ELBIT SYSTEMS LTD
Form 6-K
August 12, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934
For the Month of August 2003

ELBIT SYSTEMS LTD.
(Translation of Registrant's Name into English)
Advanced Technology Center, P.O.B. 539, Haifa 31053, Israel
(Address of Principal Corporate Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

|X| Form 20-F |_| Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

|_| Yes |X| No

Attached hereto as Exhibit 1 and incorporated herein by reference is the Registrant's Management Report for the three and six-month period ended June 30, 2003.

Attached hereto as Exhibit 2 and incorporated herein by reference are the Registrant's Condensed Interim Financial Statements as of June 30, 2003.

Attached hereto as Exhibit 3 and incorporated herein by reference is the Registrant's press release dated August 12, 2003.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ELBIT SYSTEMS LTD.
(Registrant)

By: /s/ Ilan Pacholder
Name: Ilan Pacholder

Title: Corporate Secretary

Dated: August 12, 2003.

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
1.	Management report.
2.	Financial statements.
3.	Press release.

EXHIBIT 1

MANAGEMENT'S REPORT

FOR THE THREE AND SIX-MONTH PERIOD ENDED JUNE 30, 2003

THIS REPORT SHOULD BE READ TOGETHER WITH THE COMPANY'S UNAUDITED FINANCIAL STATEMENTS FOR THE QUARTER ENDED JUNE 30, 2003 AND THE COMPANY'S FORM 20-F FOR THE YEAR ENDED DECEMBER 31, 2002, FILED BY THE COMPANY WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION AND WITH THE ISRAELI SECURITIES AUTHORITY.

A. THE COMPANY'S BUSINESS OVERVIEW

Elbit Systems Ltd. ("Elbit Systems") and its subsidiary companies (together the "Company" or the "Group") operate in the area of upgrading existing airborne, ground and naval defense platforms and are engaged in projects involving the design, development, manufacture, integration and marketing of advanced integrated defense systems, electronic systems, electro-optic systems and products and software intensive programs and products for the defense and homeland security sectors. In addition, the Company provides support services for such platforms, systems and products.

The Company is engaged in leading projects in Israel and worldwide, in areas such as air, ground and naval Command, Control, Communication, Computers, Intelligence, Surveillance and Reconnaissance ("C4ISR") systems, digital maps, night vision systems, pilot helmet mounted systems, display and data processing systems, unmanned air vehicles ("UAVs"), computerized simulators, communication systems, thermal imaging products, laser products, optical systems for space applications, airborne reconnaissance systems, optic communication systems and products, security systems and products, surveillance products and systems and electric drive systems.

The Company provides a wide range of logistic support services, including operation of pilot training services for the Israeli Air Force on a private financing initiative ("PFI") basis. Several of the Group's companies also provide advanced engineering and manufacturing services to various customers, utilizing their significant manufacturing capabilities. The Company often cooperates with industries in Israel and in various other countries.

B. BACKLOG OF ORDERS

The Company's backlog of orders as of June 30, 2003 reached $1,695 million, of which 61.0% were for orders outside Israel. The Company's backlog as of December 31, 2002 was $1,689 million, out of which 62% were for orders outside Israel.

Approximately 71.0% of the Company's backlog as of June 30, 2003 is scheduled to be performed in the following two quarters of 2003 and during 2004. The majority of the 29.1% balance is scheduled to be performed in 2005 and 2006.

The relatively small increase in the Company's backlog was caused primarily by a slowdown in orders received from the Israeli Ministry of Defense ("IMOD") due to the delay in placing new orders in view of the IMOD's prolonged budget approval process.

C. MAJOR SUBSIDIARIES AND AFFILIATED COMPANIES

- Elop Electro-Optics Industries Ltd. ("El-Op") - a wholly owned subsidiary registered in Israel, is engaged in the field of advanced electro-optical products for defense, homeland security and civil applications. El-Op's main areas of activity include development and production of thermal imaging products, laser products, optical systems for space applications, airborne reconnaissance systems, optical communications systems, fire control systems for combat vehicles, homeland security products and other systems for defense applications.

- EFW Inc. ("EFW") - a wholly owned subsidiary registered in the United States, serves as the base for the Group's activities in the United States, mainly in the area of development, production and maintenance of advanced defense products and systems.

- Vision Systems International LLC ("VSI") - an affiliated company in the United States, owned 50% each by EFW and Rockwell Collins Inc., is engaged in the area of helmet mounted systems primarily for fighter aircraft.

- Cyclone Aviation Products Ltd. ("Cyclone") - a wholly owned subsidiary registered in Israel, provides logistic support and maintenance services for aircraft and helicopters and manufactures structure components and sub-assemblies for aircraft.

- Silver Arrow LP - a wholly owned limited partnership registered in Israel, is engaged in the business of UAV systems and products.

- Ortek Ltd. ("Ortek") - a wholly owned subsidiary registered in Israel, is engaged mainly in the area of security products and systems and night vision equipment.

- Kinetics Ltd. ("Kinetics") - a 51% owned subsidiary registered in Israel, is involved mainly in the development and production of systems and components for combat vehicles.

o Semi-Conductor Devices ("SCD") - an Israeli affiliated partnership, owned 50% each by the Company and Rafael Armaments Development Authority Ltd. ("Rafael"), is engaged in the development and production of infrared detectors and laser diodes.

o Opgal Optronic Industries Ltd. ("Opgal") - an Israeli affiliated company, owned 50.1% by the Company and 49.9% by Galram Technologies Ltd., a wholly owned

subsidiary of Rafael, is engaged mainly in the area of thermal imaging systems for commercial applications.

o The Company has holdings, directly and indirectly, in several relatively small companies in various countries. These companies are engaged mainly in the manufacturing, marketing and servicing of defense avionics and electronics as well as defense related software.

The Company also has holdings, directly and indirectly, in several non-defense technology spin-off companies whose activities are based on technologies that were developed by the Company. The spin-off companies are involved primarily in the areas of medical equipment, optical communications and space satellites.

The Company evaluates investments in affiliates, partnerships and other companies, and when relevant factors indicate other than temporary decline in the fair value of the investments below their carrying value, the Company adjusts the investment to the estimated fair value. The value of these companies is subject to ongoing changes resulting from their business conditions.

D. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's significant accounting policies are described in Note 2 to the audited consolidated financial statements for the year ended December 31, 2002.

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

In the Company's opinion, its most critical accounting policy relates to revenue recognition based on SOP 81-1 "Accounting for Performance of Construction Type and Certain Production Type Contracts", which is relevant to most of its revenues.

Under SOP 81-1, the Company has adopted the "percentage of completion" accounting method. Under this method, the Company recognizes revenues and profits on long-term fixed price contracts generally based on the ratio of costs incurred to estimates of costs to be incurred for the total contract. Under this approach, the Company compares estimated costs to complete an entire contract to total revenues for the term of the contract in order to arrive at an estimated gross margin percentage for each contract. The updated estimated gross margin percentage is applied, and the current period gross profit is the difference between the cumulative earned gross profit and gross profit reported for prior periods.

