ELBIT SYSTEMS LTD
Form 20-F
March 20, 2018
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UNITED STATES
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, 2017
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 3100401, Israel
(Address of principal executive offices)

Joseph Gaspar
c/o Elbit Systems Ltd.
P.O. Box 539
Advanced Technology Center
Haifa 3100401
Israel
Tel: 972-4-831-6404
Fax: 972-4-831-6944
E-mail: j.gaspar@elbitsystems.com
(Name, telephone, e-mail and/or facsimile number and address of Company contact person)

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

Ordinary Shares, nominal value 1.0 New Israeli Shekels per share
(Title of Class)
The NASDAQ Global Select Market
(Name of each Exchange on which registered)
Securities registered or to be registered pursuant to Section 12(g) of the Act:
Not Applicable
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
Not Applicable

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: **42,751,030 Ordinary Shares**.

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

Yes ý No o

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

Yes o No ý

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "large accelerated filer," "accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check One).

Large accelerated filer ý **Accelerated filer o**
Non-accelerated filer o Emerging growth company **o**
If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. **o**
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

	International Financial Reporting	**o**
U.S. GAAP ý	**Standards as issued by the International Accounting Standards Board**	**Other o**

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 No o

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

Yes o No ý

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PART I

General Disclosure Standards

The consolidated financial statements of Elbit Systems Ltd. (Elbit Systems) included in this annual report on Form 20-F are prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). Unless otherwise indicated, all financial information contained in this annual report is presented in U.S. dollars. References in this annual report to the "Company", "we", "our", "us" and terms of similar meaning refer to Elbit Systems and our subsidiaries unless the context requires otherwise.

The name "ELBIT SYSTEMS", and our logo, brand, product, service and process names appearing in this document, are the trademarks of the Company or our affiliated companies. All other brand, product, service and process names appearing in this document are the trademarks of their respective holders and appear for informational purposes only. Reference to or use of any third party mark, product, service or process name herein does not imply any recommendation, approval, affiliation or sponsorship of that or any other mark, product, service or process name. Nothing contained herein shall be construed as conferring by implication, estoppel or otherwise any license or right under any patent, copyright, trademark or other intellectual property right of the Company or any of our affiliated companies.

Cautionary Statement with Respect to Forward-Looking Statements

This annual report on Form 20-F contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to our current plans, estimates, strategies, goals and beliefs and as such do not relate to historical or current fact. Forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended.

Forward-looking statements contained herein generally are identified by the words "believe", "project", "expect", "will likely result", "strategy", "plan", "may", "should", "will", "would", "will be", "will continue", "will likely result" and similar express the negatives thereof. Forward-looking statements are based on management's current expectations, estimates, projections and assumptions, are not guarantees of future performance and involve certain risks and uncertainties, the outcomes of which cannot be predicted. Therefore, actual future results, performance and trends may differ materially from these forward-looking statements due to a variety of factors, including, without limitation:

- the scope and length of customer contracts;
- governmental regulations and approvals;
- changes in governmental budgeting priorities;
- general market, political and economic conditions in the countries in which we operate or sell, including Israel and the United States among others;
- differences in anticipated and actual program performance, including the ability to perform under long-term fixed-price contracts;
- the impact on our backlog from export restrictions by the Government of Israel;
- our ability to protect our proprietary information and avoid, withstand and/or recover from cyber attacks on our systems;

- the effect of competitive products, technology and pricing;

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- our ability to attract, incentivize and retain key employees;

- changes in applicable tax rates;

- fluctuations in foreign currency exchange rates;

- inventory write-downs and possible liabilities to customers from program cancellations due to political relations between Israel and countries where our customers may be located; and

- the outcome of legal and/or regulatory proceedings.

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

Item 1. Identity of Directors, Senior Management and Advisers.

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 the Company as of and for the years ended December 31, 2013, 2014, 2015, 2016 and 2017 are derived from our audited consolidated financial statements, including our audited consolidated financial statements as of December 31, 2016 and 2017, and for each of the years ended December 31, 2015, 2016 and 2017, which appear in Item 18 in this annual report on Form 20-F. You should read the audited consolidated financial statements appearing in Item 18 together with the selected financial data set forth below. (For non-GAAP financial data see Item 5. Operating and Financial Review and Prospects – Non-GAAP Financial Data.)

	Years Ended December 31, (U.S. dollars in millions, except for per share amounts)				
	2013	**2014**	**2015**	**2016**	**2017**
Income Statement Data:					
Revenues	$2,925.2	$2,958.2	$3,107.6	$3,260.2	$3,377.8
Cost of revenues	2,100.3	2,133.2	2,210.5	2,300.6	2,379.9
Gross profit	824.9	825.0	897.1	959.6	997.9
Research and development expenses, net	220.5	228.0	243.4	255.8	265.1
Marketing and selling expenses	235.5	216.5	239.4	271.0	280.2
General and administrative expenses	129.5	139.6	145.7	151.4	133.3
Gain from changes in holdings	—	(6.0)	—	(17.6)	—
Total operating expenses	585.5	578.1	628.5	660.6	678.6
Operating income	239.4	246.9	268.6	299.0	319.3
Financial expenses, net	(37.3)	(47.5)	(20.2)	(23.7)	(34.5)
Other income, net	0.9	0.1	0.2	4.0	—
Income before taxes on income	203.0	199.5	248.6	279.3	284.8
Taxes on income	25.3	25.6	46.2	45.6	55.6
Equity in net earnings of affiliated companies and partnerships	13.0	5.5	4.5	5.2	11.4
Net income from continuing operations, net	190.7	179.4	206.9	238.8	240.6
Income (loss) from discontinued operations, net	0.7	—	—	—	—
Net income	191.4	179.4	206.9	238.8	240.6
Less: net income (loss) attributable to non-controlling interests	(8.0)	(8.4)	(4.4)	(1.9)	(1.5)
Income attributable to Elbit Systems' shareholders	$183.4	$171.0	$202.5	$236.9	$239.1
Earnings per share:					
Basic net earnings per share					
Continuing operations	$4.34	$4.01	$4.74	$5.54	$5.59
Discontinued operations	0.01	—	—	—	—
Total	$4.35	$4.01	$4.74	$5.54	$5.59
Diluted net earnings per share					
Continuing operations	$4.33	$4.01	$4.74	$5.54	$5.59
Discontinued operations	0.01	—	—	—	—
Total	$4.34	$4.01	$4.74	$5.54	$5.59

	As of December 31, (U.S. dollars in millions, except for per share amounts)				
	2013	2014	2015	2016	2017
Balance Sheet Data:					
Cash, cash equivalents, short-term bank deposits and marketable securities	265	306	332	245	173
Working capital	561	626	645	527	522
Long-term deposits, marketable securities and other receivables	53	18	16	16	38
Long-term trade and unbilled receivables	243	213	152	190	295
Property, plant and equipment, net	481	442	450	474	496
Total assets	3,933	4,021	4,124	4,352	4,715
Long-term debt	224	221	166	—	120
Series A Notes, net of current maturities	378	294	227	171	125
Capital stock	268	272	274	274	274
Elbit Systems shareholders' equity	1,177	1,227	1,391	1,560	1,708
Non-controlling interests	17	12	8	7	10
Total equity	1,194	1,239	1,399	1,567	1,718
Number of outstanding ordinary shares of NIS 1 par value (in thousands)	42,587	42,685	42,730	42,746	42,751
Dividends paid per ordinary share with respect to the applicable year	$1.20	$ 1.28	$ 1.44	$ 1.60	$ 1.76

Risk Factors

General Risks Related to Our Business and Market

Our revenues depend on a continued level of government business. We derive most of our revenues directly or indirectly from government agencies, mainly the Israeli Ministry of Defense (IMOD), the U.S. Department of Defense (DoD) and authorities of various countries, pursuant to contracts awarded to us under defense and homeland security-related programs. The funding of these programs could be reduced or eliminated due to numerous factors, including geo-political events and macro-economic conditions that are beyond our control. Reduction or elimination of government spending under our contracts would cause a negative effect on our revenues, results of operations, cash flow and financial condition.

Certain of our contracts may be terminated for convenience of the customer. Our contracts with governments often contain provisions permitting termination for convenience of the customer. Our subcontracts with non-governmental prime contractors sometimes contain similar provisions permitting termination for the convenience of the prime contractors. In a minority of contracts with such customers, an early termination for convenience would not entitle us to reimbursement for a proportionate share of our fee or profit for work still in progress.

We depend on governmental approval of our exports. Our international sales, as well as our international procurement of skilled human resources, technology and components, depend largely on export license approvals from the governments of Israel, the U.S. and other countries. If we fail to obtain material approvals in the future, or if material approvals previously obtained are revoked or expire and are not renewed, our ability to sell our products and services to overseas customers and our ability to obtain goods and services essential to our business could be interrupted, resulting in a material adverse effect on our business, revenues, assets, liabilities and results of operations. (See Item 4. Information on the Company – Governmental Regulation.)

We are subject to procurement and anti-bribery rules and regulations. We are required to comply with government contracting rules and regulations relating to, among other things, cost accounting, anti-bribery and procurement integrity, which increase our performance and compliance costs. (See Item 4. Information on the Company – Governmental Regulation.) Failure to comply with these rules and regulations could result in the modification, termination or reduction of the value of our contracts, the assessment of penalties and fines against us, or our suspension or debarment from government contracting or subcontracting for a period of time, all of which could negatively impact our results of operations and financial condition. We are engaged in activities in certain markets considered to be high risk from an anti-bribery compliance perspective, and investigations by government agencies in a number of countries, including Israel, in the anti-bribery area are increasingly prevalent.

***We face other risks in our international operations*.** We derive a significant portion of our revenues from international sales. Entry into new markets as well as changes in international, political, economic or geographic conditions could cause significant reductions in our revenues, which could harm our business, financial condition and results of operations. In addition to the other risks from international operations set forth elsewhere in these Risk Factors, some of the risks of doing business internationally include imposition of tariffs and other trade barriers and restrictions. Imposition of import restrictions or tariffs by any government could lead to retaliatory actions by other countries with broad effects in many industries and economies internationally. Broad-based international trade conflicts could have negative consequences on the demand for our products and services outside Israel. Other risks of doing business internationally include political and economic instability in the countries of our customers and suppliers, changes in diplomatic and trade relationships and increasing instances of terrorism worldwide. Some of these risks may be affected by Israel's overall political situation. (See "Risks Related to Our Israeli Operations" below.)

Funding obligations to our pension plans could reduce our liquidity. Funding obligations for certain of our pension plans are impacted by the performance of the financial markets and interest rates. When interest rates are low, or if the financial markets do not provide expected returns, we may be required to make additional contributions to these pension plans. Volatility in the equity markets or actuarial changes in mortality tables can change our estimate of future pension plan contribution requirements. (See Item 18. Financial Statements – Notes 2(S) and 17.)

We face currency exchange risks. We generate a substantial amount of our revenues in currencies other than the U.S. dollar (our financial reporting currency), mainly New Israeli Shekels (NIS), Great Britain Pounds (GBP), Euros, Brazilian reals, Australian dollars and Indian rupees, and we incur a substantial amount of our expenses in currencies other than the U.S. dollar, mainly NIS. To the extent we derive our revenues or incur our expenses in currencies other than the U.S. dollar, we are subject to exchange rate fluctuations between the U.S. dollar and such other currencies. For example, we could be negatively affected by exchange rate changes during the period from the date we submit a price proposal until the date of contract award or until the date(s) of payment. Certain currency derivatives we use to hedge against exchange rate fluctuations may not fully protect against sharp exchange rate fluctuations, and in some cases we may not be able to adequately hedge against all exchange rate fluctuations. In addition, our international operations expose us to the risks of price controls, restrictions on the conversion or repatriation of currencies, or even devaluations or hyperinflation in the case of currencies issued by countries with unstable economies. All of these currency-related risks could have a material adverse effect on our financial condition and financial results. (See below "Risks Related to Our Israeli Operations – Changes in the U.S. Dollar – NIS Exchange Rate" and Item 5. Operating and Financial Review and Prospects – Impact of Inflation and Exchange Rates.)

***We operate in a competitive industry*.** The markets in which we participate are highly competitive and characterized by technological change. If we are unable to improve existing systems and products and develop new systems and technologies in order to meet evolving customer demands, our business could be adversely affected. In addition, our competitors could introduce new products with innovative capabilities, which could adversely affect our business. 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 larger and have greater resources than us, and therefore 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.

Due to consolidation in our industry, we are more likely to compete with certain potential customers. As the number of companies in the defense industry has decreased in recent years, the market share of some prime contractors has increased. Some of these companies are vertically integrated with in-house capabilities similar to ours in certain areas. Thus, at times we could be seeking business from certain of these prime contractors, while at other times we could be in competition with some of them. Failure to maintain good business relations with these major contractors could negatively impact our business.

We face risks of cost overruns in fixed-price contracts. Most of our contracts are fixed-price contracts, under which we generally assume the risk that increased or unexpected costs may reduce profits or generate a loss. The risk of adverse effects on our financial performance from such increased or unexpected costs can be particularly significant under a fixed-price contracts for which we recognize profit or loss on a "percentage-of-completion" basis, and for which changes in estimated gross profit/loss are recorded on a "cumulative catch-up basis". (See Item 5. Operating and Financial Review and Prospects – General – Critical Accounting Policies and Estimates – Revenue Recognition and Item 18. Financial Statements - Note 2(T) (Significant Accounting Polities - Revenue Recognition).) The costs most likely to fluctuate under our fixed price contracts relate to internal design and engineering efforts. However, we do not believe changes in the market costs of particular commodities that may be used in the production of our products are likely to present a material risk to our costs. To the extent we underestimate the costs to be incurred in any fixed-price contract, we could experience a loss on the contract, which would have a negative effect on our results of operations, financial position and cash flow.

We face fluctuations in revenues and profit margins. Our revenues may fluctuate between periods due to changes in pricing, sales volume or project mix. Moreover, because certain of our project revenues are recognized upon achievement of performance milestones, such as units-of-delivery / point-in-time revenue recognition, we may experience significant fluctuations in year-to-year and quarter-to-quarter financial results. Similarly, our profit margin may vary significantly during the course of a project as a result of changes in estimated project gross profits that are recorded in results of operations on a cumulative catch-up basis pursuant to the percentage-of-completion accounting method due to judgment and estimates that are complex and are subject to a number of variables. (See Item 5. Operating and Financial Review and Prospects – General – Critical Accounting Policies and Estimates – Revenue Recognition and Item 18. Financial Statements - Note 2(T) (Significant Accounting Polities - Revenue Recognition).) As a result, our financial results for prior periods may not provide a reliable indicator of our future results.

Our backlog of projects under contract is subject to unexpected adjustments, delays in payments and cancellations. Our backlog includes revenue we expect to record in the future from signed contracts and certain other commitments. Many projects may remain in our backlog for an extended period of time because of the size or long-term nature of the contract. In addition, from time to time, for reasons beyond our control (including economic conditions or customer needs), projects are delayed, scaled back, stopped or cancelled, or the customer delays making payments, which may adversely affect the revenue, profit and cash flow that we ultimately receive from contracts reflected in our backlog.

We may experience production delays or liability if suppliers fail to make compliant or timely deliveries. The manufacturing process for some of our products largely consists of the assembly, integration and testing of purchased components. Some components are available from a small number of suppliers, and in a few cases a single source. If a supplier stops delivery of such components, finding another source could result in added cost and manufacturing delays. Moreover, if our subcontractors fail to meet their design, delivery schedule or other obligations we could be held liable by our customers, and we may be unable to obtain full or partial recovery from our subcontractors for those liabilities. The foregoing risks could have a material adverse effect on our operating results.

We may be affected by failures of our prime contractors. We often act as a subcontractor, and a failure of our prime contractor to meet its obligations may affect our ability to receive payments under our subcontract.

Undetected problems in our products could impair our financial results and give rise to potential product liability claims. If there are defects in the design, production or testing of our or our subcontractors' products and systems, including our products sold for public safety purposes in the homeland security area, we could face substantial repair, replacement or service costs, potential liability and damage to our reputation. In addition, we must comply with regulations and practices to prevent the use of parts and components that are considered as counterfeit or that violate

third party intellectual property rights. We may not be able to obtain product liability or other insurance to fully cover such risks, and our efforts to implement appropriate design, testing and manufacturing processes for our products or systems may not be sufficient to prevent such occurrences, which could have a material adverse effect on our business, results of operations and financial condition.

Our future success depends on our ability to develop new offerings and technologies. The markets we serve are characterized by rapid changes in technologies and evolving industry standards. In addition, some of our systems and products are installed on platforms that may have a limited life or become obsolete. Unless we develop new offerings or enhance our existing offerings we may be susceptible to loss of market share resulting from the introduction of new or enhanced offerings by competitors. Accordingly, our future success will require that we:

- identify emerging technological trends;
- identify additional uses for our existing technology to address customer needs;
- develop and maintain competitive products and services;
- add innovative solutions that differentiate our offerings from those of our competitors;
- bring solutions to the market quickly at cost-effective prices;
- develop working prototypes as a condition to receiving contract awards; and
- structure our business, through joint ventures, teaming agreements and other forms of alliances, to reflect the competitive environment.

We will need to invest significant financial resources to pursue these goals, and there can be no assurance that adequate financial resources will continue to be available to us for these purposes. We may experience difficulties that delay or prevent our development, introduction and marketing of new or enhanced offerings, and such new or enhanced offerings may not achieve adequate market acceptance. Moreover, new technologies or changes in industry standards or customer requirements could render our offerings obsolete or unmarketable. Any new offerings and technologies are likely to involve costs and risks relating to design changes, the need for additional capital and new production tools, satisfaction of customer specifications, adherence to delivery schedules, specific contract requirements, supplier performance, customer performance and our ability to predict program costs. New products may lack sufficient demand or experience technological problems or production delays. Our customers frequently require demonstration of working prototypes prior to awarding contracts for new programs or require short delivery schedules which may cause us to purchase long-lead items or material in advance of receiving the contract award. Moreover, due to the design complexity of our products, we may experience delays in developing and introducing new products. Such delays could result in increased costs and development efforts, deflect resources from other projects or increase the risk that our competitors may develop competing technologies that gain market acceptance in advance of our products. If we fail in our new product development efforts, or our products or services fail to achieve market acceptance more rapidly than the products or services of our competitors, our ability to obtain new contracts could be negatively impacted. Any of the foregoing costs and risks could have a material adverse impact on our business, results of operations, financial condition and cash flows.

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

- intellectual property laws in certain jurisdictions may be relatively ineffective;
- detecting infringements and enforcing proprietary rights may divert management’s attention and company resources;
- contractual measures such as non-disclosure agreements and confidentiality provisions may afford only limited protection;
- our patents may expire, thus providing competitors access to the applicable technology;
- competitors may independently develop products that are substantially equivalent or superior to our products or circumvent our intellectual property rights; and
- competitors may register patents in technologies relevant to our business areas.

In addition, various parties may assert infringement claims against us. The cost of defending against infringement claims could be significant, regardless of whether the claims are valid. If we are not successful in defending such claims, we may be prevented from the use or sale of certain of our products, liable for damages and required to obtain licenses, which may not be available on reasonable terms, any of which may have a material adverse impact on our business, results of operation or financial condition.

A cyber or security breach or disruption or failure in a computer system could adversely affect us. Our operations depend on the continued and secure functioning of our computer and communications systems and the protection of information stored in computer databases maintained by us and, in certain circumstance, by third parties. Such systems and databases are subject to breach, damage, disruption or failure from, among other things, cyber attacks and other unauthorized intrusions, power losses, telecommunications failures, earthquakes, fires and other natural disasters.

We have been subject to attempted cyber attacks and face ongoing threats to our computer and communications systems and databases of unauthorized access, computer hackers, computer viruses, malicious code, cyber crime, organized cyber attacks and other security problems and system disruptions. In particular, we may be targeted by experienced computer programmers and hackers (including those sponsored by foreign governments) who may attempt to penetrate our cyber security defenses and damage or disrupt our computer and communications systems and misappropriate or compromise our intellectual property or other confidential information or that of our customers.

Governmental and other end users and customers are increasingly requiring us to meet specific computer system cyber protection and information assurance requirements as a condition for us to receive customer program-related information. We devote significant resources to maintain and upgrade the security of our systems and databases and to meet applicable customer requirements regarding their protection. However, despite our efforts to secure our systems and databases and meet cyber protection and information assurance requirements, we may still face system failures, data breaches, loss of intellectual property and interruptions in our operations, which could have a material adverse effect on our business, financial condition and results of operations.

We sometimes have risks relating to financing for our programs. A number of our major projects require us to arrange, or to provide, guarantees in connection with the customer's financing of the project. These include commitments by us as well as guarantees provided by financial institutions relating to advance payments received from customers. Customers typically have the right to drawdown 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. We may face difficulties in issuing guarantees or providing financing for our programs, including in cases where a customer encounters impaired ability to continue to comply with extended payment terms. Moreover, if we are required to provide significant financing for our programs, this could result in increased leverage on our balance sheet. (See Item 4. Information on the Company – Financing Terms.)

We are subject to buy-back obligations. A number of our international programs require us to meet "buy-back" obligations. (See Item 5. Operating and Financial Review and Prospects – Off Balance Sheet Transactions.) Should we, or the local companies we contract with, be unable to meet such obligations we may be subject to contractual penalties, and our chances of receiving further business from the applicable customers could be reduced or, in certain cases, eliminated.

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

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

Our effective tax rate may be subject to fluctuations. Our worldwide effective tax rate could fluctuate as a result of several factors, many of which are outside of our control, including: (i) changes in the mix of revenues and income we derive from the jurisdictions where we operate which have different statutory tax rates; (ii) amendments to tax laws and regulations, and changes in interpretations in the jurisdictions where we operate; and (iii) tax assessments, or any related tax interest or penalties that could significantly affect our income tax expense for the period in which the settlements take place. In addition, as we operate in multiple jurisdictions throughout the world, our tax returns are periodically audited or subject to review by both domestic and foreign authorities. Increases in our effective tax rates from the above factors could have a material adverse effect on our financial results and cash flows.

The Organization for Economic Cooperation and Development has introduced the base erosion and profit shifting (BEPS) project. The BEPS project contemplates changes to numerous international tax principles, as well as national tax incentives, and these changes, if adopted by individual countries, could adversely affect our provision for income taxes.

Recently enacted tax legislation in the United States may impact our business. On December 22, 2017, the U.S. President signed into law federal tax legislation commonly referred to as the Tax Cuts and Jobs Act. The Tax Cuts and Jobs Act provides for significant and wide-ranging changes to the U.S. Internal Revenue Code. The reforms are complex, and it will take some time to assess the implications thoroughly. There can be no assurance that these tax reforms will not give rise to significant consequences, both immediately and going forward in terms of our taxation expense. The Tax Cuts and Jobs Act could be subject to potential amendments and technical corrections, any of which could lessen or increase adverse impacts of the law.

We may face labor relations disputes or not be able to amend collective bargaining agreements in a timely manner. We are party to collective bargaining agreements that cover a substantial number of our employees, which number could increase as a result of future acquisitions of companies. We have faced and may face future attempts to unionize additional parts of our organization. Disputes with trade unions or other labor relations difficulties, as well as failure to timely amend or extend collective bargaining agreements, could lead to worker disputes, slow-downs, strikes and other measures, which could negatively impact our results of operations.

We face acquisition and integration risks. From time to time we make equity or asset acquisitions and investments in companies and technology ventures. (See Item 4. Information on the Company – Mergers, Acquisitions and Divestitures.) Such acquisitions involve risks and uncertainties such as:

- our pre-acquisition due diligence may fail to identify material risks;
- significant acquisitions may negatively impact our cash flow;
- significant goodwill assets recorded on our consolidated balance sheet from prior acquisitions are subject to impairment testing, and unfavorable changes in circumstances could result in impairment to those assets.
- acquisitions may result in significant additional unanticipated costs associated with price adjustments or write-downs;
- we may not integrate newly-acquired businesses and operations in an efficient and cost-effective manner;
- we may fail to achieve the strategic objectives, cost savings and other benefits expected from acquisitions, which could negatively impact our financial ratios and covenants;
- the technologies acquired may not prove to be those needed to be successful in our markets or may not have adequate intellectual property rights protection;
- we may assume significant liabilities that exceed the enforceability or other limitations of applicable indemnification provisions, if any, or the financial resources of any indemnifying parties, including indemnity for tax or regulatory compliance issues, such as anti-corruption and environmental compliance, that may result in our incurring successor liability;
- we may fail to retain key employees of the acquired businesses;
- the attention of senior management may be diverted from our existing operations; and
- certain of our newly acquired operating subsidiaries in various countries could be subject to more restrictive regulations by the local authorities after our acquisition, including regulations relating to foreign ownership of, and export authorizations for, local companies.

Our acquisitions are subject to governmental approvals. Most countries require local governmental approval of acquisitions of domestic defense and homeland security-related businesses, which approval may be denied, or subject to unfavorable conditions, if the local government determines the acquisition is not in its national interest. We may also be unable to obtain antitrust approvals for certain acquisitions as our operations expand. Failure to obtain such governmental approvals could negatively impact our future business and prospects.

