Agency (NASA) and is scheduled to be completed during 2005.

CABIN PRESSURIZATION CONTROL SYSTEM. In December 2004, Kollsman was

awarded a contract by Raytheon Aircraft Company to provide the cabin pressurization control system for the Hawker and Beechcraft King Air Series of aircraft. Kollsman's next-generation autoschedule pressurization system, KAPS II, will be incorporated into new production aircraft models, including the Hawker 400XP and 800XP and Beechcraft King Air Models 350, B200 and C90

STRUCTURAL PARTS, Cyclone manufactures structural parts for several types of commercial aircraft.

FLIGHT TRAINING SERVICES

We provide aircraft flight training solutions. In June 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 will be executed by providing flight hours on a "power by the hour" basis, Cyclone will provide full maintenance services to the IAF Bell 206 and Cobra AH-1A helicopters. The contract is valued at approximately $40 million.

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 is based on an operational concept known as Private Finance Initiative (PFI), adopted for the first time 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. Full scale operation of the training began in 2003.

TRAINING AND SIMULATORS

We provide 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 (LVC) training systems. In addition, we offer comprehensive simulator support services such as contractor logistics support (CLS), training, manuals and spare parts.

In 2003, Elbit Systems was awarded a contract by the U.S. State Department to supply full mission/full motion simulators for Mi-24 and Mi-8 helicopters for the Uzbekistan Air Force over a two-year period. The contract is part of the U.S. Government's "Operation Enduring Freedom".

We are supplying simulators for the AL-X and F-5 programs for the Brazilian Air Force. Simultec S.A., our wholly-owned Romanian subsidiary, manufactures training systems and flight simulators for the Romanian Ministry of Defense. See above "Aircraft Avionics Systems and Upgrade Programs".

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. In 2003, Cyclone also obtained a license to use another runway and facilities in Israel for aircraft maintenance for the IAF. At IEI in Alabama and at EFW's facilities in Georgia, we repair and maintain electronic systems and components for aircraft, helicopters and ground support equipment for U.S. and other customers. IEI also assists customers in establishing the appropriate level of maintenance and repair close to the user to improve operational readiness. Kollsman maintains a U.S. Federal Aviation Authority (FAA) certified repair facility in Wichita, Kansas for

commercial avionics repairs. At AEL in Porto Alegre, Brazil, we are implementing a logistic support center for our aircraft modernization programs for the Brazilian Air Force.

HELMET MOUNTED SYSTEMS

FIGHTER AIRCRAFT HELMET MOUNTED SYSTEMS

Our pilot helmet mounted systems are in operation with a number of customers throughout the world. For over 15 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 IAF and other customers. In 2000, we were awarded a contract by Lockheed Martin to supply the DASH IV helmet mounted cueing system for the IAF's

F-16I aircraft. Boeing previously awarded EFW a contract to supply the DASH as the helmet mounted display system for the IAF's F-15I aircraft.

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 United States Air Force and Navy F-15, F-16 and F/A-18 fighter aircraft. 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 has been successfully flown in all three aircraft types. In April 2004, VSI was awarded a contract from Boeing for the delivery of more than 400 additional Joint Helmet Mounted Cueing Systems (JHMCS). Under the contract, valued at $62.2 million, VSI will provide JHMCS systems, including spare parts, technical support and support equipment for the LRIP 4 (Low Rate Initial Production) acquisition. This procurement fills U.S. government domestic requirements for the U.S. Air Force F-15, and F-16 and U.S. Navy F/A-18 aircraft as well as Foreign Military Sales (FMS) production commitments including: Australia (F/A-18), Chile (F-16), Finland 9F/A-18), and Poland (F-16). Additionally, this award fulfills commercial commitments from Boeing for the F-15K program for South Korea. Deliveries under LRIP 4 are currently in process and will continue through 2005.

In August 2004, VSI was awarded a $75.6 million contract for over 3000 JHMCS systems from Boeing. This award is the first Full Rate Production (FRP) of JHMCS following four LRIP lot deliveries. Under the contract, VSI will provide JHMCS display systems, spare parts and support equipment for the FRP lot 1 acquisition. This procurement fills additional U.S. government domestic requirements for the U.S. Air Force and Air National Guard F-15, F-16 and USN F/A platforms as well as FMS production commitments for Australia (F/A-18), Finland (F/A-18), Poland (F-16), Greece (F-16) and Switzerland (F/A-18). Deliveries under FRP 1 are currently in process and continue through December 2006. This order brings VSI's total JHMCS production quantity to more than 1,000 systems with more than 500 systems delivered to date.

IEI serves as the depot repair center for the JHMCS electronics unit.

JSF. In 2003, VSI was awarded an approximately $85 million contract by Lockheed Martin to develop the helmet mounted system for the U.S. F-35 Joint Strike Fighter (JSF) Program. The majority of the development effort is scheduled to be completed in 2006 with continuing support activities through 2012. The JSF helmet mounted 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.

PNVG. In February 2005, VSI was awarded a contract to supply panoramic night vision goggles (PNVG) for use by U.S. Navy tactical aircraft. The PNVG is based on the "Quad Eye" (TM) product developed by Kollsman.

MLU. VSI also performs helmet mounted display programs for other customers, including supply of the helmet mounted systems for Lockheed Martin's F-16 Mid-Life Upgrade (MLU) Program for the Danish and Norwegian Air Forces.