Management reviews these estimates periodically and the effect of any change in the estimated gross margin percentage for a contract is reflected in cost of sales in the period in which the change becomes known. If increases in projected costs to complete are sufficient to create a loss contract, the entire estimated loss is charged to cost of sales in the period the loss first becomes known.

A number of internal and external factors affect the Company's cost estimates, including labor rates, estimated future material prices, revised estimates of uncompleted work, efficiency variances, linkage to indices and exchange rates, customer specifications and requirements and testing requirement changes. If any of the above factors were to change, or if different assumptions were used in the application of this and other accounting policies, it is likely that materially different amounts would be reported in the Company's consolidated financial statements.

E. IMPAIRMENT OF GOODWILL AND OTHER LONG-LIVED ASSETS

Consistent with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," goodwill is not amortized, and is tested at least annually for impairment. As of June 30, 2003, the Company's goodwill and assembled work force amounted to $32.2 million.

Consistent with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company evaluates long-lived assets for impairment and assesses their recoverability based upon anticipated future cash flows. As of June 30, 2003, the Company's long-lived assets amounted to $285.6 million, including $70.2 million in intangible assets, and the Company concluded that no assessment of impairment loss was necessary.

Should future impairment tests made by the Company determine that impairment has occurred in the value of the Company's goodwill or long-lived assets, such impairment may have a material effect on the financial results of the Company in the period in which the impairment is determined.

F. SPECIAL EVENTS THAT AFFECTED THE BUSINESS RESULTS

The increase in the Company's share price affected the Company's financial results in the first half of 2003 due to the employee stock option plan for key employees adopted in October 2000. The program was comprised of options for 5 million shares, divided into options to purchase up to 2.5 million shares and additional 2.5 million "phantom" options. The phantom options grant the option holders a number of shares corresponding to the benefit component of the options exercised, as calculated on the exercise date, in consideration for their par value only, and are defined as a variable option plan. The actual number of options granted as of June 30, 2003 was approximately 4.5 million.

The Company's share price increased during the first six months of 2003 by $3.46 (or 21.6%). The increase in the share price during the second quarter of 2003 was $2.86 (or 17.2%) above the share price at the end of the first quarter. Under U.S. GAAP, the increase in the share price is recorded periodically as compensation expense based on the vesting period of the options. The expense, which is a non-cash expense, was allocated mainly to the Company's cost of goods sold and general and administrative expenses, with smaller amounts allocated to R&D and sales and marketing expenses .

The effect of the increase of the share price on the Company's results of operation (net of taxes) in the first six months of 2003 was $5.1 million, of which $4.1 million was recorded in the second quarter of 2003. Future changes in the Company's share price will continue to effect the share price linked compensation costs.

G. ACQUISITION

On June 30, 2003 the Company acquired, through El-Op, all of the outstanding ordinary shares of Optronics Instruments & Products N.V. (O.I.P) from Delft Instruments N.V., in consideration for Euro 1.6 million ($1.8 million) in cash. The amount paid is equal to the estimated fair value of the net assets acquired. The acquisition has been accounted under the purchase method of accounting. The assets and liabilities of OIP are included in the Company's balance sheet as of June 30, 2003.

O.I.P is based in Belgium and develops, manufactures and supports electro-optical products, mainly for the defense and space markets. It employs approximately 50 employees, and has established long-term relationships with customers in Belgium, other European countries and international customers.

The acquisition of O.I.P. is expected to provide the Company with enhanced access and support to its customers in Europe and to strengthen its presence in this important market.

H. ELECTION OF NEW DIRECTORS

On August 6, 2003, the election of two new directors was approved at the annual meeting of the Company's shareholders.

Mr. Avi Fischer was elected as a director to replace Mr. Lenny Recanati, who resigned from the Board of Directors in May 2003, and Mr. Yaacov Lifshitz was elected to serve as an External Director, replacing Mr. Yoel Feldschuh who resigned from the Board of Directors in May 2003.

The Company and its Board of Directors express their appreciation to Messrs. Recanati and Feldschuh for their contribution to the Company during their service on the Board of Directors.

I. SUMMARY OF FINANCIAL RESULTS

The following table sets forth the reported consolidated statements of operations of the Company for the three and six-month periods ended June 30, 2003 and June 30, 2002.

	For the six months ended June 30				
	2003		2002		
	$	%	$	%	$
	(In thousands of U.S. dollars except per s				
Total revenues	420,948	100.0	378,988	100.0	218,75
Cost of revenues	306,804	72.9	283,478	74.8	161,40
Gross profit	114,144	27.1	95,510	25.2	57,35
Research and development expenses, net	28,488	6.8	24,925	6.6	13,58
Marketing and selling expenses	35,123	8.3	29,943	7.9	19,09
General and administrative expenses	22,889	5.4	19,981	5.3	11,93
	86,500	20.5	74,849	19.7	44,61
Operating income	27,644	6.6	20,661	5.5	12,73
Finance expenses, net	(3,306)	(0.8)	(95)	(0.1)	(2,03
Other income (expenses), net	91	-	(409)	(0.1)	(1
Income before income taxes	24,429	5.8	20,157	5.3	10,68
Taxes on income	6,602	1.6	5,245	1.4	2,95
	17,827	4.2	14,912	3.9	7,73
Minority interest in losses (gains) of subsidiaries	690	0.2	130	-	43
Equity in net earnings of affiliated companies and partnership	2,949	0.7	1,440	0.4	1,04
Net earnings	21,466	5.1	16,482	4.3	9,21
Diluted earnings per share	0.54		0.41		0.23

NON-US GAAP DISCLOSURE

The following table sets forth the Company's results of operations excluding the effect of the Company's phantom stock option plan ("phantom plan") in 2003 and 2002, and of the non-recurring charge related to the agreement reached by El-Op with the Office of the Israeli Chief Scientist ("OCS") in the second quarter of 2002:

For the six months ended June 30	
2003	2002

	$	%	$	%	
	(In thousands of U.S. dollars except				
GROSS PROFIT AS REPORTED	114,144	27.1	95,510	25.2	57
Non-recurring charge due to OCS agreement	-	-	9,801	2.6	
Non-cash expense (income) related to phantom plan	3,520	0.9	(337)	(0.1)	3
Gross profit excluding phantom plan effect in 2003 and 2002, and non-recurring OCS charge in 2002	117,664	28.0	104,974	27.7	60
OPERATING PROFIT AS REPORTED	27,644	6.6	20,661	5.5	12
Non-recurring charge due to OCS agreement	-	-	9,801	2.6	
Non-cash expense (income) related to phantom plan	6,421	1.5	(613)	(0.1)	5
Operating profit excluding phantom plan effect in 2003 and 2002, and non-recurring OCS charge in 2002	34,065	8.1	29,849	7.9	17
NET EARNINGS AS REPORTED	21,466	5.1	16,482	4.3	9
Non-recurring charge due to OCS agreement	-	-	7,840	2.1	
Non-cash expense (income) related to phantom plan	5,137	1.2	(478)	(0.1)	4
Net earnings excluding phantom plan effect in 2003 and 2002, and non-recurring OCS charge in 2002	26,603	6.3	23,844	6.3	13
EARNINGS PER SHARE AS REPORTED	0.54		0.41		
Diluted earnings per share excluding phantom plan effect in 2003 and 2002, and non-recurring OCS charge in 2002	0.66		0.60		

REVENUES

SIX MONTHS ENDED ON JUNE 30, 2003, COMPARED TO SIX MONTHS ENDED ON JUNE 30, 2002

The Company's consolidated revenues increased by 11.1%, from $379.0 million in the first six months of 2002 to $420.9 million in the first six months of 2003.