Our share price may be volatile and may decline. Numerous factors, some of which are beyond our control and unrelated to our operating performance or prospects, may cause the market price of our ordinary shares to fluctuate significantly. Factors affecting market price include, but are not limited to: (i) variations in our operating results and ability to achieve our key business targets; (ii) sales or purchases of large blocks of stock; (iii) changes in securities analysts' earnings estimates or recommendations; (iv) differences between reported results and those expected by investors and securities analysts; and (v) changes in our business including announcements of new contracts by us or by our competitors. In addition, we could be subject to securities class action litigation following periods of volatility in the market price of our ordinary shares.

Other general factors and market conditions that could affect our stock price include changes in: (i) the market's perception of our business; (ii) the businesses, earnings estimates or market perceptions of our competitors or customers; (iii) the outlook for the defense and homeland security industries; (iv) general market or economic conditions unrelated to our performance; (v) the legislative or regulatory environment; (vi) government defense spending or appropriations; (vii) military or defense activities worldwide; (viii) the level of national or international hostilities; and (ix) the general geo-political environment.

Being a foreign private issuer exempts us from certain SEC requirements. As a foreign private issuer within the meaning of rules promulgated under the U.S. Securities and Exchange Act of 1934 (the Exchange Act), we are exempt from certain Exchange Act rules and requirements that apply to U.S. public companies, including: (i) the requirement to file with the SEC quarterly reports on Form 10-Q and current reports on Form 8-K; (ii) rules regulating the solicitation of proxies in connection with shareholder meetings; (iii) Regulation FD prohibiting selective disclosures of material information; and (iv) rules requiring insiders to disclose stock ownership and trading activities and establishing liability for profits realized from "short-swing" trading transactions (i.e., a purchase and sale, or sale and purchase, of the issuer's equity securities within less than six months). Because of the foregoing, our shareholders will receive less information about our company and trading in our shares by our affiliates than would be provided to shareholders of a domestic U.S. company, and our shareholders will be afforded less protection under the U.S. federal securities laws than would be afforded to shareholders of a domestic U.S. company.

We have a major shareholder with significant influence over certain matters requiring shareholder approval. Federmann Enterprises Ltd. (FEL) owns approximately 46% of our ordinary shares, directly and indirectly. Therefore, subject to shareholder approval special majority requirements under the Companies Law and our Articles of Association, FEL may have significant influence over the outcome of certain matters requiring shareholder approval, including the election of directors who are not External Directors. Michael Federmann, who serves as the chair of our board of directors, is the controlling shareholder of the entities that own FEL, and he is also the chair of the board and the chief executive officer of FEL. Therefore, Mr. Federmann controls, directly and indirectly, the vote of ordinary shares owned by FEL. (See below - Item 6. Directors, Senior Management and Employees - Board Practices - Appointment of Directors and - External Directors and Item 10. Additional Information - Approval of Certain Transactions and - Provisions Relating to Major Shareholders).

We have risks related to our issuance of Series A Notes under an Israeli debt offering. We face various risks relating to our issuance of Series A Notes (the Notes). (See Items 5. Operating and Financial Review and Prospects - Liquidity and Capital Resources - Israeli Debt Offering.) This includes the risk that we may not be able to maintain in the future the rating level assigned to the Notes.

We have risks related to the inherent limitations of internal control systems. Despite our internal control measures, we may still be subject to financial reporting errors or even fraud, which may not be detected. A control system, which is increasingly based on computerized processes, no matter how well conceived and operated, can provide only reasonable, not absolute assurance that its objectives are met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefit of controls must be relative to their costs. Implementation of changes or updates to our control systems may encounter unexpected difficulties. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Further, controls can be circumvented by individual acts, by collusion of two or more persons or by management override of the controls. Over time, a control may be inadequate because of changes in conditions or the degree of compliance with applicable policies or procedures may deteriorate. (See Item 15. Controls and Procedures.)

Risks Related to Our Israeli Operations

***Conditions in Israel may affect our operations*.** Political, economic and military conditions in Israel and the Middle East 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. An ongoing state of hostility, varying in degree and intensity has caused security and economic problems for Israel. We cannot predict whether or when such armed conflicts or other hostilities may occur or the extent to which such events may impact us. For a number of years there have been continuing hostilities between Israel and the Palestinians. This includes hostilities with the Islamic movement Hamas in the Gaza Strip, which have adversely affected the peace process and at times resulted in armed conflicts. Such hostilities have negatively influenced Israel's economy as well as impaired Israel's relationships with several other countries. Israel also faces threats from Hezbollah militants in Lebanon, from ISIS, as well as Iranian and rebel forces in Syria and from ISIS-affiliated groups in the Sinai Peninsula. The government of Iran, which is believed to be developing nuclear weapons, is extremely hostile to Israel and influences extremists groups such as Hamas and Hezbollah. Moreover, some of Israel's neighboring countries have recently undergone or are undergoing significant political changes. These political, economic and military conditions in Israel could have a material adverse effect on our business, financial condition, results of operations and future growth.

Political relations could limit our ability to sell or buy internationally. We could be adversely affected by the interruption or reduction of trade between Israel and its trading partners. Some countries, companies and organizations continue to participate in a boycott of Israeli firms and others doing business with Israel, as well as with Israeli companies or with Israeli-owned companies operating in other countries. Also, over the past several years there have been calls in various countries and international organizations to reduce trade with Israel. Foreign government defense export policies towards Israel could also make it more difficult for us to obtain the export authorizations necessary for our activities. See above "General Risks Related to Our Business and Market." 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.

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 addition, the Israeli defense budget may be adversely affected if there is a reduction in U.S. foreign military assistance. See above "General Risks Related to Our Business and Market." Any of the foregoing circumstances could have an adverse effect on our operations.

Israel's economy may become unstable. From time to time Israel's economy may experience inflation or deflation, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. For these and other reasons, in the past the government of Israel has intervened in the economy 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 these areas. Reoccurrence of previous destabilizing factors could make it more difficult for us to operate our business as we have in the past and could adversely affect our business.

Israeli government programs and tax benefits may be terminated or reduced in the future. We participate in programs of the Israel Innovation Authority and the Israel Investment Center, for which we receive tax and other benefits as well as funding for the development of technologies and products. (See Item 4. Information on the Company – Conditions in Israel – Israel Innovation Authority and Investment Center Funding.) If we fail to comply with the conditions applicable to these programs, we may be required to pay additional taxes and penalties or make refunds and may be denied future benefits. From time to time, the government of Israel has discussed reducing or eliminating the benefits available under these programs, and therefore these benefits may not be available in the future at their

current levels or at all.

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

Israel has stringent export control regulations. Israeli law regulates the export of defense products and systems and "dual use" items (items that are typically sold in the commercial market but that may also be used in the defense market). If government approvals required under these laws and regulations are not obtained, or if authorizations previously granted are not renewed or canceled, our ability to export our products from Israel could be negatively impacted, thus causing a reduction in our revenues and a potential material negative impact on our financial results. (See Item 4. Information on the Company – Governmental Regulation – Israeli Export Regulations.)

We may rely on certain Israel "home country" corporate governance practices which may not afford stockholders the same protection afforded to shareholders of U.S. companies. As a foreign private issuer Elbit Systems is permitted to follow, and in certain instances (as described below) has followed, home country corporate governance practices instead of certain practices otherwise required under the Listing Rules of the NASDAQ Stock Market for domestic U.S. issuers. As described in Item 16G. Corporate Governance, in March 2018 we informed NASDAQ that we have elected to follow certain procedures permitted under the Israeli Companies Law instead of the Nasdaq Listing Rules which require a listed company to obtain shareholder approval for the establishment of an equity-based compensation plan. Under this "home country practice" exception provided in Nasdaq rules for foreign private issuers, we could in the future elect to follow home country practices in Israel with regard to a broad range of other corporate governance matters. Following our home country governance practices as opposed to the requirements that would otherwise apply to a United States company listed on Nasdaq may provide less protection than is accorded to investors under the Listing Rules of the Nasdaq Stock Market applicable to domestic U.S. issuers. See Item 16G - Corporate Governance.

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

It may be difficult to enforce a non-Israeli judgment against us, our officers and directors. We are incorporated in Israel. Our executive officers and directors and our outside auditors are not residents 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

Major Activities

We are an international high technology company engaged in a wide range of programs throughout the world. We develop and supply a broad portfolio of airborne, land and naval systems and products for defense, homeland security and commercial applications. Our systems and products are installed on new platforms, and we also perform comprehensive platform modernization programs. In addition, we provide a range of support services.

Our major activities include:

•military aircraft and helicopter systems;
•commercial aviation systems and aerostructures;
•unmanned aircraft systems and unmanned surface vessels;
•electro-optic and countermeasures systems;
•land vehicle systems;
•command, control, communications, computer and intelligence (C4I) systems;
•electronic warfare and signal intelligence systems; and
•commercial cyber security products and other commercial activities.

Many of these major activities have a number of common and related elements. Therefore, certain of our subsidiaries, divisions or other operating units often jointly conduct marketing, research and development, manufacturing, performance of programs, sales and after sales support among these major activities.

Principal Market Environment

We operate primarily in the defense and homeland security arenas. There have been recent increased budgetary allocations in these areas in the U.S. and certain European countries, as well as reduced budgetary allocations in certain Latin American and other countries. The nature of military and homeland security actions in recent years, including low intensity conflicts and ongoing terrorist activities, as well as budgetary pressures to focus on leaner but more technically advanced forces, have caused a shift in the defense and homeland security priorities for many of our major customers. As a result we believe there is a continued demand in the areas of C4I systems, intelligence, surveillance and reconnaissance (ISR) systems, network centric information systems, intelligence gathering systems, border and perimeter security systems, unmanned aircraft systems (UAS), unmanned surface vessels (USVs), remote controlled systems, cyber-defense systems, space and satellite based defense capabilities and homeland security solutions. There is also a continuing demand for cost effective logistic support and training and simulation services. We believe our synergistic approach of finding solutions that combine elements of our various activities positions us to meet evolving customer requirements in many of these areas.

We tailor and adapt our technologies, integration skills, market knowledge and operationally-proven systems to each customer’s individual requirements in both existing and new platforms. By upgrading existing platforms with advanced technologies, we provide customers with cost-effective solutions, and our customers are able to improve their technological and operational capabilities within limited budgets. We are experienced in providing “systems of systems”, which enables us to provide overall solutions in a range of areas to meet our customers’ comprehensive defense, homeland security and safety needs.

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Company History

Our predecessor Elbit Ltd. was incorporated in Israel in 1966 as Elbit Computers Ltd. Elbit Systems was formed in 1996, as part of the Elbit Ltd. corporate demerger, under which Elbit Ltd.'s defense related assets and business were spun-off to us.

Elbit Systems Ltd. is a corporation domiciled and incorporated in Israel where we operate in accordance with the provisions of the Israeli Companies Law – 1999 (the Companies Law).

Trading Symbols and Address

Our shares are traded on the Nasdaq Global Select Market (Nasdaq), under the symbol "ESLT", and on the Tel-Aviv Stock Exchange (TASE).

Our main offices are in the Advanced Technology Center, Haifa 3100401, Israel, and our main telephone number at that address is (972-77-2945315) . Our website home page is *www.elbitsystems.com.* We make our website content available for informational purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference in this annual report on Form 20-F.

Our principal offices in the United States are the headquarters of Elbit Systems of America, LLC at 4700 Marine Creek Parkway, Fort Worth, Texas 76179-6969, and the main telephone number at that address is 817-234-6799.

Revenues

In recent years we have achieved the highest level of defense-related revenues of any Israeli-based company. The table below shows our consolidated revenues by major areas of operations for the years ended December 31, 2015, 2016 and 2017:

	2015	**2016**	**2017**
	(U.S. dollars in millions)		
Airborne systems	$1,226	$1,242	$1,272
C4ISR systems	995	1,221	1,145
Land systems	559	408	504
Electro-optic systems	232	276	341
Other (mainly non-defense engineering and production services)	96	113	116
Total	$3,108	$3,260	$3,378

The following table provides our consolidated revenues by geographic region, expressed as a percentage of total revenues for the years ended December 31, 2015, 2016 and 2017:

	2015	**2016**	**2017**
	(U.S. dollars in millions)		
Israel	20%	22%	22%
North America	27%	25%	24%
Europe	16%	20%	23%
Asia-Pacific	26%	25%	20%
Latin America	10%	6%	6%

Others	1%	2%	5%

Subsidiary Organizational Structure

Our beneficial ownership interest in our major subsidiaries and investees is set forth in Exhibit 8 to this annual report. Our equity and voting interests in these entities are the same as our beneficial ownership interests.

Below is a general description of our major subsidiaries, each of which is wholly-owned. We also have other smaller subsidiaries and investee companies in Israel, Europe, North America, South America and Asia-Pacific that conduct marketing, engineering, manufacturing, logistic support and other activities, principally in the subsidiary's local market.

Elbit Systems of America

Elbit Systems of America, LLC (Elbit Systems of America), a Delaware limited liability company, and its subsidiaries provide products and systems solutions focusing on U.S. military, homeland security, medical instrumentation and commercial aviation customers. Elbit Systems of America and its subsidiaries have operational facilities in Fort Worth, Texas, San Antonio, Texas, Merrimack, New Hampshire, Talladega, Alabama and Boca Raton, Florida. Elbit Systems of America also has a 50% interest in a joint venture with Rockwell Collins Inc., which is engaged in the area of helmet mounted display systems for fixed-wing military and para-military aircraft.

Elbit Systems of America acts as a contractor for U.S. Foreign Military Financing (FMF) and Foreign Military Sales (FMS) programs. (See below "Governmental Regulations – Foreign Military Financing.") Each of Elbit Systems of America's major operational facilities has engineering and manufacturing capabilities. Elbit Systems of America's facilities in Alabama and Texas have significant maintenance and repair capabilities. (See below "Manufacturing" and "Customer Satisfaction and Quality Assurance.")

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

Elop. Based in Rehovot, Israel, Elbit Systems Electro-Optics Elop Ltd. (Elop) designs, engineers, manufactures and supports a wide range of electro-optic systems and products mainly for defense, space and homeland security applications for customers worldwide.

ESLC. Headquartered in Netanya, Israel, Elbit Systems Land and C4I Ltd. (ESLC) is engaged in the worldwide market for land-based systems and products for armored and other military vehicles, artillery and mortar systems, C4I systems, cyber intelligence solutions, data links, radios and communications systems and equipment.

Elisra*. Based in Holon, Israel,* Elbit Systems EW and SIGINT – Elisra Ltd. (Elisra) provides a wide range of electronic warfare (EW) systems, signal intelligence (SIGINT) systems and C4ISR technological solutions for the worldwide

market.

Merger, Acquisitions and Divestitures

Part of our growth strategy includes our continued activity in mergers and acquisitions and joint ventures with respect to businesses, assets and complementary technologies both in Israel and internationally. The Company's structure enables us to benefit from the synergy of our overall capabilities while at the same time focus on local requirements.

During 2017 and the beginning of 2018, we continued to invest resources in these activities including acquisition of companies and businesses in North America, South America and Europe. See Item 18. Financial Statements - Notes 1(C) and 6(B). We continue to actively pursue acquisition and investment opportunities that meet our strategic goals and acquisition criteria in key markets.

During 2017 and the beginning of 2018, we participated as a potential purchaser in the tender process administered by the Israeli government for the sale of of IMI Systems (formerly Israel Military Industries Ltd.) On March 11, 2018, the Israel Treasury Ministry announced the approval of its Committee for the Sale of State Shares to sell IMI Systems to the Company. Further to the Company's response to press reports on February 14, 2018, we are continuing the discussions with the Israeli Government regarding the conditions to complete the transaction.

Current Business Operations

We generally operate and manage the major activities described below in an interrelated manner and on a project-oriented basis. This means that contracts are frequently performed by more than one operating subsidiary or division within the Company, on the basis of the multiple skills and available resources that may be needed or appropriate for the contract. Thus, the involvement of a particular operating subsidiary or division in the performance of a contract is not a function of management's review of such subsidiary's or division's operating results for purposes of allocation of resources within the Company.

Military Aircraft and Helicopter Systems

We supply advanced airborne systems and products to leading military aircraft manufacturers and end users designed to enhance operational capabilities and extend aircraft life cycles. Our airborne systems provide a range of solutions from a single sensor to an entire cockpit avionics suite. We integrate our systems on fixed and rotary-wing, eastern and western, new and mature aircraft. Under our aircraft and helicopter upgrade programs, we integrate advanced electronic, communication, navigation, electro-optic and EW systems. We support life cycle extension of our customers' fleets and supply logistic support services for airborne platforms, including repair and maintenance centers, spare parts, training and operation of flight schools.

Our military fixed-wing aircraft and helicopter systems and products include a broad range of avionic systems, such as integrated flight deck systems, mission management computers, displays, digital maps and digital recorders. Our portfolio also includes airborne electro-optic systems such as head-up displays, airborne intelligence gathering systems, precision guidance systems, aircraft structural components and a range of aircraft tactical, virtual, appended and embedded trainers and simulators.

We design and supply advanced helmet mounted systems (HMS), including helmet mounted displays for fixed-wing aircraft and rotary aircraft pilots. These systems and displays include tracking and display systems for day and night flying. Our systems measure the pilot's line-of-sight, slave applicable systems to the target, identify target location and bring displays to the pilot's eye level. We supply our HMS as part of our upgrade programs and on a stand-alone basis. Through our 50% joint venture with Rockwell Collins (see above "Subsidiary Organizational Structure – Elbit Systems of America"), we are a leader in HMS for fighter aircraft.

The customers and end users for our military fixed-wing aircraft and helicopter programs include a wide range of air forces and other governmental defense and homeland security forces worldwide, as well as major fixed-wing aircraft and helicopter manufacturers.

Commercial Aviation Systems and Aerostructures

We provide a range of systems and products for the commercial and business aviation market. These systems and products include vision-based cockpit systems, other avionics systems, electrical systems and aerostructure products. Our commercial avionics systems are employed on fixed-wing aircraft and commercial helicopters. Our aerostructure products are installed on commercial aircraft.

Our portfolio of systems in the commercial aviation area includes vision-based cockpit systems, full avionic suites for commercial helicopters, air data test equipment and air data processor/sensor systems and flight instrumentation for the general avionics market, and aerostructure products such as pressurized and non-pressurized doors, composite beans and winglets. Customers for our commercial and business aviation systems and products and aerostructures products include major aircraft manufacturers and aircraft operators around the world.

UAS (Unmanned Aircraft Systems) and USVs (Unmanned Surface Vessels)

We design and supply integrated UAS for a range of applications and UAS training systems with capabilities to simulate payload performance, malfunctions and ground control station operation. We design and supply command and control ground station elements, engines, data links, stabilized electro-optic payloads and electronic intelligence (ELINT) and communications intelligence (COMINT) payloads that can be adapted for various types of UAS. Our UAS technology has also been applied to our USV activities, where we are developing USVs for a range of naval applications. We perform development, supply, lease and support services and training activities relating to UAS and USVs. Customers for our UAS and USVs include armed forces and other governmental and non-governmental organizations around the world.

Electro-Optic and Countermeasures Systems

We design and manufacture electro-optic-based solutions for space, air, land and sea applications. Our electro-optic products include laser and thermal imaging systems, head-up displays, countermeasure systems and ISR systems, including payloads for space, airborne, naval and land-based missions. Our products in this area also include ground integrated sights and homeland security solutions. We are one of the few companies in the world that has engineering capability and facilities in-house in all major areas of electro-optics. Also, in the space area, we maintain in-house Israel’s national space electro-optics infrastructure.

Our portfolio of electro-optic systems and products includes forward looking infrared (FLIR) systems for night observation, laser range-finders and laser radars, stabilized payloads, electro-optic-based ISR systems and directional IR countermeasure (DIRCM) systems. We also supply panchromatic and multi-spectral cameras and telescopes for space applications. In the homeland security area our electro-optic products and systems include surveillance systems, “safe city” projects, facility perimeter security products, electronic fences, fiber optic intrusion detection systems and transportation protection systems. Our customers include armed forces of numerous governments, major defense contractors, homeland security agencies, critical infrastructure authorities and owners of VIP aircraft.

Land Vehicle Systems

We upgrade and modernize tanks, other combat vehicles and artillery platforms, both as a prime contractor and as a systems supplier to leading platform manufacturers. Our land vehicle and platform solutions cover the entire combat vehicle spectrum, from complete modernization, to system supply to maintenance depots and life cycle support services. Our systems are operational on a full range of tracked and wheeled combat vehicles including main battle tanks, medium and light tanks, light armored vehicles, armored personnel carriers, wheeled vehicles and artillery

platforms. We offer a range of artillery and mortar solutions. We also develop and supply unmanned ground vehicles and robotic devices for a variety of land based missions. In addition, we supply training systems for tanks and fighting vehicles.

Our portfolio of systems and products for land vehicles includes fire control systems, electric gun and turret drive systems, laser warning and threat detection systems, manned and unmanned turrets, remote controlled weapon stations (for land and naval platforms), unmanned ground vehicles, combat vehicle C4I systems, targeting systems, artillery gun and mortar systems, mortar ammunition, driver thermal vision systems, life support systems, auxiliary power units and hydraulic systems. We are engaged in land vehicle systems programs, from comprehensive vehicle modernization programs, to stand-alone system supply to vehicle manufacturers to life cycle support programs. Customers for our land vehicle systems include armed forces and homeland security agencies, as well as major military vehicle manufacturers around the world.

C4I Systems

We provide network-centric compatible solutions for land-based C4I systems ranging from target acquisition, to battle management to communication systems. We supply our advanced land-based C4I systems as part of turn-key solutions as well as on a stand-alone basis. Our solutions cater to all types of land combatant and homeland security forces and first responders, and can be integrated into military and other types of vehicles. Providing comprehensive net-centric solutions for low intensity conflicts and counter-terror activities, our systems connect intelligence data to combat and homeland security forces via C4I networks and mobile command and control posts and support “terrain dominance”. Our integrated infantry systems provide infantry units with C4ISR, field intelligence, urban warfare and peacekeeping capabilities. We also have access to a full range of radio and military communications solutions.

Our portfolio of systems and products in the land C4I area includes Digital Army “system of systems” for net-centric operational effectiveness and connectivity throughout all land forces echelons. Our portfolio also includes battle management systems, artillery and mortar C4I systems, observation and ground reconnaissance systems, enhanced tactical computers and ruggedized personal data assistants, software design kits for mapping capabilities, ground smart display units, military IT systems and tactical battle company training systems. Our ground communications portfolio includes HF, VHF and UHF radio and communication systems and products, software defined radios, integrated radio communication systems, satellite-on-the-move solutions, data link solutions and tactical radio power amplifiers. Our radio and communications portfolio enables deployment of a full military network for the complete range of scenarios and terrain. In the homeland security area, we supply integrated and coastal border C4I surveillance systems, broadband communication systems, cyber intelligence solutions, border control systems, “safe city” systems, emergency and first responder communications systems and homeland security and emergency response training and simulation systems. We perform programs under which we provide a range of C4I battle management systems, soldier mounted systems and radio and communications systems with land-based applications. Our customers include ground forces and governmental agencies worldwide.

EW and SIGINT Systems

We supply multi-spectral EW self-protection suites and systems for airborne, ground and naval platforms, including advanced electronic countermeasure (ECM) systems for radar, missiles and communication and electronic support measure (ESM) solutions, including missile warning systems, laser warning systems and radar warning receivers. We also furnish SIGINT systems, including ELINT, COMINT and direction finding systems, designed for air, ground and naval platforms and applications.

Our portfolio in the EW and SIGINT areas includes protection, intelligence and communications solutions for air, ground and naval applications. We offer EW self-protection suites, including radio frequency, radar warning receivers and laser warning systems, for all airborne platform types. We also offer IR-based missile warning systems for advanced combat aircraft as well as for other fixed-wing and rotor platforms. In addition, we provide ESM for threat identification. We also provide SIGINT systems for tactical and strategic intelligence gathering including ELINT and ECM for naval, ground and airborne applications, COMINT and communication jamming systems, counter

improvised explosive devices jamming systems for ground forces and cyber protection capabilities. We also supply radar solutions. In addition, we develop command and control systems and simulators for anti-ballistic missiles. Customers for our EW, SIGINT and COMINT systems include governmental armed forces and homeland security agencies as well as major defense contractors.

Commercial Cyber Protection Products and other Commercial Activities

We provide commercial cyber protection products and trainings to enable commercial enterprises to rapidly detect advanced cyber threats, protect critical infrastructures, automate security operations center workflows and train cyber security staff. Our solutions utilize machine learning, Big Data and continuous technology advancements. Customers include a range of commercial, financial and industrial enterprises.
We also engage in an increasing range of technologies for commercial applications and activities. Our current commercial activities, in addition to the activities described under "Commercial Aviation Systems and Aerostructures" and elsewhere above, include, among others, medical diagnostic equipment, automotive night vision enhancement equipment, smart glasses for sports applications and super capacitor energy sources and fuel cells for transportation applications.

Property, Plant and Equipment

Facilities Owned or Leased by the Company

	Israel[1]	**U.S.[2]**	**Other Countries[3]**
Owned	2,175,000 square feet	634,000 square feet	891,000 square feet
Leased	2,206,000 square feet	661,000 square feet	472,000 square feet

(1) Includes offices, development and engineering facilities, manufacturing facilities, maintenance facilities, hangar facilities and landing strips in various locations in Israel.