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. The NVG/HUD is operational in the IAF, having been integrated into various assault and attack helicopters. Over the past ten years Elbit Systems and EFW have supplied more than 4,000 NVG/HUD systems for a variety of U.S. Army programs. 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 2002, EFW was selected to supply NVG/HUDs for the Agusta 129 helicopter over a five-year period. Also, in 2002, EFW was selected by the U.S. Army as the prime contractor to supply the NVG/HUD to the U.S. Army over a five-year period.

IHADSS. In 2000, EFW acquired Honeywell's display and orientation products business, which mainly includes 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. In 2002, Boeing awarded EFW a contract to upgrade the AH-64 Apache IHADSS system with new electronics to achieve increased image resolution to accommodate longer range thermal imaging systems being developed for the AH-64. In March 2004, EFW received a follow-on order to complete qualification and transition the new system to full rate production.

UAV SYSTEMS

OVERVIEW OF UAV BUSINESS. Recent advances in technology have resulted in an increased use of UAVs for many military applications, particularly in the area of ISR. The ongoing military actions in Afghanistan and Iraq use UAVs extensively. As part of our business strategy to enter into this expanding market, in the early 1990's we acquired an interest in Silver Arrow, which develops and manufactures UAVs. In 2003, we acquired a majority interest in AD&D, Advanced Design and Development Ltd., an Israeli company engaged in the development of a variety of unmanned systems.

UAV SYSTEMS

Silver Arrow develops and manufactures several types of UAV platforms for the IDF and other customers. These include the Hermes family of UAVs, including the Hermes 1500, the Hermes 450 and the Hermes 180.

The Hermes 1500 is a medium altitude long endurance UAV for maritime patrol and other types of support missions. The Hermes 450 supplies real-time intelligence data to ground forces. The Hermes 180 is a tactical short range UAV designed for brigade-level intelligence, surveillance, target acquisition and reconnaissance missions.

We also are involved in smaller UAVs, such as the Skylark and the Seagull. The Skylark is a man-packed UAV for close range, over the hill surveillance and reconnaissance. The Seagull is a foldable and canister deployable tactical close range UAV.

We also develop and supply ground control stations for the operation of UAVs. In addition, we supply to the IDF the latest generation of surveillance UAVs, based on the Hermes 450. Silver Arrow's U.K. subsidiary, UEL Engines Ltd., produces engines for UAVs.

We also provide training systems for UAV operations.

UAV PROGRAMS

WATCHKEEPER. In June 2004, a team consisting of Elbit Systems/Silver Arrow and Thales Defence Ltd. (as prime contractor) was selected by the United Kingdom Ministry of Defense (UK MOD) for the Watchkeeper Tactical UAV program. The Watchkeeper Program commences with the Demonstration, Manufacture and Initial Support Phase (DMIS) phase for the development, manufacture, and in-service support program to meet the UK MOD requirement to provide accurate, timely and high quality imagery and IMINT (Image Intelligence) to satisfy commanders' critical information requirements. The solution proposed and selected by the UK MOD is based on the Hermes 450 UAV in dual payload configuration, e.g. SAR and E/O payloads. The Program calls for the Hermes 450 to be capable of flying in icing conditions and of performing automatic takeoff and landing.

IUP. In May 2005, IUP, a partnership equally owned by Elbit Systems and IAI, was selected as the supplier of UAV systems for the Turkish TIHA Program. IUP has signed a contract for performance of the program, which is anticipated to enter into effect in the near future. Under the contract IUP will be responsible for delivering UAV systems including advanced payloads. IUP will subcontract 50% of the work to Elbit Systems to supply ground control stations, data links and payloads. The expected contract to Elbit Systems is to be performed over a three-year period and is anticipated to be in an amount material to Elbit Systems.

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SKYLARK IMOD. In 2004, the IMOD selected Elbit Systems to supply several Skylark mini-UAVs for operational evaluation by the IDF ground forces. The system deliveries were completed and the systems are now in operational evaluation phase. Recently, we issued several international proposals for Skylark, and orders for additional systems have been received from several customers worldwide.

ARIZONA BORDER CONTROL. In June 2004, EFW was awarded a contract to provide through a lease arrangement to the U.S. Department of Homeland Security, Customs and Border Protection (CBP) Elbit Systems' Hermes 450 Unmanned Air Vehicles (UAV) along Arizona's southern border as part of the Arizona Border Control Initiative (ABCI). The ABCI initiative is intended to provide improved surveillance along the Mexican border for various homeland security applications, including illegal immigration and drug smuggling. Under the CBP lease contract, EFW and Elbit Systems provide UAV's, ground control stations, operational crews and support personnel for UAV flight support of border patrol operations. Following completion of this initial successful pilot program, which was focused on the Arizona border with Mexico, it is anticipated that such contractor operated lease activities for UAVs may be expanded.

FALLON NAVAL AIR STATION. In 2003, EFW was awarded a contract to operate Elbit Systems' Hermes-450 UAV system at Fallon Naval Air Station in Nevada. The contract was in support of the DOD's Joint UAV test and evaluation exercise and was completed in 2004.

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. As of December 31, 2004, we had a backlog for the program of approximately $67 million, to be performed mainly through 2006.

AIRBORNE C4ISR. In November 2004, Elbit Systems was awarded a contract in an amount of approximately US$300 million by the Israeli Ministry of Defense to supply advanced systems. The contract will be 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.

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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

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