The following table sets forth the Company's revenue distribution by areas of operation:

	Six-Month Period en		
	June 30, 2003		
	$ millions	%	$ mil

Airborne systems	201.2	47.8	1
Combat vehicle systems	75.8	18.0	
C4I systems	64.6	15.3	
Electro-optics	54.7	13.0	
Other (mainly non-defense engineering and production services)	24.6	5.9	
Total	420.9	100.0	3

The following table sets forth the Company's distribution of revenues by geographical regions:

	Six-Month Period en		
	June 30, 2003		
	$ millions	%	$ mill
Israel	111.9	26.6	96
United States	159.6	37.9	127
Europe	49.0	11.6	64
Other countries	100.4	23.9	90
Total	420.9	100.0	379

THREE MONTHS ENDED ON JUNE 30, 2003, COMPARED TO THREE MONTHS ENDED ON JUNE 30, 2002

The consolidated revenues increased by 13.2% from $193.2 million in the second quarter of 2002 to $218.8 million in the second quarter of 2003.

The following table sets forth the Company's revenue distribution by areas of operation:

	Three-Month Period		
	June 30, 2003		J
	$ millions	%	$ mil
Airborne systems	102.3	46.8	77
Combat vehicle systems	43.5	19.9	42
C4I systems	32.6	14.9	27
Electro-optics	27.5	12.5	35

Other (mainly non-defense engineering and production services)	12.9	5.9	10
Total	218.8	100.0	193

The following table sets forth the Company's distribution of revenues by geographical regions:

	Three-Month Period		
	June 30, 2003		J
	$ millions	%	$
Israel	61.5	28.1	
United States	82.5	37.7	
Europe	27.6	12.6	
Other countries	47.2	21.6	
Total	218.8	100.0	

The Company's sales are made primarily to governmental entities and prime contractors under government defense programs. Accordingly, the level of the Company's revenues is subject to governmental budgetary constraints. The recent economic situation in Israel has created some uncertainty with respect to the Israeli Government's general and defense budgets.

GROSS PROFIT

The Company's gross profit represents the aggregate results of the Company's activities and projects, and is based on the mix of programs in which the Company is engaged during the reported period.

SIX MONTHS ENDED ON JUNE 30, 2003, COMPARED TO SIX MONTHS ENDED ON JUNE 30, 2002

Reported gross profit in the six months ended June 30, 2003 was $114.1 million as compared to $95.5 million in the six months ended June 30, 2002. The reported gross profit margin in the six months ended June 30, 2003 was 27.1% as compared to 25.2% in the corresponding period of the previous year.

The Company's cost of goods sold in the six months ended June 30, 2003 included $3.5 million in non-cash expenses resulting from its phantom option plan, as compared to an immaterial amount in the six months ended June 30, 2002. Excluding non-cash expenses related to the Company's phantom option, gross profit in the six months ended June 30, 2003 was $117.7 million, or 28.0% of revenues.

Excluding the non-recurring charge under the OCS agreement and the phantom option plan effect, gross profit in the six-month period ended June 30, 2002 was $105.0 million, or 27.7% of revenues.

THREE MONTHS ENDED ON JUNE 30, 2003, COMPARED TO THREE MONTHS ENDED ON JUNE 30, 2002

Reported gross profit in the quarter ended June 30, 2003 was $57.4 million as compared to $43.3 million in the quarter ended June 30, 2002. The reported gross profit margin in the second quarter of 2003 was 26.2% as compared to 22.4% in the same period last year.

The Company's cost of goods sold in the second quarter of 2003 included $3.0 million in non-cash expenses resulting from its phantom option plan, as compared to an immaterial amount in the second quarter of 2002.

Excluding non-cash expenses related to the Company's phantom option compensation costs, gross profit in the quarter ended June 30, 2003 was $60.4 million, or 27.6% of revenues.

Excluding the non-recurring charge under the OCS agreement and the phantom option plan effect, gross profit in the quarter ended June 30, 2002 was $52.9 million, or 27.4% of revenues.

RESEARCH AND DEVELOPMENT ("R&D")

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

The Company's R&D activities in the reported period were in accordance with its plans.

SIX MONTHS ENDED ON JUNE 30, 2003, COMPARED TO SIX MONTHS ENDED ON JUNE 30, 2002

Gross R&D expenses in the six months ended June 30, 2003 totaled $30.4 million (7.2% of revenues), as compared to $26.8 million (7.1% of revenues) in the six months ended June 30, 2002.

Net R&D expenses (after deduction of the OCS participation) in the six months ended June 30, 2003 totaled $28.5 million (6.8% of revenues), as compared to $24.9 million (6.6% of revenues) in the six months ended June 30, 2002.

THREE MONTHS ENDED ON JUNE 30, 2003, COMPARED TO THREE MONTHS ENDED ON JUNE 30, 2002

Gross R&D expenses in the quarter ended June 30, 2003 totaled $14.7 million (6.7% of revenues), as compared to $12.9 million (6.7% of revenues) in the quarter ended June 30, 2002.

Net R&D expenses (after deduction of the OCS participation) in the quarter ended June 30, 2003 totaled $13.6 million (6.2% of revenues), as compared to $12.3 million (6.4% of revenues) in the quarter ended June 30, 2002.

R&D expenses in the quarter ended June 30, 2003 included an immaterial amount of non-cash expenses related to the Company's phantom option plan.

MARKETING AND SELLING EXPENSES

The Company invests significantly in developing new markets and pursues at any given time various business opportunities. The continued investment in developing new business opportunities, as well as the increased level of revenues and the increased length of time required for marketing efforts until orders are received, generated a higher level of sales and marketing expenses in the three and six-month periods ended June 30, 2003, as compared to the corresponding periods in 2002.

SIX MONTHS ENDED ON JUNE 30, 2003, COMPARED TO SIX MONTHS ENDED ON JUNE 30, 2002

Marketing and selling expenses in the six months ended June 30, 2003 were $35.1 million (8.3% of revenues), as compared to $29.9 million (7.9% of revenues) in the six months ended June 30, 2002.

Excluding the phantom option plan non-cash expenses in 2003, marketing and selling expenses in the six months ended June 30, 2003 were $34.1 million (8.1% of revenues).

THREE MONTHS ENDED ON JUNE 30, 2003, COMPARED TO THREE MONTHS ENDED ON JUNE 30, 2002

Marketing and selling expenses in the quarter ended June 30, 2003 were $19.1 million (8.7% of revenues), as compared to $15.3 million (7.9% of revenues) in the quarter ended June 30, 2002.

Excluding the phantom option plan non-cash expenses in 2003, marketing and selling expenses in the quarter ended June 30, 2003 were $18.1 million (8.3% of revenues).