(2) Includes mainly offices, development and engineering facilities, manufacturing facilities and maintenance facilities of Elbit Systems of America, primarily in Texas, New Hampshire, Florida, Alabama and Virginia. The facilities in Texas, New Hampshire and Alabama are located on owned land totaling approximately 129 acres. 318,570 square feet of the leased facilities are sublet to a third party. In addition, there is a 942,344 square foot ground lease, of which 629,910 square feet are sublet to a third party.

(3) Includes offices, design and engineering facilities and manufacturing facilities in Europe, Latin America and Asia-Pacific.

***Recent Investment in Facilities*.** Over the last two years the average annual net investment in our facilities, including land and buildings, equipment, machinery and vehicles, amounted to approximately $116 million. We believe that our current facilities are adequate for our operations as now conducted.

Governmental Regulation

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

Israeli Export Regulations. Israel's defense export policy regulates the sale of a number of our systems and products. Current Israeli policy encourages exports to approved customers of defense systems and products such as ours, as long as the export is consistent with Israeli government policy. Subject to certain exemptions, a license is required to initiate marketing activities. We also must receive a specific export license for defense related hardware, software and technology exported from Israel. Israeli law also regulates export of "dual use" items (items that are typically sold in the

commercial market but that also may be used in the defense market). In 2017 more than 50% of our revenue was derived from exports subject to Israeli export regulations.

U.S. and Other Export Regulations. Elbit Systems of America's export of defense and dual use products, as well as military technical data and technical services to Israel and other countries is subject to applicable approvals of the U.S. government under the U.S. International Traffic in Arms Regulations (ITAR) and the U.S. Export Administration Regulations (EAR). Such approvals are typically in the form of an export license, and for defense technology or services in the form of a technical assistance agreement (TAA). Other U.S. companies wishing to export defense products or military related services and technology to our Israeli and other non-U.S. entities are also required to obtain such export licenses and TAAs. Such approvals apply to U.S. origin data required by our non-U.S. entities to perform work for U.S. programs. Licenses are also required for Israeli nationals assigned to work in defense-related technical areas at our U.S. affiliated companies. An application for an export license or a TAA requires disclosure of the intended sales of the product and the use of the technology. Pursuant to export control reform initiatives in the U.S., a greater part of Elbit Systems of America's and our U.S. suppliers' activities are becoming subject to control under the EAR. The U.S. government may deny an export authorization if it determines that a transaction is counter to U.S. policy or national security. Other governments' export regulations also affect our business from time to time, particularly with respect to end user restrictions of our suppliers' governments.

Approval of Israeli Defense Acquisitions

The Israeli Defense Entities Law (Protection of Defense Interests) establishes conditions for the approval of an acquisition or transfer of control of an entity that is determined to be an Israeli "defense entity" under the terms of the law. Designation as a "defense entity" is to occur through an order to be issued jointly by the Israeli Prime Minister, Defense Minister and Economy Minister. Although no such orders have been issued as of the date of this annual report on Form 20-F, it is assumed that Elbit Systems and most of our Israeli subsidiaries will be designated as "defense entities" under the law and that the Israeli Government will issue such an order regarding our applicable Israeli companies. Under separate regulations, Elbit Systems and our major Israeli subsidiaries have been designated as "defense entities" by the Defense Minister with respect to Israeli law governing various aspects of defense security arrangements.

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

Approval of U.S. and Other Defense Acquisitions. Many countries in addition to Israel also require governmental approval of acquisitions of local defense companies or assets by foreign entities. Mergers and acquisitions of defense related and other potentially sensitive businesses in the U.S. are subject to the Foreign Investment and National Security Act (FINSA). Under FINSA, our acquisitions of defense related and other potentially sensitive businesses in the U.S. require review, and in some cases approval, by the Committee on Foreign Investment in the United States.

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

Foreign Military Financing (FMF). Elbit Systems of America participates in United States FMF programs. These programs require countries, including Israel, receiving military aid from the United States to use the funds to purchase products containing mainly U.S. origin components. In most cases, subcontracting under FMF contracts to non-U.S. entities is not permitted. As a consequence, Elbit Systems of America generally either performs FMF contracts itself or subcontracts with U.S. suppliers. The U.S. government may authorize the IMOD to utilize a portion of the FMF budget under the United States Subcontracting Procurement (USSP) channel. In

such cases, companies such as Elbit Systems or our Israeli subsidiaries, who are acting as the Israeli prime contractor to the IMOD under the NIS funded portion of an IMOD program, are authorized to negotiate and enter into a subcontract directly with a U.S. supplier. However, payment of the funds under a USSP channel subcontract is administered by the IMOD Purchasing Mission to the U.S. Elbit Systems of America also participates in U.S. Foreign Military Sales (FMS) programs.

Procurement Regulations. Solicitations for procurements by governmental purchasing agencies in Israel, the United States and other countries are governed by laws, regulations and procedures such as those relating to procurement integrity, including avoiding conflicts of interest and corruption, and meeting information assurance requirements. . Such regulations also include provisions relating to the avoidance of human trafficking and counterfeit parts in the supply chain.

Anti-Bribery Regulations. We conduct operations in a number of markets that are considered high risk from an anti-bribery/anti-corruption compliance perspective. Laws and regulations such as the Israel Penal Code, the Organization for Economic Cooperation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and corresponding legislation in other countries, prohibit providing personal benefits or bribes to government officials in connection with the governmental procurement process. Israeli defense exporters, such as Elbit Systems, are required to maintain an anti-bribery compliance program, including specific procedures, record keeping and training.

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

Antitrust Laws. Antitrust laws and regulations in Israel, the United States and other countries often require governmental approvals for transactions that are considered to limit competition. Such transactions may include the formation of joint venture entities, cooperative agreements for specific programs or areas, as well as mergers and acquisitions.

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

Food and Drug Administration Regulations. Medical products designed and manufactured by Elbit Systems of America's Medical Instruments – KMC Systems business unit are subject to U.S. Food and Drug Administration (FDA) regulations.

Environmental, Health and Safety Regulations. We are subject to a variety of environmental, health and safety laws and regulations in the jurisdictions in which we have operations. This includes regulations relating to air, water and ground contamination, hazardous waste disposal and other areas with a potential environmental or safety impact.

Buy-Back

As part of their standard contractual requirements for defense programs, several of our customers include "buy-back" or "offset" provisions. These provisions are typically obligations to make, or to facilitate third parties to make, various specified transactions in the customer's country, such as procurement of defense and commercial products, investment in the local economy and transfer of know-how. (For further information about buy-back obligations, see Item 5.

Operating and Financial Review and Prospects – Off-Balance Sheet Transactions.)

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Financing Terms

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

***Advance Payment Guarantees*.** In some cases where we receive advances prior to incurring contract costs or making deliveries, the customer may require guarantees against advances paid. These guarantees are issued either by financial institutions or by us. We have received substantial advances from customers under some of our contracts. In certain circumstances, such as if a contract is canceled for default and there has been an advance or progress payment, we may be required to return payments to the customer as provided in the specific guarantee. As part of the guarantees we provide to receive progress payments or advance payments, some of our customers require us to transfer to them title in inventory acquired with such payments. (See Item 5. Operating and Financial Review and Prospects – General – Long-Term Arrangements and Commitments – Bank and Other Financial Institution Guarantees.)

Performance Guarantees. A number of projects require us to provide performance guarantees in an amount equal to a percentage of the contract price. In certain cases we also provide guarantees related to the performance of buy-back obligations. Some of our contracts contain clauses that impose penalties or reduce the amount payable to us if there is a delay or failure in performing in accordance with the contract or the completion of a phase of work, including in some cases during the warranty period. These types of guarantees may remain in effect for a period of time after completion of deliveries under the contract. Such guarantees are customary in defense transactions, and we provide them in the normal course of our business. (See Item 5. Operating and Financial Review and Prospects – General – Long-Term Arrangements and Commitments – Bank and Other Financial Institution Guarantees.)

Private Finance Initiatives (PFI). Some of our projects operate under PFI financing arrangements where we provide long-term financing arrangements or facilities, with the repayment generally made based on the project's cash flow. PFI projects can be structured in several ways. PFI projects may require us to pledge project-related equity and enter into relatively complex financial and other agreements. Such financing is usually medium or long-term and may be raised either through banks or institutional lenders and carries various financial risks and exposures. In addition, PFI projects may require us to draw upon our equity base and borrowing capacities and may significantly affect our liquidity and increase our financial leverage. In recent years we have been involved in several PFI-type projects in Israel and Europe, as well as private-public-partnership financing projects, and we expect to continue to participate in such projects.

Intellectual Property

Patents, Trademarks and Trade Secrets. We own hundreds of living patent families including patents and applications registered or filed in Israel, the United States, the European Patent Office and other countries. We also hold dozens of living trademark families relating to specific products. A significant part of our intellectual property assets relates to unique applications of advanced software-based technologies, development processes and production technologies. Some of these applications are protected by patents and others are considered as our trade secrets and proprietary information. We take a number of measures to safeguard our intellectual property against infringement as well as to avoid infringement of other parties' intellectual property. (For risks related to our intellectual property see

Item 3. Key Information – Risk Factors – General Risks Related to Our Business and Market.)

Governmental Customers' Rights in Data. The IMOD usually retains specific rights to technologies and inventions resulting from our performance under contracts for end use by the IMOD or the IDF. This generally includes the right to disclose the information to third parties, including other defense contractors that may be our competitors. When the IMOD funds research and development, it usually acquires rights in the data developed under such funding. We often may retain a non-exclusive license for such inventions. The Israeli

government usually is entitled to receive royalties on export sales in relation to sales resulting from government financed development. However, if only the product is purchased without development effort, we normally retain the principal rights to the technology. Sales of our products to the U.S. government and some other customers are subject to similar conditions. Subject to applicable law, regulations and contract requirements, we attempt to maintain our intellectual property rights and provide customers with the right to use the technology only for the specific project under contract.

Licensing. There are relatively few cases where we manufacture under license. Such licenses typically apply to the use of technologies that are the result of collaboration with academic institutions or where we are manufacturing another company's product in accordance with that company's specifications. In such cases, the licensor typically is entitled to royalties or other types of compensation. In some cases where we have acquired business lines we obtain a royalty free license to use the applicable technology for specified applications. Occasionally, we license parts of our intellectual property to customers as part of the requirements of a particular contract. We also sometimes license technology to other companies for specific purposes or markets, such as the right to use certain of our intellectual property relating to our training and simulation systems.

Research and Development

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

Our R&D projects relate to defense, homeland security and commercial applications. We perform R&D projects to produce new systems for the IMOD and other customers. These projects give us the opportunity to develop and test emerging technologies. We develop tools for fast prototyping for both the design and development process. Fast prototyping permits the operational team members to effectively specify requirements and to automatically transfer them into software code. We also are engaged in long-term investments in science and technology infrastructure and building blocks, often in collaboration with academic bodies. We employ thousands of software, hardware and systems engineers. In addition, most of our program and business line managers have engineering backgrounds. More than 50% of our total workforce is engaged in research, development and engineering.

Our companies in Israel have collectively been awarded the Israel Defense Prize eleven times, recognizing extraordinary contributions to defense technological innovations.

Our customers, the Israel Innovation Authority in the Ministry of Economy and Industry (formerly Office of Chief Scientist) and other R&D granting authorities sometimes participate in our R&D funding. We also invest in our research and development activities. This investment is in accordance with our strategy and plan of operations. The table below shows amounts we invested in R&D activities for the years ended December 31, 2015, 2016 and 2017.

	2015	**2016**	**2017**
	(U.S. dollars in millions)		
Total Investment	$277.8	$291.8	$301.4
Less Participation*	(34.4)	(36.0)	(36.3)
Net Investment	$243.4	$255.8	$265.1

* See above – "Government Rights in Data" and see below – "Conditions in Israel – Israel Innovation Authority and Investment Center Funding."

Manufacturing

We manufacture and assemble our systems and products at our operational facilities in Israel, the U.S., Europe, Brazil and Australia and at the facilities of certain of our subsidiaries in other countries. These facilities contain warehouses, electronic manufacturing areas, mechanical workshops, final assembly and test stations with test equipment. We also have supporting infrastructure including fully automated surface mount technology lines and clean rooms for electro-optic components, solid state components integration, environmental

testing and final testing, including space simulation and thermal chambers. We also have computerized logistics systems for managing manufacturing and material supply. A number of our manufacturing activities are provided on a shared services basis by several of our in-house centers of excellence.

We also manufacture and assemble composite materials, metal parts and machinery. One of our Israeli subsidiaries has a high technology semiconductor manufacturing facility where it performs electronic integration and assembly of thermal imaging detectors and laser diodes. We also manufacture and repair test equipment.

We manufacture commercial avionics and aircraft components, as well as perform maintenance, repair and overhaul at our U.S. FAA registered facilities in the U.S., Europe and Israel. We also manufacture medical equipment at U.S. FDA registered facilities in the U.S.

Environmental Compliance

As part of overall Company policy, we are committed to environmental, health and safety standards in all aspects of our operations. This includes all regulatory requirements as well as compliance with ISO-14001 and OSHAS-1800 standards. We also conduct a number of measures on an ongoing basis to promote environmentally friendly operational practices, including measures to reduce electrical, fuel and water consumption and to increase recycling. There are no material environmental issues that affect the Company's use of our facilities. See also "Social Sustainability" below.

Seasonality

Although revenues may sometimes increase towards the end of a fiscal year, no material portion of the Company's business is considered to be seasonal. The timing of revenue recognition is based on several factors. (See Item 5. Operating and Financial Review and Prospects – General – Critical Accounting Policies and Estimates – Revenue Recognition.)

Purchasing and Raw Materials

We conduct purchasing activities at most of our operational facilities. We use a "hybrid" procurement operating model that combines global commodities categories management with divisional procurement management. This model facilitates levering economy of scale, develops procurement centers of excellence and reduces chain risks. We generally are not dependent on single sources of supply. We manage our inventory according to project requirements. In some projects, specific major subcontractors are designated by the customer. Raw materials used by us are generally available from a range of suppliers internationally, and the prices of such materials are generally not subject to significant volatility. We monitor the on-time delivery and the quality of our contractors and encourage them to continuously improve their performance. We also require our suppliers to adhere to our Supplier Code of Conduct and to comply with a range of procurement standards, including those relating to the avoidance of human trafficking, counterfeit parts and conflict minerals.

Customer Satisfaction and Quality Assurance

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

We also use project management methods such as Kaizen and Lean and are enhancing and expanding such processes on an ongoing basis. Our processes are based on a cutting edge tool case and CAD-CAM tools. This infrastructure, together with well defined development methodology and management tools, assists us in providing high quality and on-time implementation of projects. We are in the process of implementing a “One-ERP” (enterprise resource planning) system, with a goal of consolidating uniform best practices for quality and operations across the organization.

All Israeli operational sites are certified for one or more of the following: ISO-9001, ISO-90003 for software, AS9100 (certified for revision D), AS9115 for software, ISO-14001, OHSAS 18001, FAA Part 145 and European Aviation Safety Agency (EASA) Part 145 for maintaining civil products and Part 21 G for production of civil products. Most of our operational sites in Israel are also certified for ISO-27001 (Information Security Management System). Representatives of our customers generally test our products before acceptance. A number of our customers have authorized us to conduct acceptance testing of our products on their behalf.

Quality certifications applicable to defense products of Elbit Systems of America's operating units include certifications for CMMI Level 3 of the SEI, ISO-9001, AS9100 (certified for revision C) and compliance with NATO AQAP requirements. In the area of commercial aviation Elbit Systems of America's operating units hold EASA certification as well as a variety of FAA certifications including FAA Part 21 approval and FAA Part 145 approved repair stations. In the medical equipment area, Elbit Systems of America is certified for ISO 13485:2003, is registered with the FDA as a GMP manufacturer and is FDA compliant with Quality Systems Regulations 21 CFR Parts 820, 803 and 806.

Service and Warranty

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

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

Marketing and Sales

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

We market our systems and products either as a prime contractor or as a subcontractor to various governments and companies worldwide. In Israel, we sell our military systems and products mainly to the IMOD, which procures all equipment for the IDF. A number of marketing related support services are provided on a central shared services basis to various units in the Company. Marketing our systems, products and services in other parts of the world is supported by subsidiaries, joint ventures and representatives.

In the U.S., generally Elbit Systems of America leads our sales and marketing activities from its facilities throughout the U.S. Elbit Systems of America operates under a Special Security Agreement that allows it and its subsidiaries to work on certain classified U.S. government programs. See above "Subsidiary Organizational Structure – Elbit Systems of America." Our subsidiaries in other countries typically lead the marketing activities in their home countries, often assisted by marketing and business development personnel based in Israel.

Over the past several years, we have entered into cooperation agreements with defense contractors, platform manufacturers and other companies in Israel, the United States, Europe, Latin America, Asia-Pacific and certain other markets. These agreements provide for joint participation in marketing and performance of a range of projects around the world. In other situations, we actively pursue business opportunities as either a prime contractor or a

subcontractor, usually together with local companies. Often we enter into cooperation agreements with other companies for such opportunities.

Competition

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

Continuing consolidation in the defense industry has affected competition. In addition, many major prime contractors are increasing their in-house capabilities. These factors have decreased the number but increased the relative size and resources of our competitors. We adapt to market conditions by adjusting our business strategy to changing market conditions.

Competitors in the sale of some of our products to the government of Israel include Israel Aerospace Industries and Rafael Advanced Defense Systems among others. From time to time we also cooperate with some of our competitors on specific projects. Outside of Israel, we compete in a number of areas with major international defense and homeland security contractors principally from the United States, Europe and Israel. Our main competitors include divisions and subsidiaries of Boeing, Lockheed Martin, Northrop Grumman, Raytheon, General Dynamics, BAE Systems, Rockwell Collins, L-3 Communications, Thales, Airbus, Leonardo, Saab, Harris, Textron, FLIR Systems, Orbital ATK, AeroVironment, Rhode and Schwartz, Rheinmetall, Kongsberg, Safran, CMC, CAE, Aselsan, Bharat Electronics, Cubic and Verint. Many of these competitors have greater financial, marketing and other resources than ours. We also compete in the worldwide defense and homeland security markets with numerous smaller companies. In addition, we compete with a range of companies in the commercial avionics and commercial cyber protection markets. In certain cases we also engage in strategic cooperative activities with some of our competitors.

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

Major Customers

Sometimes, our revenues from an individual customer account for more than 10% of our revenues in a specific year. Our only such customer during the last three years was the IMOD, which accounted for 17% in 2015, 18% in 2016 and 19% in 2017.

Ethics

We conduct our business activities and develop Company policies based on a firm commitment to ethical practices. In addition to our Code of Conduct (see Item 16.B) and compliance with applicable laws and regulations, we have an active Company-wide ethics compliance program, incorporating policies and procedures. This includes the anti-bribery area where we have a policy of zero tolerance for corruption. Our compliance program also includes ongoing training and enforcement. We also expect our supply chain to follow ethical practices. Our Code of Conduct, Anti-Bribery Compliance Policy and Supplier Code of Conduct are published on our website www.elbitsystems.com. We are active in a number of international organizations relating to ethics and compliance.

Social Sustainability

We place importance on sustainability and social responsibility to the communities in which we live and work. This is consistent with our policy of emphasizing ethical business practices. Our policy encourages the voluntary efforts of our Company entities and employees who donate their time and efforts in the support of members of our communities who are in need. In this regard, we place priority on initiatives to promote educational advancement in less developed communities, particularly in the technology sectors. We also promote numerous other community support activities, including involvement on a national level in major charitable organizations in Israel and the U.S. We place emphasis on best practices in corporate governance, ethical conduct and fair employment practices. We also pursue continuous improvement of our operations from an environmental perspective and have a policy of combating human trafficking and avoiding the use of "conflict minerals" in our supply chain. These activities support our involvement as active members in leading sustainability and ethics organizations. We periodically publish a Sustainability Report, available on our website, detailing our activities in the areas of corporate responsibility, ethics, environmental initiatives and community-related activities.

Conditions in Israel

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

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

Israel Innovation Authority and Investment Center Funding. The government of Israel, through the Israel Innovation Authority (IIA) in the Ministry of Economy and Industry (formerly the Office of the Chief Scientist) and the Israel Investment Center (the Investment Center), encourages research and development projects oriented towards export products and participates in the funding of such projects as well as company investments in manufacturing infrastructures. Our Israeli companies receive IIA funding through various channels such as transfer of knowledge from an academic institution for a product, bi-lateral product development and innovative product development. Our companies participating in such development of products usually pay the Israeli government a royalty at various rates and such funding is typically subject to a number of conditions. (See Item 5. Operating and Financial Review and Prospects – Long-Term Arrangements and Commitments – Government Funding of Development.) Separate Israeli government consent is required to transfer to third parties technologies developed through projects in which the government participates in the funding of the development effort. The Investment Center promotes Israeli export products and increased industrialization of peripheral areas through investment in industrial infrastructure. The Investment Center either provides grants for qualified projects or provides tax benefits for qualified industrial investments by Israeli companies.

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

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Severance Pay. Under Israeli law, our Israeli companies are required to make severance payments to terminated Israeli employees, other than in some cases of termination for cause. The severance reserve is calculated based on the employee's last salary and period of employment. A portion of the severance pay and pension obligation is covered by payment of premiums to insurance companies under approved plans and to pension funds. The deposits presented in the balance sheet include profits accumulated to the balance sheet date. The amounts deposited may be withdrawn only after fulfillment of the obligations under the Israeli laws relating to severance pay. However, Elbit Systems and our Israeli subsidiaries have entered into agreements with some of our employees implementing Section 14 of the Severance Payment Law, which agreements relate to the treatment of severance pay. (See Item 18. Financial Statements – Note 2(R).)

National Insurance Institute. Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute, which is similar to the U.S. Social Security Administration. These amounts also include payments for national health insurance. As of December 31, 2017, the payments to the National Insurance Institute were equal to approximately 19.5% of wages, subject to a cap if an employee's monthly wages exceed a specified amount. The employee contributes approximately 61.5%, and the employer contributes approximately 38.5%.

Enforcement of Judgments

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

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

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

Item 4A. Unresolved Staff Comments.

None.

Item 5. Operating and Financial Review and Prospects.

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

General

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Item 18. Financial Statements – Note 2.

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

We believe our most critical accounting policies relate to:

•Revenue Recognition.
•Business Combinations.
•Impairment of Long-Lived Assets and Goodwill.
•Useful Lives of Long-Lived Assets.
•Income Taxes.
•Stock-Based Compensation Expense.

Revenue Recognition

We generate revenues principally from fixed-price long-term contracts involving the design, development, manufacture and integration of defense electronic systems and products. In addition, to a lesser extent, we provide non-defense systems and products as well as support and services for our systems and products.

Revenues from long-term contracts are recognized primarily using the Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) ASC 605-35. “Construction-Type and Production-Type Contracts” (ASC 605-35) according to which we recognize revenues using the percentage-of-completion method of accounting.

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

In certain circumstances, sales under short-term fixed-price production type contracts or sales of products are accounted for in accordance with the SEC’s Staff Accounting Bulletin (SAB) No. 104, “Revenue Recognition in Financial Statements” (SAB 104), and recognized when all the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the seller’s price to the buyer is fixed or determinable, no further seller performance obligation exists and collectibility is reasonably assured.

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In cases where the contract involves the delivery of products and performance of services, or other obligations, we follow the guidelines specified in ASC 605-25, “Multiple-Element Arrangements”, in order to allocate the contract consideration between the identified different elements using the relative selling price method to allocate the entire arrangement consideration. The selling price of each element would be allocated by using a hierarchy of: (i) Vendor Specific Objective Evidence (VSOE); (ii) third-party evidence of the selling price for that element; or (iii) estimated selling price for individual elements of an arrangement when VSOE or third-party evidence of the selling price is unavailable.

Service revenues include contracts primarily for the provision of supplies or services other than associated with design, development or manufacturing and production activities. It may be a stand-alone service contract or a service element, which was separated from the design, development or production contract according to the criteria established in ASC 605-25. Our service contracts primarily include operation contracts, outsourcing-type arrangements, maintenance contracts and training and installation service contracts. Revenue from services were less than 10% of consolidated revenues in each of the fiscal years 2015.2016 and 2017. (For additional information see Item 18. Financial Statements - Note 2(T)). During 2017, we reviewed implementation of a new standard of revenue recognition under FASB Accounting Standards Update (ASU) 2014-09, “Revenue from Contracts with Customers”, which became effective for us as of January 1, 2018 (See Item 18. Financial Statements - Note 2(AE)(3)).

Business Combinations

In accordance with ASC 805, “Business Combinations”, we allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed, as well as to IPR&D and contingent consideration, and non-controlling interest, based on their estimated fair values. Determining such values requires management to make significant estimates and assumptions, especially with respect to intangible assets. (See Item 18. Financial Statements - Note 2(E) for additional information.)

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

To the extent intangible assets are assigned longer useful lives, there may be less amortization expense recorded in a given period. Because we operate in industries which are extremely competitive, the value of our intangible assets and their respective useful lives are exposed to future adverse changes, which can result in an impairment charge to our results of operations.

Impairment of Long-Lived Assets and Goodwill

Our long-lived assets, including identifiable property, plant and equipment and intangible assets, are reviewed for impairment in accordance with ASC 360-10-35, “Property, Plant and Equipment Subsequent Measurement”, whenever

events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If an asset is determined to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. Fair value of non-financial assets is determined based on market participant assumptions. For each of the years ended December 31, 2015, 2016 and 2017, no material impairment of long-lived assets was identified. (See Item 18. Financial Statements - Note 2(P) for additional information.)