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

SIX MONTHS ENDED ON JUNE 30, 2003, COMPARED TO SIX MONTHS ENDED ON JUNE 30, 2002

G&A expenses were $22.9 million (5.4% of revenues) in the six months ended June 30, 2003, as compared to $20.0 million (5.3% of revenues) in the six months ended June 30, 2002.

Excluding the phantom option plan non-cash expenses in 2003, G&A expenses in the six months ended June 30, 2003 were $21.3 million (5.1% of revenues).

THREE MONTHS ENDED ON JUNE 30, 2003, COMPARED TO THREE MONTHS ENDED ON JUNE 30, 2002

G&A expenses were $11.9 million (5.5% of revenues) in the quarter ended June 30, 2003, as compared to $10.3 million (5.3 % of revenues) in the quarter ended June 30, 2002.

Excluding the phantom option plan non-cash expenses in 2003, G&A expenses in the quarter ended June 30, 2003 were $11.2 million (5.1% of revenues).

-11-

OPERATING PROFIT

The majority of the Company's operating expenses are related to the Company's investment in the development of future technologies and products, and in generating new business. These expenses are included in the Company's R&D and marketing and sales expenses, which together accounted for 73.5% and 73.3% of the operating expenses during the six and three-month periods ended June 30, 2003, respectively.

SIX MONTHS ENDED ON JUNE 30, 2003, COMPARED TO SIX MONTHS ENDED ON JUNE 30, 2002

As a result of all of the above, reported operating income in the six months ended June 30, 2003 was $27.6 million (6.6% of revenues), as compared to $20.7 million (5.5% of revenues) in the six months ended June 30, 2002.

For the six months ended June 30, 2003, the Company's operating profit included $6.4 million in non-cash expenses associated with the Company's phantom option plan, as compared to an immaterial amount in the six months ended June 30, 2002.

Excluding phantom share compensation costs, operating income totaled $34.1 million (8.1% of revenues) in the six months ended June 30, 2003.

Excluding the non-recurring charge under the OCS agreement and the phantom option plan effect, operating profit in the six-month period ended June 30, 2002 was $29.8 million, or 7.9% of revenues.

THREE MONTHS ENDED ON JUNE 30, 2003, COMPARED TO THREE MONTHS ENDED ON JUNE 30, 2002

As a result of all of the above, reported operating income in the quarter ended June 30, 2003 was $12.7 million (5.8% of revenues), as compared to $5.4 million (2.8% of revenues) in the quarter ended June 30, 2002.

During the second quarter of 2003, the Company's operating profit included $5.0 million in non-cash expenses associated with the Company's phantom option plan, as compared to an immaterial amount in the second quarter of 2002.

Excluding phantom share compensation costs in 2003, operating income totaled $17.8 million (8.1% of revenues) in the second quarter ended June 30, 2003.

Excluding the non-recurring charge under the OCS agreement and the phantom option plan effect, operating profit in the quarter ended June 30, 2002 was $14.9 million, or 7.8% of revenues.

FINANCE EXPENSE (NET)

SIX MONTHS ENDED ON JUNE 30, 2003, COMPARED TO SIX MONTHS ENDED ON JUNE 30, 2002

Net finance expense in the six months ended June 30, 2003 was $3.3 million, as compared to $0.1 million of finance expense in the six months ended June 30, 2002.

THREE MONTHS ENDED ON JUNE 30, 2003, COMPARED TO THREE MONTHS ENDED ON JUNE 30, 2002

Net finance expense in the quarter ended June 30, 2003 was $2.0 million, as compared to $0.1 million of finance expense in the quarter ended June 30, 2002.

The increase in the net finance expense during the three and six-month periods ended June 30, 2003 as compared to the respective periods in 2002 resulted mainly from a lower level of finance income generated, and from the effect of the devaluation of the US dollar against the New Israeli Shekel ("NIS") on NIS denominated loans, which occurred mainly in the second quarter of 2003.

TAXES ON INCOME

The Company's tax rate represents a weighted average of the tax rates to which the various companies in the Group are subject. The changes in the effective tax rate are attributable mainly to the mix of the tax rates in the various tax jurisdictions in which the Group's companies generating the taxable income operate.

SIX MONTHS ENDED ON JUNE 30, 2003, COMPARED TO SIX MONTHS ENDED ON JUNE 30, 2002

Provision for taxes in the six months ended June 30, 2003 was $6.6 million (effective tax rate of 27.0%), as compared to a provision for taxes of $5.2 million (effective tax rate of 26.0%) in the six months ended June 30, 2002.

THREE MONTHS ENDED ON JUNE 30, 2003, COMPARED TO THREE MONTHS ENDED ON JUNE 30, 2002

Provision for taxes in the quarter ended June 30, 2003 was $3.0 million (effective tax rate of 27.7 %), as compared to a provision for taxes of $1.3 million (effective tax rate of 26.2%) in the quarter ended June 30, 2002.

Excluding the effect of the non-cash expenses related to the phantom stock options plan, tax rates for the six and three-month periods ended June 30, 2003 were 25.2% and 24.5% respectively. The difference in the tax rates is due to the different tax treatment of the non-cash expense in the various tax jurisdictions in which the Company operates.

COMPANY'S SHARE IN EARNINGS OF AFFILIATED COMPANIES AND PARTNERSHIP

SIX MONTHS ENDED ON JUNE 30, 2003, COMPARED TO SIX MONTHS ENDED ON JUNE 30, 2002

In the six months ended June 30, 2003 the Company had net income of $2.9 million from its share in earnings of affiliated companies and partnership, as compared to $1.4 million in the six months ended June 30, 2002.

THREE MONTHS ENDED ON JUNE 30, 2003, COMPARED TO THREE MONTHS ENDED ON JUNE 30, 2002

In the second quarter of 2003 the Company had net income of $1.0 million from its share in earnings of affiliated companies and partnership, as compared to $1.4 million in the second quarter of 2002.

The affiliated companies and partnership in which the Company holds 50% or less in shares or voting rights and are therefore not consolidated in its financial statements operate in the Company's core business areas, including electro-optics and airborne systems.

NET EARNINGS AND EARNINGS PER SHARE ("EPS")

SIX MONTHS ENDED ON JUNE 30, 2003, COMPARED TO SIX MONTHS ENDED ON JUNE 30, 2002

Reported net earnings in the six months ended June 30, 2003 were $21.5 million (5.1% of revenues), as compared to reported net earnings of $16.5 million (4.3% of revenues) in the six months ended June 30, 2002. Diluted EPS in the six months ended June 30, 2003 was $0.54, as compared to $0.41 per share in the six months ended June 30, 2002.

Excluding the phantom option plan non-cash expenses in 2003, net earnings in the six months ended June 30, 2003 were $26.6 million (6.3% of revenues), and the EPS was $0.66.

Excluding the non-recurring charge under the OCS agreement and the phantom option plan effect, net earnings in the six-month period ended June 30, 2002 was $23.8 million or 6.3% of revenues, and the EPS was $0.60.

The number of shares used for computation of diluted EPS in the six months ended June 30, 2003 was 40,095 thousand shares, as compared to 39,960 thousand shares in the six months ended June 30, 2002. The increase in the number of shares used for computation of diluted EPS was due mainly to the change in the average share price during the six months ended June 30, 2003 which, due to the impact of the Company's

stock option plan, affects the number of shares calculated on a diluted basis, and due to exercise of options by employees during the period.

THREE MONTHS ENDED ON JUNE 30, 2003, COMPARED TO THREE MONTHS ENDED ON JUNE 30, 2002

Reported net earnings in the quarter ended June 30, 2003 was $9.2 million (4.2% of revenues), as compared to reported net earnings of $4.8 million (2.5% of revenues) in the quarter ended June 30, 2002. Diluted EPS in the quarter ended June 30, 2003 was $0.23, as compared to $0.12 in the quarter ended June 30, 2002.

Excluding the phantom option plan non-cash expenses in 2003, net earnings in the quarter ended June 30, 2003 were $13.3 million (6.1% of revenues), and the EPS was $0.33.

Excluding the non-recurring charge under the OCS agreement and the phantom option plan effect, net earnings in the quarter ended June 30, 2002 was $12.4 million (or 6.4% of revenues), and the EPS was $0.31.

The number of shares used for computation of diluted EPS in the quarter ended June 30, 2003 was 40,396 thousand shares, as compared to 39,791 thousand shares in the quarter ended June 30, 2002. The increase in the number of shares used for computation of diluted EPS was due mainly to the change in the average share price during the second quarter of 2003 which, due to the impact of the Company's stock option plan, affects the number of shares calculated on a diluted basis, and due to exercise of options by employees during the period.

J. LIQUIDITY AND CAPITAL RESOURCES

The Company's cash flows are effected by the cumulative cash flows of its various projects in the reported periods. Project cash flows are affected by the timing of the receipt of advances and the collection of accounts receivable from customers, which relate to specific events during the project, while expenses are on-going. As a result, the Company's cash flows may vary from one period to another.

The Company's policy is to invest its cash surplus primarily in interest bearing deposits in accordance with its projected needs.

The resources available to the Company include mainly profits, collection of accounts receivable, advances from customers, as well as Government of Israel grants and participation and bank financing in Israel and elsewhere based on its capital, assets and activities. In addition, the Company has the ability to raise funds through the offering of shares and debentures to the public from time to time.

The Company's net cash flows generated from operating activities in the six-month period ended June 30, 2003 were $11.2 million.

Net cash flows used for investment activities in the six months period ended June 30, 2003 were $25.2 million, which were used mainly for procurement of property, plant and equipment. The investments were primarily in equipment for the Group's various manufacturing plants and in buildings being constructed at Elbit Systems' facility in Haifa, Israel and El-Op's site in Rehovot, Israel. The acquisition of OIP is included in the cash flow used in the reported period.

Net cash flows used for financing activities in the six-month period ended June 30, 2003 were $15.3 million. The cash flows were used mainly for reduction of borrowings, which were partially offset by proceeds from share options exercised.

On June 30, 2003, the Company had total borrowings in the amount of $94.9 million, including $21.8 million in short-term loans, and $392 million in guarantees issued on its behalf by banks, mainly in respect of advance payment and performance guarantees provided in the regular course of business. On June 30, 2003, the Company had a cash balance amounting to $47.0 million.

As of June 30, 2003, the Company had working capital of $195.6 million, and its current ratio was 1.49. The Company's ratio of equity to total assets was 45.7%.

K. DERIVATIVES AND HEDGES

Market risks relating to the Company's operations result primarily from changes in interest rates and exchange rates, and the Company may use financial instruments to limit exposure. The Company typically enters into forward contracts in connection with transactions that are denominated in currencies other than US dollars and NIS. The Company may enter from time to time into forward contracts related to NIS.

On June 30, 2003, the Company's liquid assets were comprised of bank deposits, and it had no investments in liquid equity securities that were subject to market fluctuations. The Company's deposits and loans are based on variable interest rates, and their value as of June 30, 2003 was therefore not exposed to changes in interest rates. Should interest rates either increase or decrease, such change may affect the Company's results of operations due to changes in the cost of its liabilities and the return on its assets that are based on variable rates.

The Company's functional currency is the U.S. dollar. On June 30, 2003, the Company had exposure due to liabilities denominated in NIS of $43.4 million in excess of its NIS denominated assets. These liabilities represent mostly wages, trade payables and loans. The amount of the Company's exposure to the changes in the NIS/US$ exchange rate may vary from time to time. In order to hedge against certain expected NIS payments, the Company entered into forward contracts designated as hedging. As of June

30, 2003, the results of the then existing derivatives are being deferred until payments are realized, which is expected to occur during 2003. On June 30, 2003, the Company had forward contracts covering NIS exposure in the amount of $29.0 million.

Most of the Company's assets and liabilities which are denominated in currencies other than the NIS and the U.S. dollar were covered as of June 30, 2003 by forward contracts. On June 30, 2003, the Company had contracts for the sale and purchase of such foreign currencies totaling $17.9 million.

L. DIVIDENDS

The Board of Directors declared on August 11, 2003 a dividend of $0.10 per share.

* * *

Forward looking statements with respect to the Company's business, financial condition and results of operations in this document are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements, including, but not limited to, product demand, pricing, market acceptance, changing economic conditions, risks in product and technology development, the effect of the Company's accounting policies as well as certain other risk factors which are detailed from time to time in the Company's SEC filings.

EXHIBIT 2

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

AS OF JUNE 30, 2003

(Unaudited)
(In thousands of U.S. dollars)

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

C O N T E N T S

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ELBIT SYSTEMS LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars)

	JUNE 30, 2003	DECE
	(UNAUDITED)	(A
CURRENT ASSETS		
Cash and cash equivalents	$47,000	
Short-term bank deposits	2,260	
Trade receivables, net of allowance for doubtful accounts of $3,703 and $3,411 as of June 30, 2003 and December 31, 2002, respectively.	235,503	
Other receivables and prepaid expenses	42,316	
Inventories, net of advances	268,447	
Total current assets	595,526	
INVESTMENTS AND LONG-TERM RECEIVABLES		
Investments in affiliated companies and partnership	23,756	
Investments in other companies	10,742	
Long-term receivables	308	
Long-term bank deposits and loan	2,220	
Severance pay fund	7,732	
	44,758	
PROPERTY, PLANT AND EQUIPMENT, NET	215,360	
OTHER ASSETS, NET		
Goodwill and assembled work-force, net	32,204	
Know-how and other intangible assets, net	70,213	
	102,417	
	$958,061	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS.