Goodwill represents the excess of the cost of acquired businesses over the fair values of the assets acquired net of liabilities assumed. Goodwill is not amortized, but is instead tested for impairment at least annually (or more frequently if impairment indicators arise).

We review goodwill for impairment on an annual basis and whenever events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. Such events or circumstances could include significant changes in the business climate of our industry, operating performance indicators, competition or sale or disposal of a portion of a reporting unit. The assessment is performed at the reporting unit level. Our annual testing date for all reporting units is December 31.

Performing the goodwill impairment test requires judgment, including how we define reporting units and determine their fair value. We consider a component of our business to be a reporting unit if it constitutes a business for which discrete financial information is available and management regularly reviews the operating results of that component. We estimate the fair value of each reporting unit using a discounted cash flow methodology that requires significant judgment. Forecasts of future cash flows are based on our best estimate of future sales and operating costs, based primarily on existing backlog, expected future contracts, contracts with suppliers, labor agreements and general market conditions. We prepare cash flow projections for each reporting unit using a five-year forecast of cash flows and a terminal value based on the Perpetuity Growth Model. The five-year forecast and related assumptions are derived from the most recent annual financial forecast for which the planning process commenced in our fourth quarter. The discount rate applied to our forecasts of future cash flows is based on our estimated weighted average cost of capital and includes factors such as the risk-free rate of return and the return an outside investor would expect to earn based on the overall level of inherent risk. The determination of expected returns includes consideration of the beta (a measure of risk) of traded securities of comparable companies. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit.

We evaluate goodwill for impairment by comparing the estimated fair value of a reporting unit to its carrying value, including goodwill. If the carrying value exceeds the estimated fair value, we measure impairment by comparing the derived fair value of goodwill to its carrying value, and any impairment determined is recorded in the current period. For each of the three years ended December 31, 2017, no material impairment of goodwill was identified. (See Item 18. Financial Statements - Note 2(Q) for additional information.)

Useful Lives of Long-Lived Assets

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

Income Taxes

We record income taxes using the asset and liability approach, whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and of operating losses and credit carry-forwards, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. We record a valuation allowance, if necessary, to reduce deferred tax assets to amounts that are more likely than not to be realized. We have considered future taxable income on a jurisdiction by jurisdiction basis and used prudent and feasible tax planning strategies and other available evidence in determining the need for a valuation allowance. In the event we were to determine that we would be able to realize these deferred income tax assets in the future, we would adjust the valuation allowance, which would reduce the provision for income taxes.

We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when we believe that certain positions might be challenged despite our belief that our tax return positions are in accordance with applicable tax laws. As part of the determination of our tax liability, management exercises considerable judgment in evaluating tax positions taken by us in determining the income tax provision and establishes reserves for tax contingencies in accordance with ASC 740 “Income Taxes” guidelines. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit, new tax legislation or the change of an estimate based on new information. To the extent that the final tax outcome of these matters is different from the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made. During 2015, 2016 and 2017, certain of our subsidiaries settled certain income tax matters pertaining to multiple years in Israel and Europe. Elbit Systems and certain of our Israeli subsidiaries are currently undergoing tax audits by the Israeli Tax Authority. The provision for income taxes includes the effect of reserve provisions and changes to reserves that are considered appropriate, as well as the related interest and penalties.

Management's judgment is required in determining our provision for income taxes in each of the jurisdictions in which we operate. The provision for income tax is calculated based on our assumptions as to our entitlement to various benefits under the applicable tax laws in the jurisdictions in which we operate. The entitlement to such benefits depends upon our compliance with the terms and conditions set out in these laws. Although we believe that our estimates are reasonable and that we have considered future taxable income and ongoing prudent and feasible tax strategies in estimating our tax outcome, there is no assurance that the final tax outcomes will not be different than those which are reflected in our historical income tax provisions and accruals. Such differences could have a material effect on our income tax provision, net income and cash balances in the period in which such determination is made. (See Item 18. Financial Statements - Notes 2(W) and 18.)

Stock-Based Compensation Expense

We account for equity based compensation in accordance with ASC 718 "Compensation - Stock Based Compensation" (ASC 718), which requires the measurement and recognition of compensation expense for all share-based payment awards made to our employees and directors, including employee stock options, cash-based awards linked to the share price and our Phantom Bonus Retention Plan, based on estimated fair values. (See Item 18. Financial Statements - Notes 2(Z) and 21.)

Governmental Policies

Governmental policies and regulations applicable to defense contractors, such as cost accounting and audit, export control, procurement solicitation and anti-bribery rules and regulations, could have a material impact on our operations. (See Item 3. Risk Factors – General Risks Related to Our Business and Market and Item 4. Information on the Company – Governmental Regulation.) According to Section 404 of the U.S. Sarbanes-Oxley Act of 2002, we are required to include in our annual report on Form 20-F an assessment, as of the end of the fiscal year, of the effectiveness of our internal controls over financial reporting. (See Item 15. Controls and Procedures – Management's Annual Report on Internal Control Over Financial Reporting.)

Recent Accounting Pronouncements

See Item 18. Financial Statements – Note 2(AE).

Long-Term Arrangements and Commitments

Government Funding of Development. Elbit Systems and certain Israeli subsidiaries partially finance our research and development expenditures under programs sponsored by the Israel Innovation Authority (IIA) in the Ministry of Economy and Industry (formerly the Office of the Chief Scientist) for the support of research and development activities conducted in Israel. At the time the funds are received, successful development of the funded projects is not assured. In exchange for the funds, Elbit Systems and the subsidiaries pay 2% – 5% of total sales of the products developed under these programs. The obligation to pay these royalties is contingent on actual future sales of the products. Elbit Systems and some of our subsidiaries may also be obligated to pay certain amounts to the IMOD and others on certain sales including sales resulting from the development of some of the technologies developed with such respective entity's funds. (See Item 4. Information on the Company – Conditions in Israel – Israel Innovation Authority and Investment Center Funding.)

Lease Commitments. The future minimum lease commitments of the Company under various non-cancelable operating lease agreements for property, motor vehicles and office equipment as of December 31, 2017 were as follows: $60.4 million for 2017, $53.8 million for 2018, $38.4 million for 2019, $24.3 million for 2020 and $118.1 million for 2021 and thereafter. (See below "Contractual Obligations".)

Bank Covenants. In connection with bank credits and loans, including performance guarantees issued by banks and bank guarantees in order to secure certain advances from customers, Elbit Systems and certain subsidiaries are obligated to meet certain financial covenants. (See below – "Liquidity and Capital Resources – Financial Resources".) Such covenants include requirements for shareholders' equity, current ratio, operating profit margin, tangible net worth, EBITDA, interest coverage ratio and total leverage. (See Item 18. Financial Statements – Note 20(F).) As of December 31, 2016 and 2017, the Company met all financial covenants.

Bank and Other Financial Institution Guarantees. As of December 31, 2017 and 2016, guarantees in the aggregate amount of approximately $1,399 million and $1,219 million, respectively, were issued by banks and other financial institutions on behalf of several Company entities primarily in order to secure certain advances from customers and performance bonds.

Purchase Commitments. As of December 31, 2017 and 2016, we had purchase commitments of approximately $1,592 million and $1,313 million, respectively. These purchase orders and subcontracts are typically in standard formats proposed by us. These subcontracts and purchase orders also reflect provisions from the applicable prime contract that apply to subcontractors and vendors. The terms typically included in these purchase orders and subcontracts are consistent with Uniform Commercial Code provisions in the United States for sales of goods, as well as with specific terms requested by our customers in international contracts. These terms include our right to terminate the purchase order or subcontract in the event of the vendor's or subcontractor's default, as well as our right to terminate the order or subcontract for our convenience (or if our prime contractor has so terminated the prime contract). Such purchase orders and subcontracts typically are not subject to variable price provisions.

Acquisitions During 2017

See Item 4. Information on the Company – Mergers, Acquisitions and Divestitures.

Backlog of Orders

Our backlog includes firm commitments received from customers for systems, products, services and projects that have yet to be delivered or completed, as applicable. Our policy is to include orders in our backlog only when specific conditions are met. Examples of these conditions may include, among others, receipt of a binding letter of commitment or contract, program funding, advances, letters of credit, guarantees and/or other commitments from customers. As a result, from time to time we could have unrecorded orders not included in our reported backlog.

We reduce backlog when revenues for a specific contract are recognized, such as when delivery or acceptance occurs or when contract milestones or engineering progress under long-term contracts are recognized as achieved, or when revenues are recognized based on costs incurred. In the unusual event of a contract cancellation, we reduce our backlog accordingly. The method of backlog recognition used may differ depending on the particular contract. Orders in currencies other than U.S. dollars are translated periodically into U.S. dollars and recorded accordingly.

Our backlog of orders as of December 31, 2017 was $7,647 million, of which 73% was for orders outside Israel. Our backlog of orders as of December 31, 2016 was $6,909 million, of which 68% was for orders outside Israel. Approximately 65% of our backlog as of December 31, 2017 is scheduled to be performed during 2018 and 2019. The majority of the 35% balance is scheduled to be performed in 2020 and 2021. Backlog information and any comparison of backlog as of different dates may not necessarily represent an indication of future sales.

Trends

Trends in the defense and homeland security areas in which we operate have been impacted by the nature of recent conflicts and terrorism activities throughout the world, increasing the focus of defense forces on low intensity conflicts, homeland security and cyber warfare. The defense market has also been impacted by the withdrawal of most of the allied forces from Iraq and a reduction of allied forces in Afghanistan. Such trends have also been impacted by the conflicts in Crimea and Syria and with ISIS and other terrorist organizations as well as by tensions with North Korea and Iran. There has also been a trend of many armed forces to focus more on airborne, naval and intelligence forces and less on traditional ground forces activities.

In the defense and homeland security markets, there is an increasing demand for products and systems in the areas of airborne systems, C4ISR and unmanned vehicles. Accordingly, in recent years we have been placing more emphasis on airborne systems, C4ISR, information systems, intelligence gathering, situational awareness, precision guidance, all weather and day/night operations, border and perimeter security, UAS, other unmanned vehicles, cyber-defense, training and simulation, space and satellite-based defense capabilities and homeland security systems. Many

governments are increasing their budgets in homeland security, including an increasing focus on protection of territorial waters, and in the area of cyber-defense. We believe that our core technologies and abilities will enable us to take advantage of many of these emerging trends.

The continuing trend of consolidation in the defense and homeland security industries has affected competition. This consolidation has decreased the number but increased the relative size and resources of our competitors. There is also an increasing trend of many of our defense customers to require that part of the work be done by local companies in the customer's country. We adapt to evolving market conditions by adjusting our business strategy. Our business strategy also anticipates increased competition in the defense and homeland security markets due to declining budgets in certain countries such as a number of countries in Latin America. However, we believe there have been recent indications of enhanced defense and homeland security budgets in the U.S. and in certain European countries. We believe in our ability to compete on the basis of

our systems development, technological expertise, operationally-proven performance and policy of offering customers overall solutions to technological, operational and financial needs and at the same time enhancing the industrial capabilities in certain of our customers' countries.

Our future success is dependent on our ability to meet our customers' expectations and anticipate emerging customer needs. We must continue to successfully perform on existing programs, as past performance is an important selection criterion for new competitive awards. We also must anticipate customer needs so as to be able to develop working prototypes in advance of program solicitations. This requires us to anticipate future technological and operational trends in our marketplace and efficiently engage in relevant research and development efforts.

Summary of Operating Results

The following table sets forth our consolidated statements of operations for each of the three years ended December 31, 2017.

	Year ended December 31, (in thousands of U.S. dollars except per share data)					
	2017		**2016**		**2015**	
	$	**%**	**$**	**%**	**$**	**%**
Total revenues	$3,377,825	100.0	$3,260,219	100.0	$3,107,581	100.0
Cost of revenues	2,379,905	70.5	2,300,636	70.6	2,210,528	71.1
Gross profit	997,920	29.5	959,583	29.4	897,053	28.9
Research and development (R&D) expenses	301,382	8.9	291,749	8.9	277,837	8.9
Less – participation	(36,322)	(1.1)	(35,957)	(1.1)	(34,421)	(1.1)
R&D expenses, net	265,060	7.8	255,792	7.8	243,416	7.8
Marketing and selling expenses	280,246	8.3	271,037	8.3	239,366	7.7
General and administrative expenses	133,314	3.9	151,353	4.6	145,693	4.7
Other operating income, net	—	—	(17,575)	(0.5)	—	—
	678,620	20.1	660,607	20.3	628,475	20.2
Operating income	319,300	9.5	298,976	9.2	268,578	8.6
Financial expenses, net	(34,502)	(1.0)	(23,742)	(0.7)	(20,240)	(0.7)
Other income, net	48	—	3,967	0.1	216	—
Income before taxes on income	284,846	8.4	279,201	8.6	248,554	8.0
Taxes on income	(55,585)	(1.6)	45,617	1.4	46,235	1.5
	229,261	6.8	233,584	7.2	202,319	6.5
Equity in net earnings of affiliated companies and partnerships	11,361	0.3	5,224	0.2	4,542	0.1
Net income	$240,622	7.4	$238,808	6.6	$206,861	6.7
Less – net income attributable to non-controlling interests	(1,513)	—	(1,899)	(0.1)	(4,352)	(0.1)
Net income attributable to the Company's shareholders	$239,109	7.1	$236,909	7.3	$202,509	6.5
Diluted net earnings per share:	$5.59		$5.54		$4.74	

2017 Compared to 2016

Revenues

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

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

	Year ended December 31,			
	2017		2016	
	$ millions	%	$ millions	%
Airborne systems	1,272.1	37.7	1,242.3	38.1
C4ISR systems	1,144.8	33.9	1,220.9	37.4
Land systems	503.9	14.9	408.0	12.5
Electro-optic systems	341.2	10.1	276.0	8.5
Other (mainly non-defense engineering and production services)	115.8	3.4	113.0	3.5
Total	3,377.8	100.0	3,260.2	100.0

Our consolidated revenues in 2017 were $3,377.8 million, as compared to $3,260.2 million in 2016.

The leading contributors to our revenues were the airborne systems and C4ISR systems areas of operation. The decrease in the C4ISR area of operation was primarily due to a decline in sales of command and control systems and unmanned aircraft systems (UAS) in Latin America. Revenues from land systems increased due primarily to an increase in sales of land electronic warfare systems and armored vehicle systems in Europe. Revenues in electro-optic systems increased mainly due to an increase in sales of reconnaissance systems and night vision systems in Asia-Pacific and directional infra-red countermeasure (DIRCM) systems in other geographic regions.

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

	Year ended December 31,			
	2017		2016	
	$ millions	%	$ millions	%
Israel	741.9	22.0	709.5	21.8
North America	827.6	24.5	825.7	25.3
Europe	764.0	22.6	640.8	19.7
Asia-Pacific	670.5	19.8	801.6	24.6
Latin America	193.4	5.7	212.8	6.5
Other	180.4	5.4	69.8	2.1
Total	3,377.8	100.0	3,260.2	100.0

The increase in Europe was mainly a result of higher sales of armored vehicle systems and radio systems. The decrease in Asia-Pacific was mainly a result of lower sales of tank fire control systems and UAS. The decrease in Latin America was mainly a result of decreased sales of command and control systems. The increase in the “Other” geographical region was mainly due to an increase in sales of UAS and DIRCM systems.

Cost of Revenues and Gross Profit

Cost of revenues in 2017 was $2,379.9 million (70.5% of revenues), as compared to $2,300.6 million (70.6% of revenues) in 2016.

Our major components of cost of revenues are (i) wages and related benefits costs, (ii) subcontractors and material consumed and (iii) manufacturing and other expenses (including depreciation and amortization). The amounts and percentage of those components in 2017 and 2016 were as follows:

Wages and related benefits costs in 2017 constituted 42% of cost of revenues, as compared to 38% of cost of revenues in 2016. The total cost of wages and related benefits in 2017 was approximately $983 million, as compared to $874 million in 2016. The increase in wages and related benefit costs was mainly a result of the 9.8% appreciation during 2017 in the value of the NIS relative to the U.S. dollar (since the NIS payments to our Israeli work force are translated into U.S. dollars for financial reporting purposes) as well as the increased workforce.

Subcontractors and material consumed costs in 2017 constituted 47% of cost of revenues, similar to that in 2016. The total amount of subcontractors and material consumed costs in 2017 was approximately $1.1 billion, similar to that in 2016.

Manufacturing and other expenses in 2017 constituted 15% of cost of revenues, as compared to 14% in 2016. The total cost of manufacturing and other expenses in 2017 was approximately $345 million, as compared to approximately $319 million in 2016.

In 2017, our cost of revenues included a decrease in inventories of approximately $38 million in work-in-progress and finished goods inventories, as compared to a decrease of approximately $62 million in work-in-progress and finished goods inventories in 2016.

Changes from 2016 to 2017 in our cost of revenues and cost of revenues components were not material. We did not identify any developing trends in cost of revenues that we believe are likely to have a material impact on our future operations other than the continued changes in the NIS against the U.S. dollar, which could have an impact mainly on our labor costs.

Gross profit for the year ended December 31, 2017 was $997.9 million (29.5% of revenues), as compared to $959.6 million (29.4% of revenues) in the year ended December 31, 2016.

Research and Development (R&D) Expenses

We continually invest in R&D in order to maintain and further advance our technologies, in accordance with our long-term plans, based on our estimate of future market needs. Our R&D costs, net of participation grants, include costs incurred for independent research and development and bid and proposal efforts and are expensed as incurred.

Gross R&D expenses in 2017 totaled $301.4 million (8.9% of revenues), as compared to $291.7 million (8.9% of revenues), in 2016.

Net R&D expenses (after deduction of third party participation) in 2017 totaled $265.1 million (7.8% of revenues), as compared to $255.8 million (7.8% of revenues) in 2016.

Marketing and Selling Expenses

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

Marketing and selling expenses in 2017 were $280.2 million (8.3% of revenues), as compared to $271.0 million (8.3% of revenues) in 2016.

General and Administration (G&A) Expenses

G&A expenses in 2017 were $133.3 million (3.9% of revenues), as compared to $151.4 million (4.6% of revenues) in 2016. The significant decrease in general and administration expenses in 2017 was mainly a result of revaluation of liabilities related to assets and activities acquired in prior years, net of an increase in wages and benefits as a result of the changes in the NIS - U.S. dollar exchange rate.

Other Operating Income (Net)

Other operating income, net for the year ended December 31, 2016 amounted to $17.6 million. The amount reflects net gains related to the valuation of shares in two of our Israeli subsidiaries in the energy and automotive areas due to third party investments.

Operating Income

Our operating income in 2017 was $319.3 million (9.5% of revenues), as compared to $299.0 million (9.2% of revenues) in 2016. The improvement in the operating income in 2017 was due to the increase in the gross profit, as well as the decrease in G&A expenses during 2017.

Financial Expense (Net)

Net financing expenses in 2017 were $34.5 million, as compared to $23.7 million in 2016. Financial expenses in 2016 were relatively low mainly due to gains from exchange rate differences.

Other Income (Net)

Other Income, net in 2016 amounted to $4 million. This was due to a capital gain related to the sale of real estate acquired in prior years.

Taxes on Income

Our effective tax rate represents a weighted average of the tax rates to which our various entities are subject.

Taxes on income in 2017 were $55.6 million (effective tax rate of 19.5%), as compared to $45.6 million (effective tax rate of 16.3%) in 2016. Taxes on income in 2017 included an amount of $10.9 million related to deferred tax asset adjustments resulting from the tax reform in the U.S. The effective tax rates in 2017 and 2016 were also affected by prior years adjustments of $4.3 million and $18.6 million, respectively. The adjustments were mainly related to tax settlements. The change in the effective tax rate was also affected by the mix of the tax rates in the various jurisdictions in which the Company's entities generate taxable income. We continued to enjoy a lower effective Israeli tax rate, the benefits of an "Approved and Privileged Enterprise" and other tax benefits, which resulted in savings of $15.8 million and $16.1 million, respectively, in 2017 and 2016, significantly influencing our effective tax rates.

Company's Share in Earnings of Affiliated Entities

The entities, in which we hold 50% or less in shares or voting rights (affiliates) and are therefore not consolidated in our financial statements, operate in complementary areas to our core business activities, including electro-optics and airborne systems.

In 2017, we had income of $11.4 million from our share in earnings of affiliates, as compared to income of $5.2 million in 2016. The increase in 2017 was a result of higher revenues and better profitability in some of our affiliated companies.

Net Income and Earning Per Share (EPS)

As a result of the above, net income in 2017 was $239.1 million (7.1% of revenues), as compared to net income of $236.9 million (7.3% of revenues) in 2016. The diluted EPS was $5.59 in 2017, as compared to $5.54 in 2016.

The number of shares used for computation of diluted EPS in the year ended December 31, 2017 was 42,753,000 shares, as compared to 42,752,000 shares in the year ended December 31, 2016.

2016 Compared to 2015

Revenues

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

	Year ended December 31,			
	2016		2015	
	$ millions	%	$ millions	%
Airborne systems	1,242.3	38.1	1,225.7	39.4
C4ISR systems	1,220.9	37.4	995.2	32.0
Land systems	408.0	12.5	558.7	18.0
Electro-optic systems	276.0	8.5	231.9	7.5
Other (mainly non-defense engineering and production services)	113.0	3.5	96.1	3.1
Total	3,260.2	100.0	3,107.6	100.0

Our consolidated revenues in 2016 were the $3,260.2 million, as compared to $3,107.6 million in 2015.

The leading contributors to our revenues were the airborne systems and C4ISR systems areas of operation. The increase in the C4ISR area of operation was primarily due to an increase in sales of command and control systems and radio systems in Europe, Asia-Pacific and Israel. Revenues from land systems decreased due primarily to a decline in sales of tank fire control systems to Asia-Pacific.

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

	Year ended December 31,			
	2016		2015	
	$ millions	%	$ millions	%
Israel	709.5	21.8	616.6	19.8
North America	825.7	25.3	838.9	27.0
Europe	640.8	19.7	497.6	16.0
Asia-Pacific	801.6	24.6	800.3	25.8
Latin America	212.8	6.5	325.4	10.5
Other	69.8	2.1	28.8	0.9
Total	3,260.2	100.0	3,107.6	100.0

The decrease in Latin America was mainly a result of lower sales of command and control systems for homeland security applications.

Cost of Revenues and Gross Profit

Cost of revenues in 2016 was $2,300.6 million (70.6% of revenues), as compared to $2,210.5 million (71.1% of revenues) in 2015.

Our major components of cost of revenues are (i) wages and related benefits costs, (ii) subcontractors and material consumed and (iii) manufacturing and other expenses (including depreciation and amortization). The amounts and percentage of those components in 2016 and 2015 were as follows:

Wages and related benefits costs in 2016 constituted 38% of cost of revenues, as compared to 39% of cost of revenues in 2015. The total cost of wages and related benefits in 2016 was approximately $874 million, as compared to $852 million in 2015.

Subcontractors and material consumed costs in 2016 constituted 47% of cost of revenues, as compared to 48% in 2015. The total amount of subcontractors and material consumed costs in 2016 was approximately $1.1 billion, similar to that in 2015.

Manufacturing and other expenses in 2016 constituted 14% of cost of revenues, as compared to 13% in 2015. The total cost of manufacturing and other expenses in 2016 was approximately $320 million, as compared to approximately $300 million in 2015.

In 2016, our cost of revenues included a decrease in inventories of approximately $60 million in work-in-progress and finished goods inventories, as compared to a decrease of approximately $30 million in work-in-progress and finished goods inventories in 2015.

Changes from 2015 to 2016 in our cost of revenues and cost of revenues components were not material. We did not identify any developing trends in cost of revenues that we believe would have a material impact on our future operations other than the continued changes in the NIS against the U.S. dollar, which could have an impact mainly on our labor costs.

Gross profit for the year ended December 31, 2016 was $959.6 million (29.4% of revenues), as compared to $897.1 million (28.9% of revenues) in the year ended December 31, 2015. The increase in the gross profit rate in 2016 was mainly due to the mix of programs sold.

Research and Development (R&D) Expenses

Gross R&D expenses in 2016 totaled $291.7 million (8.9% of revenues), as compared to $277.8 million (8.9% of revenues), in 2015.

Net R&D expenses (after deduction of third party participation) in 2016 totaled $255.8 million (7.8% of revenues), as compared to $243.4 million (7.8% of revenues) in 2015.

Marketing and Selling Expenses

Marketing and selling expenses in 2016 were $271.0 million (8.3% of revenues), as compared to $239.4 million 7.7% of revenues) in 2015. The increase in marketing and selling expenses in 2016 was mainly related to the mix of countries and types of marketing activities for projects in which we invested our marketing efforts.

General and Administration (G&A) Expenses

G&A expenses in 2016 were $151.4 million (4.6% of revenues), as compared to $145.7 million (4.7% of revenues) in 2015.

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Other Operating Income (Net)

Other operating income, net for the year ended December 31, 2016 amounted to $17.6 million. The amount reflects net gains related to the valuation of shares in two of our Israeli subsidiaries in the energy and automotive areas due to third party investments.

Operating Income

Our operating income in 2016 was $299.0 million (9.2% of revenues), as compared to $268.6 million (8.6% of revenues) in 2015. The main reason for the improvement in the operating income was the increase in the gross profit in 2016 as compared to 2015.