- 2 -

ELBIT SYSTEMS LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars except share data)

	JUNE 30, 2003	DEC
	(UNAUDITED)	(
CURRENT LIABILITIES		
Short-term bank credit and loans	$21,779	$
Trade payables	123,448	
Other payables and accrued expenses	154,683	1
Customer advances and amounts in excess of costs incurred	99,253	1
Total current liabilities	399,163	
LONG-TERM LIABILITIES		
Long-term loans	73,079	
Advances from customers	2,399	
Deferred income taxes	14,923	
Accrued severance pay	26,280	
	116,681	
MINORITY INTEREST	4,027	
SHAREHOLDERS' EQUITY		
Share capital		
Ordinary shares of NIS1 par value; Authorized - 80,000,000 shares; Issued- 39,560,969 shares and 39,212,328 shares as of June 30, 2003 and December 31, 2002, respectively; Outstanding- 39,152,148 shares and 38,803,507 shares as of June 30, 2003 and December 31, 2002, respectively	11,231	
Accumulated other comprehensive loss	(738)	
Additional paid-in capital	258,580	
Retained earnings	173,438	
Treasury stock- 408,821 shares	(4,321)	
	438,190	

	$958,061	$
	=============	===

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

- 3 -

ELBIT SYSTEMS LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands of U.S. dollars, except per share data)

	SIX MONTHS ENDED JUNE 30,		THREE MON JUNE
	2003	2002	2003
	(UNAUDITED)		(UNA
Revenues	$420,948	$378,988	$218,758
Cost of revenues	(306,804)	(273,677)	(161,405)
Chief Scientist ("OCS")	-	(9,801)	-
Gross profit	114,144	95,510	57,353
Research and development costs, net	28,488	24,925	13,586
Marketing and selling expenses	35,123	29,943	19,095
General and administrative expenses	22,889	19,981	11,938
	86,500	74,849	44,619
Operating income	27,644	20,661	12,734
Financial expenses, net	(3,306)	(95)	(2,030)
Other income (expenses), net	91	(409)	(18)
Income before taxes on income	24,429	20,157	10,686
Taxes on income	6,602	5,245	2,956
	17,827	14,912	7,730
Equity in net earnings of affiliated companies and partnership	2,949	1,440	1,048
Minority interest	690	130	433
Net income	$21,466	$16,482	$9,211
Earnings per share			
Basic earnings per share	$0.55	$0.43	$0.24

Weighted average number of shares used in computation (in thousands)	38,906	38,431	38,990
Diluted earnings per share	$0.54	$0.41	$0.23
Weighted average number of shares used in computation (in thousands)	40,095	39,960	40,396

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

ELBIT SYSTEMS LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES
IN SHARHOLDER'S EQUITY
(In thousands of U.S. dollars)

	NUMBER OF SHARES	SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL
UNAUDITED			
BALANCE AS OF JANUARY 1, 2003	38,803,507	$11,154	$248,387
Exercise of options	348,641	77	3,338
Tax benefit in respect of options exercised	-	-	434
Amortization of deferred stock compensation	-	-	6,421
Dividend paid	-	-	-
Net income	-	-	-
Unrealized gains on derivative instruments	-	-	-
BALANCE AS OF JUNE 30, 2003	39,152,148	$11,231	$258,580
BALANCE AS OF JANUARY 1, 2002	38,739,093	$11,054	$244,625
Exercise of options	166,089	36	1,554
Tax benefit in respect of options exercised	-	-	336
Amortization of deferred stock compensation	-	-	(613)
Dividend paid	-	-	-
Net income	-	-	-
BALANCE AS OF JUNE 30, 2002	38,905,182	$11,090	$245,902

	TREASURY STOCK	TOTAL	TOTAL COMPREHENSIVE INCOME

UNAUDITED			
BALANCE AS OF JANUARY 1, 2003	$(4,321)	$411,361	
Exercise of options	-	3,415	
Tax benefit in respect of options exercised	-	434	
Amortization of deferred stock compensation	-	6,421	
Dividend paid	-	(7,051)	
Net income	-	21,466	$21,466
Unrealized gains on derivative instruments	-	2,144	2,144
BALANCE AS OF JUNE 30, 2003	$(4,321)	$438,190	$23,610
BALANCE AS OF JANUARY 1, 2002	$(4,321)	$377,985	
Exercise of options	-	1,590	
Tax benefit in respect of options exercised	-	336	
Amortization of deferred stock compensation	-	(613)	
Dividend paid	-	(6,169)	
Net income	-	16,482	$16,482
BALANCE AS OF JUNE 30, 2002	$(4,321)	$389,611	$16,482

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

ELBIT SYSTEMS LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES
IN SHARHOLDER'S EQUITY
(In thousands of U.S. dollars)

	NUMBER OF SHARES	SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL
UNAUDITED			
BALANCE AS OF APRIL 1, 2003	38,843,262	$11,162	$250,250
Exercise of options	308,886	69	2,918
Tax benefit in respect of options exercised	-	-	382
Amortization of deferred stock compensation	-	-	5,030
Dividend paid	-	-	-
Net income	-	-	-
Unrealized gains on derivative instruments	-	-	-
BALANCE AS OF JUNE 30, 2003	39,152,148	$11,231	$258,580
BALANCE AS OF APRIL 1, 2002	38,853,750	$11,079	$245,695
Exercise of options	51,432	11	455
Tax benefit in respect of options exercised	-	-	66
Amortization of deferred stock compensation	-	-	(314)
Dividend paid	-	-	-
Net income	-	-	-

BALANCE AS OF JUNE 30, 2002	38,905,182	$11,090	$245,902
AUDITED			
BALANCE AS OF JANUARY 1, 2002	38,330,272	$11,054	$244,625
Exercise of options	473,235	100	4,040
Tax benefit in respect of options exercised	-	-	648
Amortization of deferred stock compensation	-	-	(926)
Dividend paid	-	-	-
Net income	-	-	-
Minimum pension liability	-	-	-
BALANCE AS OF DECEMBER 31, 2002	38,803,507	$11,154	$248,387

	TREASURY STOCK	TOTAL	TOTAL COMPREHENSIVE INCOME
UNAUDITED			
BALANCE AS OF APRIL 1, 2003	$(4,321)	$421,995	
Exercise of options	-	2,987	
Tax benefit in respect of options exercised	-	382	
Amortization of deferred stock compensation	-	5,030	
Dividend paid	-	(3,559)	
Net income	-	9,211	$9,211
Unrealized gains on derivative instruments	-	2,144	2,144
BALANCE AS OF JUNE 30, 2003	$(4,321)	$438,190	$11,355
BALANCE AS OF APRIL 1, 2002	$(4,321)	$387,724	
Exercise of options	-	466	
Tax benefit in respect of options exercised	-	66	
Amortization of deferred stock compensation	-	(314)	
Dividend paid	-	(3,103)	
Net income	-	4,772	$4,772
BALANCE AS OF JUNE 30, 2002	$(4,321)	$389,611	$4,772
AUDITED			
BALANCE AS OF JANUARY 1, 2002	$(4,321)	$377,985	
Exercise of options	-	4,140	
Tax benefit in respect of options exercised	-	648	
Amortization of deferred stock compensation	-	(926)	
Dividend paid	-	(12,717)	
Net income	-	45,113	$45,113
Minimum pension liability	-	(2,882)	(2,882)
BALANCE AS OF DECEMBER 31, 2002	$(4,321)	$411,361	$42,231

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

- 6 -

ELBIT SYSTEMS LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

	SIX
	20
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	$21,
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	18,
Amortization of deferred stock compensation	6,
Deferred income taxes	(1,
Severance pay fund	(1,
Accrued severance pay	1,
Loss on disposal of property plant and equipment	
Tax benefit in respect of options exercised	
Other adjustments	
Minority interests	(
Equity in net earnings of affiliated companies and partnership, net of dividend received	(2,
Changes in operating assets and liabilities:	
Decrease in trade and other receivables and prepaid expenses	12,
Increase in inventories	(41,
Increase (decrease) in trade and other payables and accrued expenses	47,
Increase (decrease) in advances received from customers	(49,
Liabilities to Chief Scientist	(
Net cash provided by operating activities	11,
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property, plant and equipment and other assets	(29,
Investment grants received for property, plant and equipment	
Acquisition of business or subsidiary (Schedule A)	(1,
Investments in affiliated companies and subsidiaries	
Proceeds from sale of property, plant and equipment and investments	2,
Long-term loan granted	
Long-term loan repaid	2,
Short-term loan repaid (granted)	(
Long-term bank deposits made	(
Long-term bank deposits redeemed	1,
Short-term bank deposits, net	
Net cash used in investing activities	(25,
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from exercise of options	3,
Repayment of long-term bank loans	(7,
Proceeds from long-term bank loans	
Dividends paid	(7,
Change in short-term bank credit and loans, net	(4,
Net cash used in financing activities	(15,
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(29,

CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	76,
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$47,

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS.

ELBIT SYSTEMS LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT.)
(In thousands of U.S. dollars)

	SIX MONTHS ENDED JUNE 30,	
	2003	2002
	(UNAUDITED)	
SUPPLEMENTARY CASH FLOWS ACTIVITIES:		
Cash paid during the period for:		
Income taxes	$8,167	$7,358
Interest	$1,214	$1,907
SCHEDULE A:		
Company or business acquired		
Estimated net fair value of assets acquired and liabilities assumed at the date of acquisition:		
Working capital deficiency (except cash and cash equivalents)	$ 816	$ -
Property, plant and equipment	(168)	(275)
Know-how and other intangible assets	-	(5,125)
Deferred income taxes	(1,700)	-
	(1,052)	(5,400)
Less - short-term debt incurred on acquisition	-	120
	$(1,052)	$(5,280)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS.

ELBIT SYSTEMS LTD.
AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
(In thousands of U.S. dollars)

NOTE 1 - GENERAL

The accompanying financial statements have been prepared in a condensed format as of June 30, 2003, and for the six months and three months then ended in accordance with generally accepted accounting principles in the United States (U.S. GAAP) relating to the preparation of financial statements for interim periods. See Note 6 for the reconciliation from US GAAP to accounting principles generally accepted in Israel (Israeli GAAP).

These statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of December 31, 2002.

The interim financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation. All such adjustments were of a normal recurring nature. Reclassifications have been made to comparative data in the balance sheet as of December 31, 2002, in order to conform with the current year's presentation.

Operating results for the six months ended June 30, 2003, are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

- 9 -

ELBIT SYSTEMS LTD.
AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
(In thousands of U.S. dollars)

NOTE 3 - INVENTORIES, NET OF ADVANCES

	JUNE 30	DECEMBER

	2003 (UNAUDITED)	2002 (AUDITED
Cost of long-term contracts in progress	$251,430	$210,41
Raw materials	84,795	75,57
Advances to suppliers and subcontractors	23,062	25,04
	359,287	311,04
Less-		
Cost of contracts in progress deducted from customer advances	15,534	10,65
	343,753	300,38
Less -		
Advances received from customers	60,654	67,62
Provision for losses	14,652	12,36
	$268,447	$220,39

NOTE 4 - COMPANY ACQUIRED

On June 30, 2003, the Company (through El-Op) acquired all of the outstanding ordinary shares of Optronics Instruments & Products N.V. (O.I.P.), a company registered in Belgium, in consideration for Euro 1.6 million in cash ($1,846). The acquisition was accounted for by the purchase method of accounting.

O.I.P. develops, manufactures and supports electro-optical products, mainly for the defense and space markets.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$6,896
Property and equipment	168
Deferred tax assets	1,700
TOTAL ASSETS ACQUIRED	8,764
Current liabilities	(6,918)
Net assets acquired	$1,846

NOTE 5 - STOCK-BASED COMPENSATION

The Company has elected to follow Accounting Principles Board Opinion No. 25, ("APB 25") "Accounting for Stock Issued to Employees" and the FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" in accounting for its employee stock option plans. According to APB 25, compensation expense is measured under the intrinsic value method, whereby compensation expense is equal to the excess, if any, of the quoted market price of the stock at the grant date of the award or other measurement date over the exercise price.

The following pro forma information presents the effect on the Company's consolidated stock-based employee compensation expense, net income and earnings per share as if the fair value based method provided under FASB statement No. 123 had been applied to all outstanding awards in each period.

Under SFAS 123, the fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model.

	SIX MONTHS ENDED JUNE 30, 2003	SIX MONTHS ENDED JUNE 30, 2002	THREE 2003
	(UNAUDITED)		(
Net income as reported	$21,466	$16,482	$9,211
Stock-based compensation expense (income), net of related tax effects as reported	5,137	(478)	4,115
Stock-based compensation expense under fair value based method of SFAS 123, net of related tax effects	(1,478)	(1,441)	(799)
Pro forma net income	$25,125	$14,563	$12,527
Basic earnings per share as reported	$0.55	$0.43	$0.24
Pro forma basic earnings per share	$0.65	$0.38	$0.32
Diluted earnings per share as reported	$0.54	$0.41	$0.23
Pro forma diluted earnings per share	$0.63	$0.36	$0.31

NOTE 6 - RECONCILIATION TO ISRAELI GAAP

As described in Note 1, the Company prepares its financial statements in accordance with U.S. GAAP. See Note 26 to the 2002 annual financial statements for a description of the differences between US GAAP and Israeli GAAP in respect of the Company. The effects of the differences between US GAAP and Israeli GAAP on the Company's financial statements are detailed below.

1. EFFECT ON NET INCOME AND EARNINGS PER SHARE

	SIX MONTHS ENDED JUNE 30, 2003	2002
	(UNAUDITED)	
Net income as reported according to U.S. GAAP	$21,466	$16,482
Adjustments to Israeli GAAP	3,595	(2,532)
Net income according to Israeli GAAP	$25,061	$13,950

2. EFFECT ON SHAREHOLDERS' EQUITY

	AS REPORTED	ADJUSTMENTS
AS OF JUNE 30, 2003 (UNAUDITED)		
Shareholders' equity	$438,190	$(7,915)
AS OF DECEMBER 31, 2002 (AUDITED)		
Shareholders' equity	$411,361	$(11,076)

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EXHIBIT 3

[LOGO OF ELBIT SYSTEMS]

EARNINGS RELEASE

ELBIT SYSTEMS REPORTS SECOND QUARTER 2003 RESULTS

Revenues Increase 13.2%; Backlog of Orders Reaches $1,695 million;

Haifa, Israel, August 12, 2003 - Elbit Systems Ltd. (the "Company") (NASDAQ: ESLT), the international defense company, today reported its consolidated results for the quarter ended June 30, 2003.