Financial Expense (Net)

Net financing expenses in 2016 were $23.7 million, as compared to $20.2 million in 2015. Financial expenses in 2015 were relatively low mainly due to gains from exchange rate differences.

Other Income (Net)

Other Income, net in 2016 amounted to $4 million. This was due to a capital gain related to the sale of real estate acquired in prior years.

Taxes on Income

Taxes on income in 2016 were $45.6 million (effective tax rate of 16.3%), as compared to $46.2 million (effective tax rate of 18.6%) in 2015. The effective tax rates in 2016 and 2015 were affected by prior years adjustments of $18.6 million and $1.4 million, respectively. The adjustments in 2016 were mainly related to tax settlements. The change in the effective tax rate was also affected by the mix of the tax rates in the various jurisdictions in which the Company's entities generate taxable income. We continued to enjoy a lower effective Israeli tax rate and the benefits of an "Approved and Privileged Enterprise", which resulted in savings of $16.1 million and $20.8 million, respectively, in 2016 and 2015, significantly influencing our effective tax rates.

Company's Share in Earnings of Affiliated Entities

The entities, in which we hold 50% or less in shares or voting rights (affiliates) and are therefore not consolidated in our financial statements, operate in complementary areas to our core business activities, including electro-optics and airborne systems.

In 2016, we had income of $5.2 million from our share in earnings of affiliates, as compared to income of $4.5 million in 2015.

Net Income and Earning Per Share (EPS)

As a result of the above, net income in 2016 was $236.9 million (7.3% of revenues), as compared to net income of $202.5 million (6.5% of revenues) in 2015. The diluted EPS was $5.54 in 2016, as compared to $4.74 in 2015.

The number of shares used for computation of diluted EPS in the year ended December 31, 2016 was 42,752,000 shares, as compared to 42,733,000 shares in the year ended December 31, 2015.

Israeli Debt Offering

In June 2010, Elbit Systems completed a public offering in Israel on the TASE of NIS 1.1 billion (approximately $283 million) Series A Notes (the Series A Notes). The Series A Notes were offered and sold pursuant to a shelf prospectus filed in May 2010 with the Israeli Securities Authority and the TASE. The shelf prospectus expired in 2012. In 2012, under the framework of the shelf prospectus, Elbit Systems completed both an additional public offering on the TASE and a private placement in Israel to Israeli institutional investors, of new Series A Notes, for an aggregate consideration of approximately NIS 926 million (approximately $249 million). All Series A Notes formed a single series.

We account for the outstanding principal amount of our Series A Notes as long-term liability, in accordance with ASC 470, “Debt”, with current maturities classified as short-term liabilities. Debt issuance costs are capitalized and reported as deferred financing costs, which are amortized over the life of the Series A Notes using the effective interest rate method. As of December 31, 2017, the value of the Series A Notes was $181.9 million, less $67.5 million in current maturities and a fair value adjustment of $10.4 million from cross-currency interest rate swaps.

The Series A Notes are payable in ten equal annual installments on June 30 of each of the years 2011 through 2020. The Series A Notes bear a fixed interest rate of 4.84% per annum, payable on June 30 and December 30 of each of the years through 2020 (the first interest payment was made on December 30, 2010, and the last interest payment will be made on June 30, 2020). (See Item 8. Financial Statements – Note 16.)

The Series A Notes (principal and interest) are in NIS and are not linked to any currency or index. The Series A Notes are unsecured, non-convertible and do not restrict our ability to issue additional notes of any class or distribute dividends in the future. There are no covenants on the Series A Notes.

The Series A Notes are listed for trading on the TASE. **However, the Series A Notes are not registered under the U.S. Securities Act of 1933, as amended (the Securities Act), and may not be offered or sold in the United States or to U.S. Persons (as defined in Regulation “S” promulgated under the Securities Act) without registration under the Securities Act or an exemption from the registration requirements of the Securities Act.**

We also entered into ten-year cross currency interest rate swap transactions in order to effectively hedge the effect of interest and exchange rate differences resulting from the NIS Series A Notes that were issued in 2010 and the additional Series A Notes that were issued in 2012. Under the cross currency interest rate swaps, we receive fixed NIS at a rate of 4.84% on NIS 2 billion and pay floating six-month USD LIBOR plus an average spread of 1.84% on $450 million, which reflects the U.S. dollar value of the Series A Notes on the specific dates the transactions were consummated. Both the debt and the swap instruments pay semi-annual interest on June 30 and December 31. The purpose of these swap transactions was to convert the NIS fixed rate Series A Notes into USD LIBOR (6 months) floating rate obligations. As a result of these agreements, we are currently paying an effective interest rate of six-month LIBOR (1.84% at December 31, 2017) plus an average of 1.84% on the principal amount, as compared to the original 4.84% fixed rate. The above transactions qualify for fair value hedge accounting. (See also Item 11. Quantitative and Qualitative Disclosures about Market Risk.)

Cash Flows

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

In general, subsidiaries are able to transfer cash dividends, loans or advances to Elbit Systems and among themselves, subject to corporate policy and tax considerations in their applicable jurisdiction and subject to management commitment not to distribute tax exempt earnings. Such tax considerations have not had in the past, and are not anticipated to have, a material impact on our ability to meet our obligations.

2017

Our net cash flow generated from operating activities in 2017 was approximately $101 million, resulting mainly from our net income and an increase in non-cash operating items of $140 million, an increase in trade and other payables of approximately $63 million and an increase of approximately $30 million in advances received from customers, offset by an increase in short and long-term trade receivables of approximately $315 million and an increase in inventories of approximately $60 million.

Net cash flow used in investment activities in 2017 was approximately $116 million, which was used mainly for the purchase of property, plant and equipment in the amount of $108 million, acquisition of subsidiaries in the amount of $25 million and investments in affiliated companies in the amount of $5 million, offset by proceeds from the sale of fixed assets of $6 million, proceeds from the net sale of short-term deposits and marketable securities in the amount of $6 million and the sale of an investment in the amount of $12 million.

Net cash flow used for financing activities in 2017 was approximately $52 million, which was used mainly for repayment of Series A Notes in the amount of $56 million, payment of dividends in the amount of $75 million and repayment of long-term loans in the amount of $167 million. Proceeds from new short and long-term loans were approximately $246 million.

2016

Our net cash flow generated from operating activities in 2016 was approximately $208 million, resulting mainly from our net income and an increase in non-cash operating items of $104 million and an increase in trade and other payables of approximately $253 million, offset by an increase in short and long-term trade receivables of approximately $297 million and a decrease in advances received from customers of approximately $83 million.

Net cash flow used in investment activities in 2016 was approximately $116 million, which was used mainly for the purchase of property, plant and equipment in the amount of $124 million and investments in affiliated companies in the amount of $19 million, offset by proceeds from the net sale of short-term deposits and marketable securities in the amount of $12 million and the sale of real estate in the amount of $16 million.

Net cash flow used for financing activities in 2016 was approximately $167 million, which was used mainly for repayment of Series A Notes in the amount of $56 million, payments of dividends in the amount of $68 million and repayment of long-term loans in the amount of $48 million.

2015

Our net cash flow generated from operating activities in 2015 was approximately $435 million, resulting mainly from our net income and an increase in non-cash operating items of $159 million, an increase in advances received from customers of approximately $71 million, a decrease in trade receivables of approximately $32 million and a decrease in inventories of approximately $40 million, offset partly by a decrease in trade payables in the amount of $74 million.

Net cash flow used in investment activities in 2015 was approximately $182 million, which was used mainly to acquire subsidiaries and business operations in the amount of approximately $165 million and to purchase property, plant and equipment in the amount of approximately $99 million, offset by net proceeds from the sale of marketable securities of $71 million.

Net cash flow used for financing activities in 2015 was approximately $154 million, which was used mainly for repayment of Series A Notes in the amount of approximately $56 million, payment of dividends to shareholders in the amount of approximately $70 million (of which $8 million was paid by a subsidiary to non-controlling interests) and net repayment of long-term loans of $2.3 million.

Financial Resources

The financial resources available to us include profits, collection of accounts receivable, advances from customers and government of Israel and other third parties' programs such as the Israel Innovation Authority and development grants. In addition, we have access to bank credit lines and financing in Israel and abroad based on our capital, assets and activities.

Elbit Systems and some subsidiaries are obligated to meet various financial covenants set forth in our respective loan and credit agreements. Such covenants include requirements for shareholders' equity, current ratio, operating profit margin, tangible net worth, EBITDA, interest coverage ratio and total leverage. As of December 31, 2016 and 2017, the Company met all financial covenants.

On December 31, 2017, we had total borrowings from banks and public institutions in the amount of $253 million in short and long-term loans, of which most of the $120 million in long-term loans mature in 2019. On December 31, 2017, we also had $1,399 million in guarantees issued on our behalf by banks and other financial institutions, mainly in respect of advance payment and performance guarantees provided in the regular course of business. In addition, at December 31, 2017, we had $182 million in outstanding debt under our Series A Notes, including $56 million maturing in 2018. On December 31, 2017, we had a cash balance amounting to $156 million. We believe that we also have the ability to raise funds on the capital market and through expansion of our credit lines. (See above “Israeli Debt Offering”.)

As of December 31, 2017, we had working capital of $522 million and a current ratio of 1.25. We believe that our working capital and cash flow from operations are sufficient to support our current requirements and financial covenants.

We believe that our current cash balances, cash generated from operations, lines of credit and financing arrangements will provide sufficient resources to meet our operational needs for at least the next fiscal year. However, our ability to borrow funds from the banking system may be impacted by the global financial and liquidity situation. See Item 3. Risk Factors – General Risk Related to Our Business and Market.

For further information on the level, maturity and terms of our borrowings, see Item 18. Financial Statements – Notes 12, 15 and 16.

We believe our cash balance, amounts available under lines of credits, cash flows from operating activities and our ability to access external capital resources should be sufficient to satisfy existing short-term and long-term commitments and plans as well as provide adequate financial flexibility to take advantage of potential strategic business opportunities should they arise within the next year.

Pensions and Other Post-Retirement Benefits. We account for pensions and other post-employment arrangements in accordance with ASC 715 "Compensation – Retirement Benefits". Accounting for pensions and other post-retirement benefits involves judgment about uncertain events, including estimated retirement dates, salary levels at retirement, mortality rates, rates of return on plan assets, determination of discount rates for measuring plan obligations, healthcare cost trend rates and rates of utilization of healthcare services by retirees. These assumptions are based on the environment in each country. (For our pension and other post-retirement benefit assumptions at December 31, 2017 and 2016, see Item 18. Financial Statements – Note 17.) At December 31, 2017, our employee benefit liabilities were $413 million, of which we had severance funds of $299 million set aside to satisfy potential obligations.

Material Commitments for Capital Expenditures.We believe that we have adequate sources of funds to meet our material commitments for capital expenditures for the fiscal year ending December 31, 2017 and the subsequent fiscal year (see above "Financial Resources"). Our anticipated capital expenditures (which include mainly the purchase of equipment, buildings and an enhancement to our Enterprise Resource Planning (ERP) system) as of December 31, 2017 are somewhat higher than those as of December 31, 2016, due to an anticipated increase in expenditures for buildings, ERP enhancements and certain other expenses. We plan to pay for such anticipated capital expenditures using cash from operations. (See also Item 18. Financial Statements – Consolidated Statements of Cash Flows and Note 10.)

Impact of Inflation and Exchange Rates

Functional Currency. Our reporting currency is the U.S. dollar, which is also the functional currency for most of our consolidated operations. A majority of our sales are made outside of Israel in non-Israeli currency, mainly U.S. dollars, as well as a majority of our purchases of materials and components. A significant portion of our expenses, mainly labor costs, are in NIS. Some of our subsidiaries have functional currencies in Euro, GBP, Brazilian reals, Australian dollars and other currencies. Transactions and balances originally denominated in U.S. dollars are presented in their original amounts. Transactions and balances in currencies other than the U.S. dollar are remeasured in U.S. dollars according to the principles set forth in ASC 830 "Foreign Currency Matters". Exchange gains and losses arising from remeasurement are reflected in financial expenses, net, in the consolidated statements of income.

Market Risks and Variable Interest Rates

Market risks relating to our operations result mainly from changes in interest rates and exchange rates. We use derivative instruments to limit exposure to changes in exchange rates in certain cases. We also typically enter into forward contracts in connection with transactions where long-term contracts have been signed and that are denominated in currencies other than U.S. dollars or NIS. We also enter from time to time into forward contracts and

other hedging instruments related to NIS based on market conditions.

We use financial instruments and derivatives in order to limit our exposure to risks arising from changes in exchange rates and to mitigate our exposure to effects of changes in foreign currency rates and interest rates. The use of such instruments does not expose us to additional exchange rate risks since the derivatives are held against an asset (for example, excess assets in Euros). Our policy in utilizing these financial instruments is to protect the dollar value of our cash and cash equivalent assets rather than to serve as a source of income.

In the context of our overall treasury policy specific objectives apply to the management of financial risks. These objectives are disclosed under the headings below “NIS/U.S. Dollar Exchange Rates”, “Inflation and Currency Exchange Rates” and “Foreign Currency Derivatives and Hedging”.

On December 31, 2017, our liquid assets were comprised of bank deposits and short and long-term investments. Our deposits and investments earn interest based on variable interest rates, and their value as of December 31, 2017 was therefore exposed to changes in interest rates. Should interest rates either increase or decrease, such change may affect our results of operations due to changes in the cost of the liabilities and the return on the assets that are based on variable rates.

NIS/U.S. Dollar Exchange Rates. We attempt to manage our financial activities in order to reduce material financial losses in U.S. dollars resulting from the impact of inflation and exchange rate fluctuations on our non-U.S. dollar assets and liabilities. Our income and expenses in Israeli currency are translated into U.S. dollars at the prevailing exchange rates as of the date of the transaction. Consequently, we are affected by changes in the NIS/U.S. dollar exchange rates. We entered into other derivative instruments to limit our exposure to exchange rate fluctuations, related mainly to payroll expenses incurred in NIS. (See Item 11. Quantitative and Qualitative Disclosure of Market Risks.) The amount of our exposure to the changes in the NIS/U.S. dollar exchange rate may vary from time to time. (See Item 3. Key Information – Risk Factors – Risks Relating to Our Israeli Operations.)

Inflation and Currency Exchange Rates

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

In the past, our profitability was negatively affected when inflation in Israel (measured by the change in the CPI from the beginning to the end of the calendar year) exceeded the devaluation of the NIS against the U.S. dollar and at the same time we experienced corresponding increases in the U.S. dollar cost of our operations in Israel. For example, in 2015, the inflation rate was approximately a negative 0.2%, and the NIS depreciated against the U.S. dollar by approximately 0.3%. In 2016, the inflation rate was approximately a negative 0.2%, and the NIS strengthened against the U.S. dollar by approximately 1.5%. In 2017, the inflation rate was approximately a positive 0.4%, and the NIS strengthened against the U.S. dollar by approximately 9.8%. There can be no assurance that we will not be materially adversely affected in the future if inflation in Israel exceeds the devaluation of the NIS against the U.S. dollar or if the timing of such devaluation lags behind increases in inflation in Israel.

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

Foreign Currency, Derivatives and Hedging

While our functional currency is the U.S. dollar, we also have some non-U.S. dollar or non-U.S. dollar linked exposure to currencies other than NIS. These are mainly non-U.S. dollar customer debts, payments to suppliers and subcontractors as well as obligations in other currencies, assets or undertakings. Some subcontractors are paid in local currency under prime contracts where we are paid in U.S. dollars. The exposure on these transactions has not been in amounts that are material to us. However, when we view it economically advantageous, due to anticipated uncertainty

in the applicable foreign exchange rates, we seek to minimize our foreign currency exposure by entering into hedging arrangements, obtaining periodic payments upon the completion of milestones, obtaining guarantees and security from customers and sharing currency risks with subcontractors.

A significant part of our future cash flows that will be denominated in currencies other than the NIS and the U.S. dollar were covered as of December 31, 2017 by forward contracts. On December 31, 2017, we had forward contracts for the sale and purchase of Euro, GBP and various other currencies totaling approximately $504 million ($364 million in Euros, $43 million in GBP and the balance of $98 million in other currencies).

We also use forward exchange hedging contracts and options strategies in order to limit our exposure to exchange rate fluctuation associated with payroll expenses, mainly incurred in NIS. These include forward contracts with notional amount of approximately $71 million to purchase NIS maturing in 2018. (See also Item 11. Quantitative and Qualitative Disclosure of Market Risks.) As of December 31, 2017, an unrealized net loss of approximately $25 million was included in accumulated other comprehensive income. As of December 31, 2017, all of the forward contracts are expected to mature during the years 2018 – 2022.

Regarding the measures taken to reduce the foreign currency exchange rate impact on our Series A Notes see above "Liquidity and Capital Resources – Israeli Debt Offering."

The table below presents the balance of the derivative instruments held in order to limit the exposure to exchange rate fluctuations as of December 31, 2017 and is presented in millions of U.S. dollar equivalent terms:

Forward	**Notional Amount***	**Unrealized Gain (Loss)**
Buy US$ and Sell:		
Euro	282.8	(8.1)
GBP	39.2	(0.8)
NIS	—	—
Other various currencies	61.2	(1.2)

Forward	**Notional Amount***	**Unrealized Gain (Loss)**
Sell US$ and Buy:		
Euro	81.0	2.3
GBP	3.7	0.1
NIS	71.2	2.5
Other various currencies	36.6	(1.0)

* Notional amount information is based on the foreign exchange rate at year end.

Contractual Obligations

	Up to 1 year	2-3 years	4-5 years	More than 5 years
	(U.S. dollars in millions)			
1. Long-Term Debt Obligations[1]	—	119	1	—
2. Series A Notes[1]	56	112	—	—
3. Interest payment[2]	12	4	1	—
4. Operating Lease Obligations[3]	60	92	45	98
5. Purchase Obligations[3]	1,173	269	58	92
6. Other Long-Term Liabilities Reflected on the Company's Balance Sheet under U.S. GAAP[4]	—	—	—	—
7. Other Long-Term Liabilities[5]	—	—	—	—
Total	1,301	596	105	190

(1) The above includes derivative instruments defined as hedge accounting - see Item 18. Financial Statements - Note 2(Y).

(2) All our long-term debt borrowings and Series A Notes bear interest at variable rates, which are indexed to LIBOR (plus a fixed spread). For long-term fixed rate borrowings (mainly Series A Notes) we use variable interest rate swaps, effectively converting our long-term fixed rate borrowings to long-term variable rate borrowings indexed to LIBOR. (See also Item 18. Financial Statements - Notes 15 and 16.) To estimate the scheduled interest payments related to Series A Notes, we applied the future expected interest rates that were used for calculating the fair value of our interest rate swap at the balance sheet date. To estimate the scheduled interest payments related to our other long-term debt obligations we used the LIBOR (plus a fixed spread) interest rates that were effective at the balance sheet date. The majority of our long-term debt obligations are scheduled to be repaid within a period of two - three years.

(3) For further description of the Purchase Obligations see above "Long-Term Arrangements and Commitments – Purchase Commitments" and see Item 18. Financial Statements – Notes 20(D) and 20(G).

(4) The obligation amount does not include an amount of $413 million of pension and employee termination liabilities. See Item 18. Financial Statements – Notes 2(R) and 17. The obligation amount also does not include an amount of $55 million of tax reserve related to uncertain tax positions. See Item 18. Financial Statements – Note 18.

(5) See below "Off-Balance Sheet Transactions."

Off-Balance Sheet Transactions

Buy-Back

In connection with projects in certain countries, Elbit Systems and some of our subsidiaries have entered and may enter in the future into "buy-back" or "offset" agreements, required by a number of our customers as a condition to our obtaining orders for our products and services. These agreements are customary in our industry and are designed to facilitate economic flow back (buy-back) and/or technology transfer to businesses or government agencies in the applicable country.

These commitments may be satisfied by our placement of direct work or vendor orders for supplies and/or services, transfer of technology, investments or other forms of assistance in the applicable country. We attempt to leverage economics of scale by managing our buy-back activities from an overall corporate perspective. The buy-back rules and regulations, as well as the underlying contracts, may differ from one country to another. The ability to fulfill the buy-back obligations may depend, among other things, on the availability of local suppliers with sufficient capability to meet our requirements and which are competitive in cost, quality and schedule. In certain cases, our commitments may also be satisfied through transactions conducted by other parties or through “swap” transaction among various countries’ buy-back authorities.

We do not commit to buy-back agreements until orders for our products or services are definitive, but in some cases the orders for our products or services may become effective only after our corresponding buy-back commitments become effective. Buy-back programs generally extend at least over the relevant commercial contract period and may provide for penalties in the event we fail to perform in accordance with buy-back requirements. In some cases we provide guarantees in connection with the performance of our buy-back obligations.

Should we be unable to meet such obligations we may be subject to contractual penalties, our guarantees may be drawn upon and our chances of receiving additional business from the applicable customers could be reduced or, in certain cases, eliminated. (See Item 3. Risk Factors – General Risks Related to Our Business and Market.)

At December 31, 2017, we had outstanding buy-back obligations totaling approximately $1.3 billion that extend through 2028.

Non-GAAP Financial Data

The following non-GAAP financial data is presented to enable investors to have additional information on our business performance as well as a further basis for periodical comparisons and trends relating to our financial results. We believe such data provides useful information to investors by facilitating more meaningful comparisons of our financial results over time. Such non-GAAP information is used by our management to make strategic decisions, forecast future results and evaluate our current performance. However, investors are cautioned that, unlike financial measures prepared in accordance with GAAP, non-GAAP measures may not be comparable with the calculation of similar measures for other companies.

The non-GAAP financial data below includes reconciliation adjustments regarding non-GAAP gross profit, operating income, net income and diluted EPS. In arriving at non-GAAP presentations, companies generally factor out items such as those that have a non-recurring impact on the income statements, various non-cash items, significant effects of retroactive tax legislation and changes in accounting guidance and other items which, in management’s judgment, are items that are considered to be outside the review of core operating results. In our non-GAAP presentation, we made certain adjustments as indicated in the table below.

These non-GAAP measures are not based on any comprehensive set of accounting rules or principles. We believe that non-GAAP measures have limitations in that they do not reflect all of the amounts associated with our results of operations, as determined in accordance with GAAP, and that these measures should only be used to evaluate our results of operations in conjunction with the corresponding GAAP measures. Investors should consider non-GAAP financial measures in addition to, and not as replacements for or superior to, measures of financial performance prepared in accordance with GAAP.

Reconciliation of GAAP (Audited) to
Non-GAAP (Unaudited) Supplemental Financial Data
(U.S. dollars in millions, except for per share amounts)

	Years Ended December 31,		
	2017	**2016**	**2015**
GAAP gross profit	997.9	959.6	897.1
Adjustments:			
Amortization of purchased intangible assets	22.2	31.2	29.9
Non-GAAP gross profit	1,020.1	990.8	927.0
Percent of revenues	30.2 %	30.4 %	29.8 %
GAAP operating income	319.3	299.0	268.6
Adjustments:			
Amortization of purchased intangible assets	28.6	41.2	48.1
Gain from change in holdings	—	(17.6)	—
Non-GAAP operating income	347.9	322.6	316.7
Percent of revenues	10.3 %	9.9 %	10.2 %
GAAP net income attributable to Elbit Systems' shareholders	239.1	236.9	202.5
Adjustments:			
Amortization of purchased intangible assets	28.6	41.2	48.1
Impairment of investment	—	2.5	—
Capital gain	—	(3.9)	—
Gain from changes in holdings	—	(16.4)	—
Tax effect and other tax items*	6.2	(6.1)	(8.2)
Non-GAAP net income attributable to Elbit Systems' shareholders	273.9	254.2	242.4
Percent of revenues	8.1 %	7.8 %	7.8 %
GAAP diluted net EPS	5.59	5.54	4.74
Adjustments, net	0.82	0.41	0.93
Non-GAAP diluted net EPS	6.41	5.95	5.67

*Tax effect in 2017 includes $10.9 million related to the tax reform in the U.S.

Item 6. Directors, Senior Management and Employees.

Directors and Executive Officers

Board of Directors (Board)

Our directors as of March 15, 2018 are as follows:

Name	Age	Director Since
Michael Federmann (Chair)	74	2000
Rina Baum	72	2001
Yoram Ben-Zeev	73	2014
David Federmann (Vice Chair)	43	2007
Dr. Yehoshua Gleitman (External Director)	68	2010
Dov Ninveh	70	2000*
Professor Ehood (Udi) Nisan	50	2016
Dalia Rabin (External Director)	67	2010
Professor Yuli Tamir	64	2015

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* was not a member of the Board from April - October 2013

The term of office of each director, other than the External Directors, expires at the conclusion of the annual general shareholders meeting to be held during 2018. The term of office for Yehoshua Gleitman as an External Director expires in March 2019, and the term of office for Dalia Rabin as an External Director expires in November 2019.

Michael Federmann. Michael Federmann has served as chair of the Board since 2000. Since 2002 he has served as chair and CEO of Federmann Enterprises Ltd. (FEL), a privately-owned Israeli company in which Mr. Federmann has held managerial positions since 1969. FEL, directly and through subsidiaries, holds a diversified portfolio of investments, including ownership of approximately 46% of the Company's outstanding ordinary shares. FEL also has ownership interests in Dan Hotels Ltd. (Dan Hotels), an Israeli hotel chain, in Freiberger Compound Materials GmbH (Freiberger), a German company engaged in the supply of materials for the semi-conductor industry, as well as in several financial, real estate and venture capital investments. Mr. Federmann serves as chair of the board of directors of Dan Hotels and is chair of the board of governors of the Hebrew University of Jerusalem (the Hebrew University). He serves as the president of the Israel - Germany Chamber of Industry and Commerce, was awarded the Order of Merit of the Federal Republic of Germany and is an Honorary Commander of the Order of the British Empire (CBE). Mr. Federmann holds a bachelor's degree in economics and political science from the Hebrew University, which has also awarded him an honorary doctorate in philosophy.

Rina Baum. Rina Baum is vice president for investments of FEL and since 1986 has served as a director and as general manager of Unico Investment Company Ltd. She serves as a director of Dan Hotels and Etanit Building Products Ltd. (Etanit), and holds other managerial positions with investee companies of FEL. Mrs. Baum holds an L.L.B. degree in law from the Hebrew University.

***Yoram Ben-Zeev*.** Yoram Ben-Zeev serves on the board of several non-profit organizations in Israel. He served as Israel's ambassador to the Federal Republic of Germany from 2007 until 2012. Prior to that, he served for 26 years in various senior positions in the MFA, including as deputy general director, head of the North America Division and senior member of the directorate. Among other positions held during his service in the MFA, Mr. Ben-Zeev served as Israel's consul general to the West Coast in the United States, political advisor to the president of the State of Israel, special coordinator to the Middle East peace process, advisor to prime minister Ehud Barak for the Camp David Peace Conference and chair of the MFA's Steering Committee - Foreign Service Strategic and Functional Planning and of the Israel-Canada Annual Strategic Forum. Mr. Ben-Zeev has been the recipient of special awards for his diplomatic service from both the U.S. House of Representatives and the president of the Federal Republic of Germany. Mr. Ben-Zeev holds a bachelor's degree in Middle Eastern studies, political science and international relations from the Hebrew University and a master's degree in Middle Eastern studies from the Tel-Aviv University. Mr. Ben Zeev serves as the chair of the Corporate Governance and Nominating Committee of the Board and as a member of the Audit Committee, the Financial Statements Review Committee and the Compensation Committee of the Board.

David Federmann. David Federmann has served as vice chair of the Board since 2015. He has served in various management capacities in FEL since 2000. He currently serves as chair of the board of Freiberger and as a member of the boards of directors of Dan Hotels and BGN Technologies (the technology transfer company of Ben-Gurion University). David Federmann is the son of Michael Federmann, chair of the Board. Mr. Federmann holds a bachelor's degree in mathematics and philosophy from New York University.

Dr. Yehoshua Gleitman (External Director). Dr. Yehoshua (Shuki) Gleitman has served since 2001 as the managing partner of Platinum VC, a venture capital firm. He currently serves as the chair of the board of directors of Capital Point Ltd., of GLK Investment and Management Company Ltd. and of GIBF - Guangzhou Israel Bio Tech Fund, and is a director of Teuza - A Fairchild Technology Venture Ltd and G Medical Innovations Holdings Ltd., a company incorporated in the Cayman Islands. From 2000 until 2005, he was the chief executive officer and a director of SFKT Ltd. From 1997 until 1999, Dr. Gleitman was the chief executive officer of Ampal-American Israel Corporation. Prior to that he served in various senior management positions in the Israeli government and in Israeli industry, including as director general and chief scientist of the Israel Ministry of Industry and Trade, chair of the U.S.-Israel Industrial R&D Foundation, joint chair of the U.S.-Israel Science and Technology Commission, managing director of AIMS Ltd., vice president and general manager of Elop Electro-Optic Industries Ltd.'s (Elop) marine and aerial operations and head of the Laser Branch of the Israel Ministry of Defense. Dr. Gleitman serves as the honorary consul general of Singapore to Israel. Dr. Gleitman holds bachelor of science, master of science and PhD degrees in physical chemistry from the Hebrew University. Dr. Gleitman serves as the chair of the Audit Committee and the Financial Statements Review Committee of the Board and as a member of the Compensation Committee and the Corporate Governance and Nominating Committee of the Board. He is considered by the Board to have accounting and financial expertise under the Companies Law.

Dov Ninveh. Dov Ninveh has served as chief financial officer and a manager in FEL since 1994 and as the general manager of Heris Aktiengesellschaft since 2012. He serves as a director of Dan Hotels and Etanit, and as a member of the board of Freiberger. Mr. Ninveh served as a director of Elop from 1996 until 2000. From 1989 to 1994, he served as deputy general manager of Etanit. Mr. Ninveh holds a bachelor of science degree in economics and management from the Israel Institute of Technology (the Technion).

Professor Ehood (Udi) Nisan. Prof. Ehood (Udi) Nisan is a professor in the School of Public Policy and Government of the Hebrew University. He is a member of the board of Bezalel Academy of Art and chair of its finance committee, and an External Director of Harel Insurance Finance Services Ltd., Solgreen (Israel) Ltd. and Rekah Pharmaceutical Industry Ltd. From 2013 to 2016, he was the chair of the board of directors of Delek, The Israel Fuel Corporation Ltd. From 2009 to 2011, Prof. Nisan was the director of the budgets department of the Israeli Ministry of Finance, and from 2007 to 2009 he served as the director of the Government Companies Authority. Prior to that he served in

various executive positions in the Israeli Ministry of Finance and served as a member and chair of several government and public committees, including from 1999 until 2002 as the CEO of the Jerusalem Development Authority. Prof. Nisan holds bachelor's and master's degrees in economics and business administration, and a PhD in economics and public policy from the Hebrew University. Prof. Nisan serves as a member of the Audit Committee and the Financial Statements Review Committee of the Board. He is considered by the Board to have accounting and financial expertise under the Companies Law.

Dalia Rabin (External Director). Dalia Rabin is the chair of the Yitzhak Rabin Center, a national institute dedicated to ensuring that the legacy of former Prime Minister and Minister of Defense Yitzhak Rabin continues to impact Israeli society through experiential educational programming, a national archive and a museum. Before that, Mrs. Rabin was a member of the Israeli Government from 1999 until 2002. She is the president of the Center for Arbitration and Dispute Resolution and a member of the board of directors of Peilim Investment Portfolio Management Company Ltd. Mrs. Rabin was elected to the Knesset on the Center Party Ticket in 1999 and acted as chair of the Ethics Committee. She also served on the Constitution, Law and Justice Committee; the Committee for the Advancement of the Status of Women; the State Control Committee; and the Committee for the Advancement of the Status of the Child. In 2001, Mrs. Rabin was appointed Deputy Minister of Defense. She resigned in 2002 to head the Rabin Center. Prior to her election to the Knesset, Mrs. Rabin served as the legal advisor of the professional associations of the General Federation of Labor (the Histadrut). She also served for fourteen years in the Tel-Aviv District Attorney's Office in the Civil Division, specializing in labor law. Mrs. Dalia Rabin holds an L.L.B degree from Tel-Aviv University. Mrs. Rabin serves as the chair of the Compensation Committee of the Board and as a member of the Audit Committee, the Financial Statements Review Committee and the Corporate Governance and Nominating Committee.

Professor Yuli Tamir. Prof. Yuli Tamir has served since 2010 as the President of Shenkar College, a public college in Ramat-Gan, Israel. Before that, from 2006 until 2009, she served as Israel's Minister of Education. Prof. Tamir also served as the Minister of Immigration from 1999 until 2001. She was a deputy speaker of the Knesset and a member of the Finance Committee, the Education Committee and the Security and Foreign Affairs Committee. Prof. Tamir is a founding member of the Israeli peace movement "Peace Now". She served as the chair of the Association of Civil Rights in Israel and was a member of the political committee of the Women's Lobby. She was a professor at Tel-Aviv University and a scholar-in-residence at Princeton University, Harvard University, the University of Pennsylvania, the European University in Florence, the Central European University in Budapest and the Blavatnik School of Government in Oxford. Prof. Tamir is the recipient of numerous academic awards. Prof. Tamir holds a bachelor of science degree in biology and a master's degree in political science from the Hebrew University and a PhD in political philosophy from Oxford University. Prof. Tamir serves as a member of the Audit Committee and the Financial Statements Review Committee of the Board.

Executive Officers

Our executive officers, the President and CEO and the Executive Vice Presidents who report to the President and CEO) as of March 15, 2018 are as follows:

Name	Age	Position
Bezhalel Machlis	56	President and Chief Executive Officer
Elad Aharonson	44	Executive Vice President and General Manager – ISTAR Division
Jonathan Ariel	61	Executive Vice President and Chief Legal Officer
David Block Temin	62	Executive Vice President, Chief Compliance Officer and Senior Counsel
Joseph Gaspar	69	Executive Vice President and Chief Financial Officer
Zeev Gofer	65	Executive Vice President – Strategic and Business Development - North America
Dr. Shelly Gordon	57	Executive Vice President – Human Resources
Ran Kril	47	Executive Vice President - International Marketing and Business Development
Edgar Maimon	63	Executive Vice President and General Manager – EW and SIGINT Elisra Division
Avi Mizrachi	60	Executive Vice President - Business Development - Israel and Southeast Asia
Ilan Pacholder	63	Executive Vice President – Mergers and Acquisitions and Financing
Yuval Ramon	52	Executive Vice President and Chief Operating Officer
Gideon Sheffer	69	Executive Vice President – Strategic Planning
Yoram Shmuely	57	Executive Vice President and General Manager – Aerospace Division
Yehuda Vered	60	Executive Vice President and General Manager – Land and C4I Division
Yehoshua Yehuda	51	Executive Vice President - Chief Technology Officer

***Bezhalel Machlis*.** Bezhalel Machlis has served as the Company's President and CEO since 2013. From 2008 until 2012, he served as executive vice president and general manager – land and C4I division, after serving as corporate vice president and general manager – land systems and C4I since 2004. In 2003, he served as corporate vice president and general manager – ground, C4I and battlefield systems. From 2000 until 2002, he served as vice president – battlefield and information systems. Mr. Machlis joined Elbit Ltd. in 1991 and held various management positions in the battlefield and information systems area. Prior to that, he served as an artillery officer in the IDF, where he holds the rank of colonel (reserves). Mr. Machlis holds a bachelor of science degree in mechanical engineering and a bachelor of arts degree in computer science from the Technion and an MBA from Tel-Aviv University. He is a graduate of Harvard University Business School's Advanced Management Program.

Elad Aharonson. Elad Aharonson has served as Executive Vice President and General Manager - ISTAR Division since 2015. From 2011 until his current appointment, he served as executive vice president and general manager - UAS Division, after serving as vice president - UAV systems since 2009. He joined Elbit Systems in 2004 and held various senior program management positions relating to UAS. Prior to that, Mr. Aharonson served as an officer in the IDF holding command positions in the Artillery Branch and in the Ground Forces' UAV unit. Mr. Aharonson holds an L.L.B. degree in law and a bachelor's degree in business administration from the Hebrew University.

Jonathan Ariel. Jonathan Ariel has served as Executive Vice President and Chief Legal Officer since 2012, after serving as senior vice president and general counsel since 2008. He joined Elbit Systems in 1996 and has held several positions within the legal department, including vice president and general counsel of Elop. Prior to joining Elbit Systems, Mr. Ariel served as a legal advisor both in-house and in private law firms in Israel and the U.S. Mr. Ariel holds an L.L.B degree in law from Tel-Aviv University and is admitted to the Israeli Bar.

David Block Temin. David Block Temin has served as Executive Vice President, Chief Compliance Officer and Senior Counsel since 2012, after serving as executive vice president, chief legal officer and chief compliance officer since 2008. Prior to that he served as corporate vice president and general counsel since 2000 and as general counsel since 1996. From 1987 to 1996, he was a legal advisor to Elbit Ltd. Prior to that, Mr. Block Temin was an attorney with law firms in New York City. Mr. Block Temin received a juris doctor degree as well as a master of arts degree in international relations from Stanford University and holds a bachelor of arts degree in political science from the University of Maryland. He is admitted to the Israeli bar.

***Joseph Gaspar*.** Joseph Gaspar was appointed as an Executive Vice President in 2008 and has served as Chief Financial Officer since 2001. He was appointed as a corporate vice president in 2000 and served as corporate vice president – strategy, technology and subsidiaries from 2000 until 2001. From 1996 until 2000, he held the position of corporate vice president, marketing and business development of Elop. Mr. Gaspar joined Elop in 1975 and held several management positions, including vice president and general manager of Elop's optronics product division and co-manager of an Elop subsidiary in the United States. Mr. Gaspar holds a bachelor of science degree from the Technion in electronic engineering with advanced studies in digital signal processing and communication.

Zeev Gofer. Zeev Gofer has served as Executive Vice President – Strategic and Business Development – North America since 2009. From 2008 until his current appointment he was executive vice president – business development and marketing, after serving as corporate vice president – business development and marketing since 2003. He previously served as corporate vice president and as co-general manager – aircraft and helicopter upgrades and systems from 2000 until 2003. From 1999 until 2000, he was vice president – aircraft upgrades and airborne systems division, having served as division manager since 1996. He joined Elbit Ltd. in 1982 and held various management positions, including director of the aircraft upgrade division, director of a major aircraft upgrade program, director of avionics system engineering and technical manager of the Lavi aircraft avionics program. Mr. Gofer holds bachelor's and master of science degrees in electronic engineering from the Technion and a master of science of management degree from the Polytechnic University of New York.

Dr. Shelly Gordon. Dr. Shelly Gordon was appointed as Executive Vice President - Human Resources shortly after joining Elbit Systems in 2015. From 2012 until joining Elbit Systems, she headed executive education at the Interdisciplinary Center Herzilya. From 2005 until 2012, Dr. Gordon served as vice president - organizational development and talent management at Amdocs Limited and served as vice president - human resources at Elite Confectionary Ltd. from 2000 until 2005. Prior to that, she worked as an independent consultant with management teams and senior managers, leading major transformations in varied organizations and industries. Dr. Gordon received a bachelor's degree in education and art from the Hebrew University, a bachelor's degree in psychology from Tel-Aviv University and a doctorate in management studies from the University of Hertfordshire in the U.K.

Ran Kril. Ran Kril was appointed as Executive Vice President - International Marketing and Business Development in 2015. From 2013 until his current appointment, he served as vice president for marketing and sales in the aerospace division, after serving as the aerospace division's vice president for sales and contracts since 2007. He joined Elbit Systems in 1997 and held various senior positions in the marketing, sales and finance departments of the aerospace division. Mr. Kril holds a bachelor of science degree in economics and management from the Technion and a master of science of management degree from the Polytechnic University of New York.

Edgar Maimon. Edgar Maimon has served as Executive Vice President and General Manager – EW and SIGINT Elisra Division since 2013. From 2005 until his current appointment Mr. Maimon served as vice president of marketing and business development at Elbit Systems EW and SIGINT – Elisra Ltd. (Elisra). He joined Elisra in 2004. Prior to that Mr. Maimon served for 26 years in the IAF, where he retired with the rank of colonel. He served as the head of the IAF's C4I systems engineering department and held several additional senior positions in the IAF. Mr. Maimon holds a bachelor of science degree in electronic engineering from Ben Gurion University.

Avi Mizrachi. Avi Mizrachi was appointed Executive Vice President - Business Development - Israel and Southeast Asia in January 2017, after serving as executive vice president - business development - Southeast Asia since 2014. He joined Elbit Systems in 2013 as a senior vice president in the corporate marketing department. Prior to that, Mr. Mizrachi completed 33 years of service in the IDF, retiring with the rank of major general. From 2009 to 2012, he served as the commander of the IDF's Central Command. Prior to that he held a number of senior command positions including head of the Technology and Logistics Branch and commander of the IDF's Ground Forces. Mr. Mizrachi holds a bachelor of arts degree in computer science and business administration from Pace University in New York and is a graduate of the Harvard University Business School's Advanced Management Program.

Ilan Pacholder. Ilan Pacholder has served as Executive Vice President – Mergers and Acquisitions since 2009, in addition to his position as Executive Vice President – Financing to which he was appointed in 2008. From 2008 until 2015, he also served as executive vice president - offset. During 2007, he served as vice president and chief financial officer of Tadiran Communications Ltd. Mr. Pacholder served as corporate secretary and vice president – finance and capital markets of Elbit Systems from 2003 until 2006. From 2001 until 2003, he served as vice president – finance. Mr. Pacholder joined Elbit Ltd. in 1994 and held various senior positions in the finance department. Prior to joining Elbit Ltd. he served as the chief financial officer for Sanyo Industries in New York. Before that Mr. Pacholder worked for Bank Leumi in New York and held the position of vice president in the international and domestic lending departments. Mr. Pacholder holds a bachelor of arts degree in accounting and economics from Queens College in New York and an MBA in finance and investments from Adelphi University.

Yuval Ramon. Yuval Ramon was appointed Executive Vice President and Chief Operating Officer in 2015. From 2014 until his current appointment, he served as vice president - corporate operations. Prior to that, from 1998 - 2013, he served in a number of management positions in Elbit Systems of America, including as senior vice president of operations, site lead at the Merrimack operations and director of sales and contracts for the Fort Worth operations. He joined Elbit Systems in 1994 as a sales and contract manager. Mr. Ramon holds a bachelor of science degree in industrial engineering and economics from the Technion.

Gideon Sheffer. Gideon Sheffer has served as Executive Vice President – Strategic Planning since January 2017, after serving as executive vice president - strategic planning and business development – Israel since 2009. From 2008 until 2009 he served as executive vice president – strategic planning, after serving as corporate vice president – strategic planning since 2001. Prior to that he served as acting head of Israel's National Security Council and as national security advisor to former prime minister Ehud Barak. In 1998, he completed 32 years of service in the IDF, retiring with the rank of major general. From 1995 to 1998, he served on the general staff as head of the IDF's human resources branch. Before that, he served as deputy commander of the IAF. Mr. Sheffer held a number of command positions in the IAF after serving as a fighter aircraft and helicopter pilot. Mr. Sheffer holds a bachelor's degree in Israel studies from Bar Ilan University and is a graduate of the Harvard University Business School's Advanced Management Program.

Yoram Shmuely. Yoram Shmuely has served as Executive Vice President and General Manager – Aerospace Division since 2013, after serving as executive vice president and co-general manager of the aerospace division since 2008. Mr. Shmuely served as corporate vice president and co-general manager – airborne and helmet systems since 2003. He served as corporate vice president and general manager – helmet mounted systems from 2000 until 2003. From 1998 until 2000, he was vice president – helmet mounted systems division. From 1996 until 1998, he served as president of a U.S. subsidiary of Elbit Systems. Mr. Shmuely joined Elbit Ltd. in 1990 and served as director of Elbit Ltd.'s helmet mounted display business. He served as a fighter aircraft pilot in the IAF. Mr. Shmuely holds a bachelor of science degree in electronic engineering from the Technion.

Yehuda Vered. Yehuda (Udi) Vered has served Executive Vice President and General Manager – Land and C4I Division since 2013. From 2009 until his current appointment Mr. Vered served as executive vice president – service

solutions as well as vice president – marketing for the land and C4I division. Prior to that, since 2004 he served as chief financial officer and vice president for contracts and sales of the land and C4I division. Mr. Vered joined Elbit Systems in 2003 as vice president for contracts and sales and chief financial officer – ground, C4I and battlefield systems. Before that, he served as an aircrew officer in the IAF, where he holds the rank of colonel (reserves). Mr. Vered holds a bachelor of arts degree in management and economics from Tel-Aviv University, an MBA from Ben Gurion University and is a graduate of the Harvard University Business School's Advanced Management Program.

Yehoshua Yehuda. Yehoshua (Shuki) Yehuda was appointed as Executive Vice President and Chief Technology Officer in 2016. From 2008 until his current appointment, he served as Elisra's vice president and chief technology officer as well as general manager - radar solutions business unit. Prior to that he served in a number of management positions in Elisra, which he joined in 2000. Prior to joining Elisra, Mr. Yehuda served as an officer in the IDF, holding command positions in the Intelligence Corps. Mr. Yehuda holds a bachelor of science degree in electrical engineering from Tel-Aviv University and a master of science degree in neural computation from the Hebrew University. He is a graduate of Harvard University Business School's Advanced Management Program.

President and CEO of Elbit Systems of America

Elbit Systems of America's President and CEO reports to the board of directors of Elbit Systems of America in accordance with the provisions of the Special Security Agreement with the U.S. Department of Defense. (See Item 4. Information on the Company – U.S. Subsidiaries.) Raanan Horowitz has served as President and CEO of Elbit Systems of America since 2007. He served as executive vice president and general manager of EFW from 2001 until his current appointment. From 1991 until 2001, Mr. Horowitz held various management positions with EFW and other U.S. subsidiaries of the Company. From 1989 to 1991, he served as a senior program manager for Elbit Ltd. Mr. Horowitz serves on the executive committee of the board of governors of the Aerospace Industries Association and is a member of the executive committee of the national board of directors of the Leukemia and Lymphoma Society. Mr. Horowitz holds an MBA from the Seidman School of Business of Grand Valley State University in Allendale, Michigan. He also holds a master of science degree in electrical engineering and a bachelor of science degree in mechanical engineering from Tel-Aviv University.

Compensation of Directors and Executive Officers

Compensation Policy

Pursuant to the Companies Law, a public company such as Elbit Systems is required to adopt a compensation policy regarding the terms of office and employment of its Office Holders (as defined in the Companies Law) (generally Elbit Systems' directors and executive officers), including compensation, equity-based awards, releases from liability, indemnification and insurance, severance and all other employment benefits (Employment Terms).

The Companies Law also requires that an adopted compensation policy be reviewed from time to time by the compensation committee and the board of directors of the company, to ensure its alignment with the company's goals, work plan and other policies from a long-term perspective, as well as the compensation policy's appropriateness to the company considering, among other factors, the company's risk management policy and the company's size and nature of operations.

In addition, pursuant to the Companies Law, a compensation policy needs to be re-approved every three years by the board of directors, following the recommendation of the compensation committee, and by the company's shareholders, by a Special Uninterested Majority (as defined below). In the event that the compensation policy is not approved by the shareholders by a Special Uninterested Majority, the board of directors may nonetheless approve it, provided that the compensation committee and the board of directors, following further discussion of the matter and for specified reasons, determine that the approval of the compensation policy is in the best interests of the company.

Special Uninterested Majority means: (a) a majority of the shareholders who are not controlling shareholders of the company and do not have a "Personal Interest" in the approval of the respective resolution who participate in the vote, in person, by proxy or by a voting instrument vote to approve it (abstentions will not be taken into account) or (b) the total number of votes of the shareholders referred to in (a) above that are voted against the proposed resolution does not exceed two percent (2%) of the company's total voting rights. (For the definition Personal Interest see Item 10 -

Additional Information - Approval of Certain Transactions - Personal Interest and Extraordinary Transactions.)

In 2014 our shareholders, following a favorable recommendation of the Compensation Committee of the Board (the Compensation Committee) and the approval of the Board as a whole, approved a compensation policy (the Former Compensation Policy) applicable to Employment Terms and arrangements with our Office Holders. In accordance with the Companies Law, in a proxy statement issued by the Company on October 19, 2016 in connection with the Company's Annual General Meeting that was held on November 23, 2016, the Company proposed the approval of an amended compensation policy. This proposal was eventually withdrawn from the agenda of the above-mentioned meeting, in order to allow the Compensation Committee and the Board to further review and discuss the various matters to be included in our compensation policy and to consider certain comments received from shareholders or on their behalf with respect to the proposed amended compensation policy.

Following such further review and discussions, and following recommendation of our Compensation Committee and the approval of our Board, on March 1, 2018 we issued a proxy statement (the March Proxy Statement) convening an Extraordinary General Meeting of our shareholders to be held on April 11, 2018 (the Scheduled April Meeting), at which Scheduled April Meeting we will propose, among other matters, that our shareholders approve a new compensation policy (the New Compensation Policy), as set forth in the March Proxy Statement filed by us on Form 6-K with the Israeli Securities Authority and the SEC on March 1, 2018.

Upon approval of the New Compensation Policy in accordance with the provisions of the Companies Law as set forth above, the New Compensation Policy will be in effect for a three-year period or as otherwise may be mandated from time to time by the Companies Law.

The Companies Law requires that we obtain the approval of the Compensation Committee and the Board as a whole for each Employment Terms arrangement with an Office Holder. In addition, the Companies Law requires that we also obtain the approval of our shareholders for any Employment Terms arrangement with our CEO, a director, any other Office Holder where the Employment Terms are not consistent with an approved compensation policy or any Office Holder that is considered a controlling shareholder or such Office Holder's "Relative". (For the definition of Relative see Item 10 - Additional Information - Approval of Certain Transaction - Approval of Employment Terms of Office Holders.). Except with respect to Employment Terms of a director, such shareholder approval requires a Special Uninterested Majority. Under certain circumstances described in the Companies Law, if the Employment Terms of an Office Holder who is not a director or a controlling shareholder, that requires shareholder approval as described above, are not approved by the shareholders by the required Special Uninterested Majority, and provided that the company is not a "Public Pyramid Held Company" as defined in the Companies Law, the compensation committee and the board of directors may nonetheless approve such Employment Terms provided that the compensation committee and the board of directors, following further discussion of the matter and for specified reasons, determine that the approval of such Employment Terms is in the best interests of the company. (For further information see Item 10 - Additional Information - Approval of Certain Transaction - Approval of Employment Terms of Office Holders).