Consolidated revenues for the second quarter of 2003 increased 13.2% to $218.8 million from $193.2 million in the corresponding quarter in 2002.

Consolidated revenues for the six months ended June 30, 2003 increased 11.1% to $420.9 million from $379.0 million in the same period in 2002.

Consolidated net income for the second quarter of 2003 was $9.2 million (4.2% of revenues) as compared with $4.8 million (2.5% of revenues) in the same period in 2002. Diluted earnings per share for the second quarter of 2003 was $0.23 as compared with $0.12 for the second quarter of 2002.

The Company's financial results were affected by the increase in the Company's share price during the first six months of 2003, due to a non-cash expense related to the employees "phantom" option plan.

Excluding the phantom option plan non-cash expenses, net income in the second quarter of 2003 was $13.3 million (6.1% of revenues), and the diluted EPS was $0.33.

Net income for the second quarter of 2002, excluding the non-recurring charge under the agreement with the Office of the Israeli Chief Scientist (OCS), as previously reported and the phantom option plan effect, was $12.4 million (6.4% of revenues), or $0.31 per share.

Consolidated net income for the first six months of 2003 was $21.5 million (5.1% of revenues), compared with $16.5 million (4.3% of revenues) for the same period in 2002.

Diluted EPS for the six months ended June 30, 2003 was $0.54 compared with $0.41 for the corresponding period of 2002.

Excluding the phantom option plan non-cash expenses in 2003, net income for the six months ended June 30, 2003 was $26.6 million (6.3% of revenues), and the EPS was $0.66. Excluding the non-recurring charge under the OCS agreement and the phantom option plan effect, net income for the six-month period ended June 30, 2002 was $23.8 million (6.3% of revenues), and the EPS was $0.60.

Gross profit for the second quarter of 2003 was $57.4 million (26.2% of revenues), as compared with gross profit of $43.3 million (22.4% of revenues) in the second quarter of 2002.

Excluding non-cash expense related to the Company's phantom option compensation costs, gross profit in the quarter ended June 30, 2003, was $60.4 million, or 27.6% of revenues.

Excluding the non-recurring charge under the OCS agreement and the phantom option plan effect, gross profit in the quarter ended June 30, 2002 was $52.9 million, or 27.4% of revenues.

Gross profit for the first six months of 2003 was $114.1 million (27.1% of revenues) as compared with $95.5 million (25.2% of revenues) in the same period of 2002.

Excluding non-cash expenses related to the Company's phantom option plan, gross profit for the six months ended June 30, 2003 was $117.7 million, or 28.0% of revenues.

Excluding the non-recurring charge under the OCS agreement and the phantom option plan effect, gross profit for the six-month period ended June 30, 2002 was $105.0 million, or 27.7% of revenues.

Backlog of orders as of June 30, 2003 reached $1,695 million, as compared with $1,689 million at the end of 2002. 61% of the backlog relates to orders outside of Israel. Approximately 71% of the Company's backlog as of June 30, 2003, is scheduled to be performed in the next two quarters of 2003 and during 2004. The relatively small increase in the Company's backlog was caused primarily by a slowdown in orders received from the Israeli Ministry of Defense.

The President and CEO of Elbit Systems, Joseph Ackerman, commented: "Our results for the second quarter of 2003 reflect the continued growth of the Company. However, during the quarter we have witnessed a slowdown in orders received from the Israeli Ministry of Defense."

The Board of Directors declared a dividend of $0.10 per share for the second quarter of 2003. The dividend will be paid on September 8, 2003, net of taxes and levies, at the rate of 19%. The record date of the dividend is August 26, 2003.

Conference Call

Elbit Systems will host a conference call today, Tuesday, August 12, 2003 at 10:30 AM ET. To take part in the conference call, please dial 1-866-500-4965 (U.S. and Canada) or 1-877-332-1104 (U.S.) or +972-3-925-5910 (International) a few minutes before the 10:30 AM ET start time. For your convenience, an instant replay will be available starting at 12:30 PM ET the same day until Thursday, August 14, 2003 at 5:00 PM ET. The replay telephone number is 1-866-500-4965 (U.S. and Canada) or +972-3-925-5945 (International).

This call will also be broadcasted live on: www.elbit.co.il and an online replay will be available for 30 days.

About Elbit Systems Ltd.
Elbit Systems Ltd. is an international defense electronics company engaged in a wide range of defense-related programs throughout the world, in the areas of aerospace, ground and naval systems, command, control, communications, computers and intelligence (C4I) and advanced electro-optic technologies. The Company focuses on the upgrading of existing military platforms and developing new technologies for defense applications. For further information, please visit the Company web site at www.elbit.co.il.

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(FINANCIAL TABLES FOLLOW)

ELBIT SYSTEMS LTD.
CONSOLIDATED BALANCE SHEETS
(In thousand of US Dollars)

	June 30 2003	December 31 2002
	Unaudited	Audited
Assets		
Current Assets:		
Cash and short term deposits	49,260	77,930
Trade receivable and others	277,819	262,100
Inventories, net of advances	268,447	220,399
Total current assets	595,526	560,429
Affiliated Companies & other Investments	34,498	33,051
Long-term receivables & others	10,260	31,186
Fixed Assets, net	215,360	202,961
Other Assets, net	102,417	105,769
	958,061	933,396
Liabilities and Shareholder's Equity		
Current liabilities	399,163	362,835
Long-term liabilities	116,681	154,483
Minority Interest	4,027	4,717
Shareholder's equity	438,190	411,361
	958,061	933,396

ELBIT SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF INCOME

(In thousand of US Dollars, except for per share amounts)

	Six Months Ended June 30		Three Months Ended June 30	
	2003	2002	2003	200
	Unaudited		Unaudited	
Revenues	420,948	378,988	218,758	193,
Cost of revenues	306,804	273,677	161,405	140,
Non-recurring OCS charge	-	9,801	-	9,
Gross Profit	114,144	95,510	57,353	43,
Research and development, net	28,488	24,925	13,586	12,
Marketing and selling	35,123	29,943	19,095	15,
General and administrative	22,889	19,981	11,938	10,
Total operating expenses	86,500	74,849	44,619	37,
Operating income	27,644	20,661	12,734	5,
Financial expenses, net	(3,306)	(95)	(2,030)	(1
Other income (expenses), net	91	(409)	(18)	(2
Income before income taxes	24,429	20,157	10,686	5,
Provisions for income taxes	6,602	5,245	2,956	1,
	17,827	14,912	7,730	3,
Company's share of partnerships and affiliated Companies income (loss), net	2,949	1,440	1,048	1,
Minority rights	690	130	433	(4
Net income	21,466	16,482	9,211	4,
Basic Earnings per share	0.55	0.43	0.24	0
Diluted net earnings per share	0.54	0.41	0.23	0
Net earnings excluding phantom plan effect in 2003 and 2002, and non-recurring OCS charge and tax adjustment in 2002	26,603	23,844	13,326	12,
Diluted earnings per share excluding phantom plan effect in 2003 and 2002, and non-recurring OCS charge and tax adjustment in 2002	0.66	0.60	0.33	0