In addition, pursuant to the Companies Law, changes determined by the compensation committee not to be material to the existing Employment Terms of an Office Holder who is not a director or a controlling shareholder, require only the approval of the compensation committee.

In accordance with the requirements of the Companies Law, at the Shareholders' Extraordinary General Meeting held on March 8, 2016, the Company's shareholders, following the recommendations of the Compensation Committee and the Board, approved, by the Special Uninterested Majority, the Employment Terms of our CEO, Mr. Bezhalel Machlis, with effect as of April 1, 2016. At the Scheduled April Meeting, following the recommendation of our Compensation Committee and the Board, our shareholders will also be requested to approve the grant to our CEO of options under our new 2018 - Equity Incentive Plan for Executive Officers (see below "Share Ownership - Elbit Systems Stock Option Plans") as well as the grant of options to our CEO by PO Cell Tech Ltd., a privately-held Israeli

commercial company in which we hold a majority interest.

For further information regarding the Scheduled April Meeting - see the March Proxy Statement. In addition see below “Board Practices - Compensation Committee”, “Share Ownership - Elbit Systems’ Stock Option Plan”, Item 10 - Additional Information - General Provisions of Israeli Law and Related Provisions of Articles of Association - Office Holders and Approval of Employment Terms of Office Holders and Item 16G. - Corporate Governance.

Compensation of Directors and Executive Officers

Aggregate Compensation to Directors and Executive Officers

The following table sets forth the aggregate compensation costs for all of our directors and executive officers as a group for the fiscal year ended December 31, 2017:

	Salaries, Directors' Fees Commissions and Bonuses (U.S. dollars in thousands)	**Pension, Retirement and Similar Benefits**
All directors (consisting of 9 persons)	$430 [(1)]	$ —
All executive officers (consisting of 18 persons)	$18,765 [(2)(3)]	$ 1,535

(1)***Directors Fees***

In accordance with the Companies Law, in our Shareholders Annual General Meeting held on November 30, 2017, our shareholders approved payment to the Company's directors, including to Michael Federmann and David Federmann (who each may be considered a direct or indirect controlling shareholder of the Company), in accordance with maximum regulatory rates payable to External Directors under Israeli law for companies similarly classified based on their shareholding equity as well as reimbursement of expenses in accordance with Israeli law and the Company's procedures, which are also paid to the Company's External Directors. As a result, each of the Company's directors is and will be entitled to an annual fee of NIS 111,345 (equal to approximately $31,137) and a per meeting fee of NIS 4,285 (equal to approximately $1,198), which reflect the above mentioned fee levels, linked to the Israeli consumer price index.

(2)***Phantom Bonus Retention Plan***

In 2012, our Board approved a "Phantom" Bonus Retention Plan for Senior Officers (the Phantom Plan). The purpose of the Phantom Plan is to provide an incentive to retain applicable senior officers of Elbit Systems and certain of our subsidiaries by strengthening the alignment of the Phantom Plan recipients' financial interests with those of the Company and our shareholders. Under the Phantom Plan, phantom bonus units were granted to executive officers

(i) within the framework of three consecutive yearly tranches, each such tranche comprised of an equal number of units which entitle the recipient the right to receive the financial benefit (Unit Benefits) deriving from increases in the value of the Company's shares during the applicable periods, subject to certain restrictions. Unit Benefits are calculated separately for each tranche. The Unit Benefits accrual period for each tranche is three years from the respective grant date of the applicable bonus units.

(ii) At the end of each year during the Unit Benefits accrual period for each tranche, the Company calculates the value of each Unit Benefit for such year (the Unit Benefits Value). The Unit Benefits Value is the difference between: (i) the basic value for that year - i.e. the average closing price on the TASE of the Company's shares for the thirty (30) trading days preceding the beginning of the respective year, and (ii) the year-end value for said year - i.e. the average closing price on the TASE of the Company's shares for the thirty (30) trading days preceding the end of the relevant year.

(iii) The accrued Unit Benefits Value for each yearly tranche is the sum of the first year Unit Benefits Value, the second year Unit Benefits Value and the third year Unit Benefits value for that tranche. Because of certain conditions in the Phantom Plan, the Unit Benefits Value for a particular year of a tranche may be zero or only part of the calculated Unit Benefits Value for that year. The aggregate maximum Unit Benefits Value of a unit granted for the full three years of a tranche may not exceed 100% of the basic value determined for that tranche for its first year. Except in certain circumstances described in the Phantom Plan, the accrued Unit Benefits Value of a tranche is paid to the recipient at the end of the third year of the respective tranche.

(iv) Except as otherwise provided in the Phantom Plan, entitlement to receipt of benefits is conditioned on the recipient remaining an employee of the Company. The benefits received under the Phantom Plan are subject to tax at the regular personal income tax rates.

(v) We recorded amounts of approximately $14.7 million and $8.9 million in 2016 and 2017, respectively, as compensation costs related to grants to our executive officers under the Phantom Plan. See Item 18. Financial Statements – Note 21(D).

(3) ***Other Compensation***

In addition to payment of monthly salary and annual bonus, our executive officers are entitled to reimbursement of travel and certain other expenses in a manner similar to other employees.

Office Holders of the Company, including our directors and executive officers, are covered by our D&O liability insurance policy and are entitled to indemnification in accordance with our Articles of Association and pursuant to an indemnification letter as approved by our shareholders. (See Item 10. “Additional Information - Exemption, Insurance and Indemnification of Directors and Officers - Exemption, Insurance and Indemnification Under the Companies Law”.)

Compensation of Five Most Highly Compensated Office Holders

The following describes the compensation of our five most highly compensated Office Holders with respect to the year ended December 31, 2017. All amounts specified are in terms of cost to the Company as recorded in our financial statements.

Compensation for each of the specified executive officers is indicated in terms of the following types of compensation costs:

(1) **Salary Costs.** Salary Costs include gross salary and, if and to the extent applicable to a respective Office Holders, social and other benefits such as vacation days, sick days, convalescence pay, monthly remuneration for a study fund, contributions made by the Company on behalf of the Office Holders to an insurance policy or a pension fund, contributions by the Company on behalf of the Office Holders towards work disability insurance and other benefits such as company car and communication costs. U.S. dollar amounts indicated for Salary Costs are based on the exchange rate of 3.576, which represents the average weighted U.S. dollar - NIS exchange rate for the date of payments for each of the months during 2017 (Average Exchange Rate).

(2) **Bonus Costs.** Bonus Costs represent bonuses (annual, managerial evaluation and/or special, as the case may be) recorded in connection with the Office Holders with respect to the year ended December 31, 2017. U.S. dollar amounts indicated for Bonus Costs are based on the Average Exchange Rate .

(3) **Phantom Bonus Costs**. Phantom Bonus Costs are costs recorded with respect to the year ended December 31, 2017 related to the value of benefits under tranches of phantom bonus units granted to the Office Holders under our Phantom Bonus Retention Plan (see above “Aggregate Compensation to Directors and Officers - Table - Note (2)” and Item 18. Financial Statements - Note 21(D).) Benefits under the Phantom Plan cover tranches payable over three years.

(4) **Stock Option Costs.** Stock Option Costs are costs recorded with respect to the year ended December 31, 2017 related to stock options in start-up entities or similar ventures established by the Company (whether by allocation of options by the start-up entities themselves or by allocation of shares or options to purchase shares of such start-up entities which are held by the Company).

(5) **Other Costs.** Other Costs are one-time contributions made by the Company on behalf of the Office Holder to an insurance policy or a pension fund and/or towards employee disability insurance, as well as accrued vacation benefits, which contributions are required under Israeli law and agreed employment terms in the event the monthly salary is increased. These contributions take into account, among other factors, retroactive contributions on the basis of the actual years of employment with the Company.

The five most highly compensated Office Holders in 2017 were as follows (U.S. dollar amounts in thousands):

(1) *Bezhalel Machlis - President and CEO*. Compensation costs recorded for Mr. Machlis in 2017 included: $880 in Salary Costs, $1,020 in Bonus Costs, $1,474 in Phantom Bonus Costs and $27 in Other Costs.

(2) *Joseph Gaspar - Executive Vice President and Chief Financial Officer*. Compensation costs recorded for Mr. Gaspar in 2017 included: $634 in Salary Costs, $158 in Bonus Costs, $617 in Phantom Bonus Costs and $51 in Other Costs.

(3) *Yoram Shmuely - Executive Vice President and General Manager - Aerospace Division*. Compensation costs recorded for Mr. Shmuely in 2017 included: $642 in Salary Costs, $135 in Bonus Costs, $617 in Phantom Bonus Costs, $3 in Stock Option Costs and $23 in Other Costs.

(4) *Gideon Sheffer - Executive Vice President - Strategic Planning.* Compensation costs recorded for Mr. Sheffer in 2017 included: $396 in Salary Costs, $121 in Bonus Costs and $617 in Phantom Bonus Costs.

(5) *Yehuda Vered - Executive Vice President and General Manager - Land and C4I Division.* Compensation costs recorded for Mr. Vered in 2017 included: $523 in Salary Costs, $119 in Bonus Costs, $440 in Phantom Bonus Costs, $25 in Stock Option Costs and $10 in Other Costs.

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Board Practices

Appointment of Directors

Our directors, who are not External Directors, are elected by the shareholders at the annual general shareholders meeting. They hold office until the conclusion of the next annual general shareholders meeting, which is held at least once every calendar year but not more than 15 months after the previous annual general shareholders meeting. Between annual general shareholders meetings our Board may appoint new directors to fill vacancies. The External Directors are elected at a general shareholders meeting as described under "External Directors" below. Our Articles of Association authorize a maximum of 17 directors, a minimum of five directors and, unless otherwise approved by our shareholders, the number of directors will be nine.

The Companies Law requires the board of directors of a public company, after considering the company's type and size and the scope and complexity of its activities, to determine the minimum number of directors on the board having "financial and accounting expertise" as defined in the Companies Law. Our Board has adopted a policy pursuant to which it will include a minimum of two directors having financial and accounting expertise as defined under the Companies Law. Currently our Board has two directors who are considered by the Board to have financial and accounting expertise: Dr. Gleitman and Prof. Nisan. In addition, the Companies Law provides that a person will not be elected and will not serve as a director in a public company if he or she does not have the required qualifications and the ability to dedicate an appropriate amount of time for the performance of his or her director position in the company, taking into consideration, among other factors, the special needs and size of the company. A general shareholders meeting of a company whose shares are publicly traded, at which the election of a director is to be considered, will not be held unless the nominee has declared to the company that he or she complies with the above-mentioned requirements, and the details of his or her applicable qualifications are provided, and in case such nominee is an "Independent Director" as defined in the Companies Law (see below), that such nominee has also declared that he or she complies with the independence criteria under the Companies Law. Each of our elected directors has declared to our Board that he or she complies with the required qualifications under the Companies Law for appointment as a member of our Board, detailing his or her applicable qualifications, and that he or she is capable of dedicating the appropriate amount of time for the performance of his or her role as a member of our Board. In addition, Mr. Ben-Zeev, Prof. Nisan and Prof. Tamir also each have declared that he or she complies with the criteria of an Independent Director under the Companies Law.

In addition to the External Directors, under the Companies Law and regulations thereunder, a director in a company such as Elbit Systems, who qualifies as an independent director under the relevant non-Israeli rules relating to independence standards, such as the Nasdaq director independence criteria, may be considered an Independent Director pursuant to the Companies Law if such director meets certain conditions listed therein, and provided such director has been designated as such by the audit committee. The Audit Committee has designated Mr. Ben-Zeev, Prof. Nisan and Prof. Tamir as Independent Directors under the Companies Law.

The current External Directors on our Board were each appointed at a general meeting of shareholders, for a three-year term, with their terms expiring as described under "External Directors" below. The other seven current directors were appointed at the annual general meeting of shareholders held in November 2017. There are no service contracts or similar arrangements with any director that provide for benefits upon termination of directorship.

Nasdaq's director independence and related rules applicable to boards of directors apply to Elbit Systems. Under these rules, our Board is required to meet the Nasdaq director independence criteria. Also applicable are certain other rules regarding independent directors serving on a director nomination committee and the manner for approving the compensation to Elbit Systems' CEO. Directors on our Board are recommended for appointment or election by the Board's Corporate Governance and Nominating Committee. (See below "Corporate Governance and Nominating

Committee.")

Substitute Directors. The Articles of Association provide that any director may appoint another person to serve as a substitute director. A substitute director must be qualified under the Companies Law to serve as a substitute of the relevant director, and, under the Companies Law, in case the substituted director is an Independent Director as defined in the Companies Law, the substitute director must also comply with the requirements of the Companies Law for Independent Directors. If his or her appointment is for more than one meeting it will be subject to the approval of the Board. Such person may not act as a substitute director for more than one director at the same time. In addition, a Board committee member may not substitute for another Board committee member in meetings of the applicable committee. The same rules, including compensation, will apply to a substitute director as to the director who appointed him or her, and the substitute director may participate in Board and Board committee meetings in the same manner as the appointing director

(subject to any applicable independence criteria). Subject to the Companies Law, a director who has appointed a substitute director may revoke the appointment at any time. In addition, the office of a substitute director will be vacated at any time that the office of the director who appointed the substitute is vacated for any reason. Any appointment or revocation of the appointment of a substitute director will be made by notice in writing to the substitute director and Elbit Systems. The appointment or revocation, as the case may be, will become effective on the later of the date of receipt of the above notice or the date fixed in the notice. Appointing a substitute director will not release the appointing director from his/her liabilities, taking into account the applicable circumstances.

External Directors

Under the Companies Law publicly held Israeli companies are required to appoint at least two "External Directors." Among other requirements, for each publicly held company such as Elbit Systems that is considered to have a controlling shareholder, a person may serve as an External Director if he or she meets the following requirements (the Affiliation Requirements):

(A) if that person is not a Relative of the controlling shareholder of that company and if that person (and each of that person's Relatives, partners and employers), or any person to whom he or she is subordinated (directly or indirectly), or any entity controlled by that person, did not have, at any time during the two years preceding that person's appointment as an External Director, any affiliation (as defined in the Companies Law) with any of:

(1) the applicable company;

(2) the controlling shareholder of the applicable company or any of his or her relatives on the date of appointment; or

(3) any entity controlled, on the date of such appointment or at any time within the preceding two years, by the applicable company or by the controlling shareholder of the applicable company; and

(B) if and so long as:

(1) no conflict of interest exists or may exist between that person's role as a member of the board of directors of the respective company and that person's other positions or business activities; and

(2) such position or business activities does not impair that person's ability to serve as a director; and

(C) if and so long as:

(1) that person and each of that person's Relatives, partners and employers, or any person to whom he or she is subordinated directly or indirectly or any entity controlled by that person has no business or professional relationships with any of the persons or entities mentioned in (A) above, even if such relationship is not on a regular basis other than a negligible relationship; and

(2) no other consideration except as permitted under the Companies Law is paid to that person in connection with that person's position as a director in the relevant company; and

(D) if that person serves also as a member of the board of directors of another company, none of the external directors of that other company serves at the same time as a member of the board of directors of the respective company; and

(E) if that person is not an employee of a securities authority or a stock exchange in Israel.

In general, at least one External Director must have “financial and accounting expertise”, and the other External Director(s) must have “professional competence” as described below. However, in companies such as Elbit Systems that are “dual listed” (for example traded on a stock exchange in both Israel and the U.S.), if one or more other directors who meet the independence criteria applicable to members of the audit committee under the foreign applicable law (including stock exchange rules) have been determined by the board of directors to have “financial and accounting expertise” then it is permissible for any or all of the External Directors to have only “professional competence” as described below.

Under the relevant regulations of the Companies Law, a director has "financial and accounting expertise" if he or she, based on his or her education, experience and qualifications, is highly skilled in respect of, and understands, business and accounting matters and financial statements, in a manner that enables him or her to have an in-depth understanding of the company's financial statements and to stimulate discussion with respect to the manner in which the financial data is presented. The evaluation of the "financial and accounting expertise" of a director is to be made by the board of directors taking into account the parameters specified in the relevant regulations of the Companies Law.

A director has "professional competence" if he or she (1) has an academic degree in either economics, business administration, accounting, law or public administration or an academic degree or other advanced degree in the company's main area of business or in a field relevant to such position, or (2) has at least five years experience in any of the following positions or five years accumulated experience in two or more of them:

(i) a senior position in the business management of any corporate entity with a substantial scope of business;

(ii) a senior public office or a senior position in the public service sector; or

(iii) a senior position in the field of activity of the company.

The evaluation of the professional competence of a director is to be made by the board of directors.

According to the Companies Law and our Articles of Association, our External Directors serve for a three-year term following which they may stand for up to two additional terms of three years each. Re-election of an External Director for each additional period, beyond the first period, requires that he or she meets the Affiliation Requirements and that he or she:

(i) is recommended for re-election by one or more shareholders holding at least 1% of all voting rights of the relevant company;

(ii) is recommended for re-election by the board of directors of the relevant company; or

(iii) proposes his or her nomination, and, in each case the nomination is approved by the general meeting of shareholders of the relevant company with the applicable majority requirements as provided by the Companies Law.

In addition, External Directors in companies such as Elbit Systems that are "dual listed" may stand for re-election for additional terms of up to three years each beyond the first three terms, subject to meeting certain conditions specified in the Companies Law.

Our Articles of Association allow the External Directors of the Company to be elected to more than three terms of service. According to the Companies Law, any committee of the Board must include at least one External Director, and all External Directors must be members of the Audit Committee and the Compensation Committee.

Dr. Gleitman and Mrs. Rabin currently serve as our Board's External Directors. Dr. Gleitman's term of office ends in March 2019, and the term of office of Mrs. Rabin ends in November 2019. Dr. Gleitman was determined by the Board to have "financial and accounting expertise" under Israeli law, and Mrs. Rabin was determined by the Board to have the applicable "professional competence" to serve as an External Director.

Audit Committee. Dr. Gleitman (chair), Mr. Ben-Zeev, Prof. Nisan, Mrs. Rabin and Prof. Tamir are members of the Audit Committee. In accordance with the Companies Law, an audit committee must consist of at least three directors qualified to serve as members of an audit committee under the Companies Law, including all External Directors, and must be comprised of a majority of directors meeting certain independence criteria of the Companies Law. The chair of the audit committee must be an External Director. In accordance with the applicable Nasdaq rules and those of the SEC, Elbit Systems Audit Committee must be comprised solely of independent directors, as defined by said rules. The Audit Committee operates in accordance with an Audit Committee Charter that provides the framework for its oversight functions consistent with Israeli and U.S. legal and regulatory requirements. All of the members of the Audit Committee meet the independent criteria of the Companies Law and have been determined to be independent as defined by the applicable Nasdaq rules and those of the SEC. The Audit Committee meets from time to time in executive sessions and

also conducts annual assessments of the sufficiency of its Charter and of the Committee's compliance with its obligations. (See Item 16A. Audit Committee – Financial Expert and Item 16D. Exemptions from the Listing Standards for Audit Committees.)

Financial Statements Review Committee

Dr. Gleitman (chair), Mr. Ben-Zeev, Prof. Nisan, Mrs. Rabin and Prof. Tamir are members of the Board's Financial Statements Review Committee. Pursuant to the Israeli Companies Regulations the financial reports of a public company such as Elbit Systems may be brought for discussion and approval of the board only after such committee has discussed and formulated recommendations to the board in connection with:

(1) the valuations and estimates used in connection with the financial statements;

(2) the internal controls related to financial reporting;

(3) the completeness and appropriateness of disclosure in the financial statements;

(4) the accounting policy adopted and accounting treatment applied in the material matters of the company; and

(5) valuations, including the assumptions and estimates underlying them, on which data in the financial statements is provided.

The Financial Statements Review Committee must consist of at least three members, the chair of the committee must be an External Director, and the majority of its members must be directors who meet certain independence requirements of the Companies Law, and, among other criteria, all of its members must be able to read and understand financial statements, with at least one of the independent members having "financial and accounting expertise" (as defined above). Dr. Gleitman and Prof. Nisan have been determined by the Board to have "financial and accounting expertise".

Compensation Committee

Mrs. Rabin (chair), Mr. Ben Zeev and Dr. Gleitman are members of the Board's Compensation Committee. Pursuant to the Companies Law (see above "Compensation to Directors and Executive Officers - Compensation Policy"), the compensation committee of a public company, such as Elbit Systems, is required to consist of at least three members, and all of the external directors must be members of the committee (one of which to be appointed as the chairperson) and constitute the majority thereof. The remaining members must be directors who qualify to serve as members of the audit committee as defined in the Companies Law and whose compensation is in accordance with the compensation requirements applicable to the External Directors. All of our Compensation Committee members have been determined to be eligible to be members of a compensation committee in accordance with the Companies Law and also have been determined to be independent as defined by the applicable Nasdaq rules and those of the SEC.

In addition to its other roles, under the Companies Law the compensation committee of a public company such as Elbit Systems is required:

(1) to recommend to the board of directors the compensation policy for the company's Office Holders to be adopted by the company and to recommend to the board of directors, once every three years, regarding any extension or modifications of the current compensation policy that had been approved for a period of more than three years;

(2)

from time to time to recommend to the board of directors any updates required to the compensation policy and examine the implementation thereof;

(3) to determine, with respect to the company's Office Holders, whether to approve their Employment Terms; and

(4) in certain situations described in the Companies Law, to determine whether to exempt the approval of Employment Terms of a candidate for the position of CEO of the company from the requirement to obtain shareholder approval.

According to the Companies Law, Employment Terms of a public company's Office Holders must be approved by the compensation committee and the board as a whol. In addition, with respect to Employment Terms of the CEO, a director, any Office Holder where the Employment Terms are not consistent with an approved compensation policy or for an Office Holder that is also considered a controlling shareholder (or such controlling shareholder's Relative), approval by the company's shareholders is also required in accordance with the applicable majority requirements of the Companies Law. (For definition of the term Relative see Item 10 - Additional Information - Approval of Certain Transaction - Personal Interest and Extraordinary Transactions). For further information see above "Compensation of Directors and Executive and Executive Officers - Compensation Policy"; Item 10. Additional Information – General Provisions of Israeli Law and Related Provisions of Articles of Association – Office Holders; and Item 10 - Additional Information - Approval of Certain Transactions - Approval of Employment Terms of Office Holders).

Our Compensation Committee operates in accordance with a Compensation Committee Charter that provides the framework for its oversight functions consistent with Israeli and U.S. legal and regulatory requirements, including with the amended compensation committee listing rules of the Nasdaq.

Corporate Governance and Nominating Committee. Mr. Ben Zeev (chair), Dr. Gleitman and Mrs. Rabin are members of the Board's Corporate Governance and Nominating Committee. This Committee operates in accordance with a Corporate Governance and Nominating Committee Charter that specifies its oversight functions consistent with Israeli and U.S. legal and regulatory requirements. The role of the Corporate Governance and Nominating Committee is to assist the Board in fulfilling its responsibilities with respect to the qualification of candidates to become Board members and to monitor compliance with corporate governance requirements applicable to Board members. All of the members of the Corporate Governance and Nominating Committee have been determined to be independent as defined by the applicable Nasdaq rules and those of the SEC. A nominee to our Board must have such experience in business or financial matters as would make such nominee an asset to the Board. In recommending director candidates, our Corporate Governance and Nominating Committee takes into consideration such factors as it deems appropriate based on our current needs. These factors may include: professional and personal ethics and integrity; business, professional and industry knowledge, sophistication and contacts; the ability to make informed and independent judgments on a wide range of issues; relevant skills and experience demonstrated through business, professional, charitable or civic affairs; and the candidate's ability to devote the required time and effort to serve on our Board. (See Item 16.G. Corporate Governance.)

Board Committee Membership

Audit Committee:	**Financial Statements Review Committee:**	**Corporate Governance and Nominating Committee:**	**Compensation Committee:**
Yehoshua Gleitman (chair)	Yehoshua Gleitman (chair)	Yoram Ben Zeev (chair)	Dalia Rabin (chair)
Yoram Ben-Zeev	Yoram Ben-Zeev	Yehoshua Gleitman	Yoram Ben Zeev
Ehood Nisan	Ehood Nisan	Dalia Rabin	Yehoshua Gleitman
Dalia Rabin	Dalia Rabin		
Yuli Tamir	Yuli Tamir		

Board and Committee Meetings

The Board meets quarterly and at other times during the year as necessary to conduct its activities. The Audit Committee and Financial Statement Review Committee each meet at least quarterly, and the Compensation Committee and Corporate Government and Nominating Committee each meet at least annually. Each of the

committees also meets at additional times during the year as may be necessary to carry out its functions. The Financial Statement Review Committee meets at least quarterly in executive sessions, and the Board and the other committees meet in executive sessions periodically. During 2017, the average attendance for Board members at Board and committee meetings was approximately 96%.

Employees

***Number of Employees*.** Most of our employees are based in Israel, and we have a significant number of employees in the United States. The total number of employees worldwide and the number of employees in the U.S. at the end of 2015, 2016 and 2017 were as follows:

	Total Employees	U.S. Employees
2017	12,781	1,450
2016	12,470	1,425
2015	12,134	1,426

Employment Contracts. The majority of our Israeli employees have individual employment contracts. However, by law some employees receive rights under a number of general collective bargaining agreements and under Israeli employment laws. See Item 4. Information on the Company – Conditions in Israel – Israeli Labor Laws. We believe our overall relationship with our employees is satisfactory.

***Collective Bargaining Agreements*.** In Israel, several of our wholly-owned subsidiaries are each parties to collective bargaining agreements covering a portion of their employees. A total of approximately 2,440 employees in Israel are covered by such agreements that extend for various periods ranging from 2019 - 2027. Approximately 180 of the employees at Elbit Systems of America's operations are covered by collective bargaining agreements in effect through various periods through May 2020.

Share Ownership

Elbit Systems' Stock Option Plans

2018 - Equity Incentive Plan for Executive Officers

On February 27, 2018 our Board approved the 2018 Equity Incentive Plan for Executive Officers (the Plan). The purpose of the Plan is to link the compensation and benefits of our Executive Officers with the future growth and success of the Company and its affiliates and with long-term shareholder value. Our Board has also approved the appointment of our Compensation Committee as the administrator of the Plan.

Under the Plan, the Company may allocate to its Israeli resident Executive Officers, subject to receipt of approvals as required under Israeli Law, up to 1,000,000 options (the Options) to be exercised using a "Net-Exercise Mechanism", which entitles the recipients to exercise the Options for an amount of shares reflecting only the benefit factor.

The Options will be granted under the provisions of Section 102 of the Israeli Income Tax Ordinance [New Version] of 1961 as may from time to time be amended, with respect to the "capital gain tax route", as well as in compliance with the Israeli Income Tax Rules (Tax Relief in Issuance of Shares to Employees) 2003, as amended from time to time,

The exercise price of an Option will be denominated in U.S. dollars and be the higher of:

(a) the average of the closing share price of Elbit Systems ordinary shares on the TASE, during the period of thirty (30) trading days preceding the date on which our Board approves the granting of the respective Options (Date of the Board Resolution) converted into the U.S. Dollars by applying the average representative U.S. dollar - NIS exchange rate during such thirty (30) trading days period; or

(b) the closing share price of our ordinary shares on the TASE on the last trading date preceding the Date of the Board Resolution, converted into the U.S. Dollars by applying the representative U.S. dollar - NIS exchange rate.

The grant date of Options to a recipient will be determined to be the later of (the Grant Date):

(i) the Date of the Board Resolution;

(ii) the first trading day after a period of thirty (30) days has elapsed from the date the Plan is filed with the Israeli Tax Authorities; or

(iii) where applicable, the date on which any additional corporate approvals required by Israeli law in connection with the Plan have been obtained.

Granted Options will vest as follows: forty percent (40%) on the second anniversary of the Grant Date, with the remaining sixty percent (60%) of the Options vesting twenty percent (20%) each on the third, fourth and fifth anniversary of the Grant Date. respectively.

The Plan includes customary terms such as adjustments for capital modifications (reverse stock split, stock split, etc.), rights offering restructuring (split, merger, etc.), and the like. Under the Plan, the vesting of granted Options may be accelerated by the recipient in case his or her employment is terminated by the Company without cause within a period of twelve (12) months following any change of control over the Company. The Plan also allows, subject to approvals of the Compensation Committee and the Board, acceleration, continued vesting and exercisability of the Options, as well as post-termination exercise periods, in case of termination of employment without cause, or as a result of death or disability.

Israeli law does not require approval by our Company's shareholders for an equity incentive plan such as the Plan. In compliance with Nasdaq Rule 5615(a)(3) allowing a foreign private issuer to follow its home country practice in lieu of certain requirements of Nasdaq's 5600 series of corporate governance rules, we provided the Nasdaq with a legal opinion of an independent Israeli law firm confirming the above (See Item 16.G - Corporate Governance). The Company also intends to file with the SEC a form S-8 for the registration under the U.S Securities Law of the underlying shares that may be issued upon exercise of Options under the Plan.

Item 7. Major Shareholders and Related Party Transactions.

Major Shareholders

Percentages

As of March 15, 2018, we had 42,753,182 ordinary shares outstanding. The following table sets forth specific information as of March 15, 2018, to the best of our knowledge, concerning:

- beneficial ownership of more than 5% of our outstanding ordinary shares; and
- the number of ordinary shares beneficially owned by all of our executive officers and directors as a group.

Name of Beneficial Owner	Amount Owned	Percent of Ordinary Shares[1]
Federmann Enterprises Ltd. 99 Hayarkon Street Tel-Aviv, Israel[2]	19,580,342[3]	45.8 %
Heris Aktiengesellschaft c/o 99 Hayarkon Street Tel-Aviv, Israel	3,836,458[3]	8.97 %
All executive officers and directors as a group (26 persons)	4,607[4]	0.01 %

(1)

Based on 42,753,182 ordinary shares outstanding as of March 15, 2018, which excludes 1,408,921 ordinary shares held by us as treasury shares.

(2) Federmann Enterprises Ltd. (FEL) owns our ordinary shares directly and indirectly through Heris Aktiengesellschaft (Heris), which is controlled by FEL. FEL is controlled by Beit Federmann Ltd. (BFL). BFL is controlled by Beit Bella Ltd. (BBL) and Beit Yekutiel Ltd. (BYL). Michael Federmann is the

controlling shareholder of BBL and BYL. He is also the chair of Elbit Systems' Board and the chair of the board and the chief executive officer of FEL. Therefore, Mr. Federmann controls, directly and indirectly, the vote of ordinary shares owned by Heris and FEL.

In connection with FEL's purchase of our ordinary shares in 2004 and 2006, FEL obtained loans from two Israeli banks. As security for the loans, FEL pledged an aggregate of 4,300,000 of our ordinary shares to the banks.

(3) The 19,580,342 shares held by FEL includes the 3,836,458 shares held by Heris.

(4) This amount does not include any ordinary shares that may be deemed to be beneficially owned by Michael Federmann as described in footnote (2) above.

Rights in Shares, Significant Changes in Shareholders and Controlling Shareholders

Our controlling shareholders have the same rights as other holders of our ordinary shares. (See also Item 10. Additional Information – Provisions Relating to Major Shareholders. With respect to the Company's repurchase of our ordinary shares see Item 16.E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.)

The only changes in shareholdings by our controlling shareholders in the last three years were those relating to FEL as follows:

	March 15, 2018		**March 15, 2017**		**March 15, 2016**	
	Shares Owned	**% of Shares Owned**	**Shares Owned**	**% of Shares Owned**	**Shares Owned**	**% of Shares Owned**
FEL	**19,580,342**	**45.80%**	**19,580,342**	**45.80%**	**19,580,342**	**45.82%**

As of March 15, 2018, approximately 11.36% of our outstanding ordinary shares were held in the United States by approximately 171 shareholders of record registered on the books of our transfer agent.

We are not aware of any arrangement which may result in a change in control of the Company.

Related Party Transactions

Transactions with Affiliated Companies. In the ordinary course of business, some of our subsidiaries and affiliates engage in business activities with each other. The purchases among our related parties are made at prices and on terms equivalent to those used in transacting business with unrelated parties under similar conditions. The sales among our related parties in respect to government defense contracts are made on the basis of costs incurred. (See Item 10. Additional Information – General Provisions of Israeli Law and Related Provisions of Articles of Association – Approval of Certain Transactions.)

Transactions with Office Holders. See below – Item 10. Additional Information – General Provisions of Israeli Law and Related Provisions of Articles of Association - Office Holders; Item 10. Additional Information – General Provisions of Israeli Law and Related Provisions of Articles of Association - Approval of Certain Transactions - Approval of Transactions; and Item 10. Additional Information – General Provisions of Israeli Law and Related Provisions of Articles of Association - Approval of Certain Transactions - Approval of Employment Terms of Office Holders. See also Item 18. Financial Statements - Note 26.

Item 8. Financial Information.

Consolidated Statements and Other Financial Information

See Item 18. Financial Statements.

Export Sales

Export sales constitute a significant portion of our sales. In 2017, export sales were approximately $2.64 billion, constituting approximately 78% of our total sales. (For further information regarding the allocation of our revenues by geographic region see Item 5. Operating and Financial Review and Prospects – 2017 Compared to 2016 – Revenues.)

Legal Proceedings

The Company is involved in various legal proceedings from time to time. For a discussion of our significant legal proceedings see Item 18. Financial Statements - Note 20(C).

Dividend Distributions

We do not have an established dividend policy. (Regarding declarations of dividends out of certain tax-exempt income see below Item 10. Additional Information – Taxation – Investment Law.) Our Articles of Association provide that the Board may approve dividend payments to shareholders out of surplus earnings as permitted by applicable law. We have consistently paid a quarterly dividend to our shareholders.

Our aggregate quarterly dividend payments for the last three full fiscal years were as follows:
2015 $1.44 per share
2016 $1.60 per share
2017 $1.76 per share

Other than any significant event that may be described in this annual report, there have not been any significant changes since December 31, 2017.

Item 9. The Offer and Listing.

Share Listings and Trading Prices

Our ordinary shares are listed on the TASE and are quoted on Nasdaq under the symbol “ESLT”.

The high and low sale prices for our ordinary shares for the five most recent fiscal years are:

	Nasdaq		**TASE**(*)	
	High	**Low**	**High**	**Low**
2013	$61.08	$37.08	$61.20	$37.06
2014	$64.66	$54.36	$64.26	$53.19
2015	$89.87	$58.63	$90.22	$59.04
2016	$104.70	$80.24	$104.53	$80.25
2017	$152.65	$99.96	$152.67	$99.61

The high and low quarterly sale prices for our ordinary shares for the two most recent full financial years and the next subsequent quarter are:

	Nasdaq		TASE(*)	
	High	Low	High	Low
2016				
First Quarter	$99.50	$80.24	$96.43	$80.25
Second Quarter	$101.85	$88.78	$102.60	$87.98
Third Quarter	$103.11	$90.58	$102.97	$89.96
Fourth Quarter	$104.70	$94.71	$104.53	$94.91
2017				
First Quarter	$119.55	$99.96	$118.66	$99.61
Second Quarter	$127.16	$113.14	$126.07	$110.83
Third Quarter	$146.62	$122.22	$147.28	$122.90
Fourth Quarter	$152.65	$131.35	$152.67	$130.98
2018				
First Quarter (through March 15, 2018)	$151.91	$131.11	$150.04	$130.78

The monthly high and low sale prices of our ordinary shares for the most recent six months are:

	Nasdaq		TASE(*)	
	High	Low	High	Low
September 2017	$146.86	$135.91	$147.28	$135.67
October 2017	$152.65	$145.05	$152.67	$144.96
November 2017	$150.03	$135.02	$149.28	$135.62
December 2018	$141.05	$131.35	$141.06	$130.99
January 2018	$151.91	$131.11	$152.80	$130.78
February 2018	$149.95	$138.16	$150.04	$136.01

(*) The closing prices of our ordinary shares on the TASE have been translated into U.S. dollars using the daily representative rate of exchange of the NIS to the U.S. dollar as published by the Bank of Israel for the applicable day of the high/low amount in the specified period.

Item 10. Additional Information.

General Provisions of Israeli Law and Related Provisions of Articles of Association

Israeli Companies Registrar. We are registered with the Israeli Companies Registrar. The registration number issued to us by the Companies Registrar is 52-004302-7.

The Companies Law and Restated Articles of Association. The Companies Law is the basic corporation law governing Israeli publicly and privately held companies. The Companies Law mandates that specific provisions be included in an Israeli company's articles of association, which are included in Elbit Systems' Restated Articles of Association (the Articles of Association).

Purpose. Elbit Systems' purpose, as described in Article 3 of the Articles of Association, includes any objectives permitted by law.

Appointment and Removal of Directors. See Item 6. Directors, Senior Management and Employees – Directors and Executive Officers – Board of Directors.

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Internal Auditor. Publicly held Israeli companies are required to appoint an internal auditor. The main role of the internal auditor is to examine whether the company's activities are conducted in accordance with the law, with integrity and pursuant to orderly business procedures. The internal auditor operates in accordance with the internal audit provisions of a written audit committee charter that provides the framework for the committee's oversight of the internal auditor's functions, consistent with applicable Israeli and U.S. laws and regulations.

Office Holders

An Office Holder is defined as a director, general manager, chief business manager, deputy general manager, vice general manager, any other person who fulfills these functions without regard to that person's title and any other manager directly subordinate to the general manager. Under the Companies Law, the general manager of a corporation has authority equivalent to that of a president or chief executive officer of a U.S. corporation. For such purposes, our general manager is Bezhalel Machlis, our President and Chief Executive Officer. Each person listed as a director or executive officer in Item 6. Directors - Senior Management and Employees - Directors and Executive Officers, is an Office Holder of Elbit Systems.

The Companies Law specifies the fiduciary duties that an Office Holder owes to a company, which consist of a duty of care and a duty of loyalty. Under the Companies Law, an Office Holder's loyalty duty includes the general duty to act in good faith and for the benefit of the company, avoiding any conflict of interest between the Officer Holder's position in the company and his or her personal affairs. The loyalty duty also includes avoiding any competition with the company and any exploitation of a business opportunity of the company in order to receive personal advantage for the Office Holder or others. Also, the Office Holder is required to disclose to the company any information or documents relating to the company's affairs that the Office Holder has received due to his or her position as an Office Holder. Under the Companies Law voting agreements among directors or a director's failure to exercise independent judgment while voting are considered breaches of loyalty duty. The duty of care requires, among others, that an Office Holder acts in a way that a reasonable Office Holder would act in the same position and under similar circumstances. This includes the duty to utilize reasonable means to obtain information regarding the advisability of a given action submitted for his or her approval or performed by virtue of his or her position and all other relevant information.

Some members of our Board are also directors of FEL or companies controlled by FEL. Therefore, in the event of an issue or transaction between Elbit Systems and any of those companies, those individuals who are affiliated with both of the applicable companies will be excluded from any decisions concerning such issue or transaction. In addition, an issue or transaction with any of such companies also requires authorization in accordance with the requirements of the Companies Law. (See below "Approval of Certain Transactions" and "Provisions Relating to Major Shareholders".)

Arrangements in connection with the Employment Terms (see Item 6 - Directors, Senior Management and Employees - Compensation of Executive Officers and Directors - Compensation Policy) of Elbit Systems' Office Holders require special authorizations. (See below "Approval of Certain Transactions - Approval of Employment Terms of Office Holders".)

Other transactions with Office Holders and affiliates may also require authorization in accordance with the requirements of the Companies Law. (See below "Approval of Certain Transactions".)

Approval of Certain Transactions

***Approval Procedures*.** The Companies Law requires that certain transactions, actions and arrangements, mainly with related parties including Office Holders, be approved as provided for in the Companies Law and in a company's articles of association and in many cases by the audit committee or the compensation committee and by the board of directors. In some cases shareholder approval is also required.

***Personal Interest and Extraordinary Transactions*.** The Companies Law requires that an Office Holder or a controlling shareholder (see "Provisions Relating to Major Shareholders" below) of a publicly traded company immediately disclose (and no later than the first board meeting at which the transaction is discussed) any Personal Interest (as defined below) that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction of the company. A person with a Personal Interest in any such transaction that is brought for approval of the audit committee or board of directors may not be present at the meeting where the transaction is being deliberated or approved (unless the chair of the audit committee or the board, as the case may be, determines that such person's presence at the meeting is required for presentation of the relevant transaction) and, in case such person is a director, he or she may not vote on the matter, unless a majority of the members of the audit committee or of the board of directors (as the case may be) have a Personal Interest in the approval of the relevant transaction, in which case the directors having such Personal Interest may be

present and may participate in the vote. In the event that the relevant transaction is an "Extraordinary Transaction" (as defined below) and the majority of the members of the board of directors have a "Personal Interest" in such transaction, the approval of the shareholders is also required.

In accordance with the Companies Law:

“Personal Interest” means a personal benefit, gain or other interest derived by the shareholder (or a Relative or related entity, as described below) from approving the respective transaction. Any benefit or interest arising solely from holding a company’s shares is not considered such a personal benefit or other interest under the Companies Law. Such personal benefit and other interest includes any personal benefit or other interest of:

(i) a shareholder’s Relative (as defined below);

(ii) any entity in which a shareholder or any of his or her Relatives either:

(a) holds 5% or more of such entity’s issued share capital or voting rights;

(b) has the right to appoint a director to such entity’s board of directors or the chief executive officer thereof; or

(c) is a member of such entity’s board of directors or serves as the chief executive officer thereof; or

(iii) anyone voting by proxy or granting a proxy on behalf of such a shareholder with respect to the applicable transaction, whether the proxy holder has discretion to vote or not.

An "Extraordinary Transaction" is a transaction:

(i) other than in the ordinary course of business;

(ii) other than on market terms; or

(iii) likely to have a material impact on the company’s profitability, assets or liabilities.

“Relative” means any of the following:

(i) a spouse, brother, sister, parent, grandparent or child;

(ii) the child, brother, sister or parent of a spouse of a person mentioned in (i); or

(iii) the spouse of any of the persons mentioned in (i) or (ii).

Approval of Transactions

In accordance with the Companies Law the transactions specified below require the following approvals, provided always that such transaction is for the benefit of the company:

(1) approval of the board of directors - a transaction with an Office Holder, other than arrangements in connection with Employment Terms, or a transaction in which an Office Holder has a Personal Interest, where the audit committee has determined that such transaction is not an Extraordinary Transaction, unless the company’s articles of association provide otherwise;

(2) approval of both the audit committee and the board of directors:

(i) a transaction with an Office Holder, other than arrangements in connection with Employment Terms, or a transaction in which an Office Holder has a Personal Interest, where the audit committee has determined such transaction to be an Extraordinary Transaction;

(ii) a material action or arrangement that may otherwise be considered a breach of fiduciary duty by an Office Holder;

(iii) an Extraordinary Transaction of a public company with its controlling shareholder or with another person in which the controlling shareholder has a Personal Interest, including a private offering in which the controlling shareholder has a Personal Interest, as well as an agreement of a public company with its controlling shareholder or his or her Relatives, directly or indirectly, including through a company controlled by him or her, regarding the grant of services to the applicable company or regarding the terms of service and/or employment of the controlling shareholder or his or her Relatives, as the case may be;

(3) approval of both the compensation committee and the board of directors - an arrangement regarding Employment Terms of an Office Holder or of a controlling shareholder or his or her Relatives as Office Holders or employees of the company.

Except for certain exemptions specified under the Companies Law, the transactions and arrangements described above may also require shareholder approval, including, where applicable, by a Special Uninterested Majority. In addition, the Companies Law requires re-approval every three years with respect to some of the matters referred to above. Re-approval when applicable is required by the audit committee or the compensation committee, as the case may be, the board of directors and, except for certain specific exemptions, by the shareholders. (See also Item 10 - Exemption, Insurance and Indemnification of Directors and Officers - Insurance and Indemnification of Directors and Officers under the Articles of Association and also - Provisions Relating to Major Shareholders.)

Under the Companies Law, the audit committee of a publicly held company such as Elbit Systems is also required to determine whether to carry out competitive procedures or other procedures before any engagement in a transaction with a controlling shareholder or in which a controlling shareholder has a Personal Interest.

Approval of Employment Terms of Office Holders

In accordance with the Companies Law (see Item 6. Directors, Senior Managers and Employees - Compensation of Directors and Executive Officers - Compensation Policy), approval by both the compensation committee and the board of directors is required for all arrangements regarding Employment Terms of an Office Holder. In addition, the Companies Law requires that we also obtain the approval of our shareholders for any Employment Terms arrangement with (i) our CEO; (ii) a director; (iii) any other Office Holder where the Employment Terms are not consistent with an approved compensation policy or (iv) an Office Holder that is also considered a controlling shareholder (or his or her Relative). Except with respect to Employment Terms of a director, such shareholder approval requires a Special Uninterested Majority. (See Item 6 - Compensation of Directors and Executive Officers - Compensation Policy).

In accordance with the Companies Law, the compensation committee may determine that an arrangement in connection with Employment Terms of a candidate for the position of the CEO of a public company is exempt from the approval by the shareholders of the company, provided that: (i) the CEO candidate is “independent” based on criteria set forth in the Companies Law; (ii) the compensation committee determines, based on detailed reasons, that bringing the arrangement to the approval of the shareholders may compromise completing the arrangement; and (iii) the Employment Terms are consistent with the company’s approved compensation policy.

In addition, pursuant to the Companies Law, in special cases the compensation committee and the board of directors may approve Employment Terms of an Office Holder (other than a director or a controlling shareholder, but including the CEO) that requires the approval of the shareholders as specified above, even if the shareholders do not approve such Employment Terms, provided that:

(1)

both the compensation committee and the board of directors re-discussed the relevant Employment Terms and decided to approve them despite the shareholders' objection, based on detailed reasons; and

(2) the company is not a "Public Pyramid Held Company". A "Public Pyramid Held Company" is a public company that is controlled by another public company (including by a company that only issued debentures to the public), which is also controlled by another public company (including a company that only issued debentures to the public) that has a controlling shareholder.

Changes of the terms of a current arrangement regarding Employment Terms of an Office Holder (other than a director or a controlling shareholder) require only the approval of the compensation committee, if the compensation committee has determined that such changes are not material.

For further information see above “General Provisions of Israeli Law and Related Provisions of Articles of Association - Office Holders” and Item 6. Directors, Senior Management and Employees - Compensation of Executive Officers and Directors - Compensation Policy.

Exemption, Insurance and Indemnification of Directors and Officers

Exemption, Insurance and Indemnification under the Companies Law

Under the Companies Law, an Israeli company may not exempt an Office Holder from liability with respect to a breach of his or her duty of loyalty, but may exempt in advance an Office Holder from his or her liability to the company, in whole or in part, with respect to a breach of his or her duty of care, provided that a relevant provision is included in the company’s articles of association. However, a company may not exempt in advance a director from his or her liability to the company with respect to a breach of duty of care in connection with a distribution made by the company.

To the extent specifically allowed by the company’s articles of association, the Companies Law permits a company to obtain an insurance policy covering liabilities of Office Holders resulting from their actions in fulfilling their roles as Office Holders, in any of the following instances:

(i) breach of the Office Holder’s duty of care to the company or to another person;

(ii) breach of the Office Holder’s duty of loyalty to the company, to the extent that the Office Holder acted in good faith and had reasonable basis to believe that the act would not prejudice the interests of the company;

(iii) monetary liabilities imposed on the Office Holder for the benefit of another person.

The Israeli Securities Law – 1968 (Securities Law) also permits such an insurance policy to cover a payment which an Office Holder is obligated to make to an injured party as set forth in the relevant sections of the Securities Law as well as expenses incurred by an Office Holder in connection with certain proceedings that are specified in the Securities Law, including reasonable litigation expenses (including attorneys’ fees), provided that a relevant provision is included in the company’s articles of association.

Under the Companies Law, a company may indemnify an Office Holder against monetary liabilities and expenses imposed on or incurred by the Office Holder as a result of an act done by virtue of his or her role as an Office Holder for the following matters:

(i) financial liability imposed on the Office Holder in favor of another person pursuant to a judgment, including a judgment in the course of settlement arrangements or an arbitrator’s award approved by a court;

(ii) reasonable litigation expenses, including attorneys’ fees, incurred by the Office Holder in an investigation or proceeding that has concluded without an indictment being filed and without any monetary liabilities being imposed on the Office Holder in lieu of criminal proceedings or has concluded without the filing of any indictment but with the imposition of monetary liability in lieu of criminal proceedings in an offence that does not require proof of criminal intent or in connection with a monetary sanction; and

(iii) reasonable litigation expenses, including attorneys’ fees, incurred by the Office Holder or imposed by a court in a proceeding instituted against the Office Holder by the company, on its behalf or by any other person, or in connection with criminal proceedings in which the Office Holder was acquitted, or as a result of a conviction for

an offense that does not require proof of criminal intent.

Under the Companies Law, a company may indemnify an Office Holder in respect of certain liabilities, either in advance of an event or following an event. If a company undertakes to indemnify an Office Holder in advance of an event, the indemnification, pursuant to (i) above, must be limited to foreseeable events in light of the company's actual activities at the time the company undertook such indemnification and also limited to amounts or criteria determined by the board of directors as reasonable under the circumstances, and the undertaking to indemnify will specify any such events, amounts or criteria.

In addition, a company may indemnify an Office Holder in respect of payments that the Office Holder is obligated to make to an injured party as set forth in the relevant sections of the Securities Law, including reasonable litigation expenses

(including attorneys' fees). These indemnifications are subject to the inclusion of relevant provisions in the company's articles of association.

A company may not indemnify an Office Holder or enter into an insurance contract that would provide coverage for, or exempt an Office Holder from, liability to the company with respect to any of the following:

(1) a breach of duty of loyalty, except indemnification or insurance that provides coverage for a breach of a duty of loyalty to the company while acting in good faith and having reasonable basis to believe that such act would not prejudice the interests of the company;

(2) a willful or reckless breach of duty of care, other than mere negligence;

(3) an act done with the intent to unlawfully realize a personal gain;

(4) a fine, monetary penalty or forfeiture imposed upon such Office Holder; or

(5) certain monetary liabilities that are set forth in the Securities Law.

Insurance and Indemnification of Directors and Officers under the Articles of Association

In accordance with and subject to the provisions of the Companies Law and the Securities Law, Elbit Systems' Articles of Association allow for directors and officers liability insurance, in respect of a liability or payment imposed on a director or officer as a result of an act carried out by such person in his or her capacity as a director or officer. This insurance may cover:

(1) a breach of his or her duty of care to Elbit Systems or to another person;

(2) a breach of his or her duty of loyalty to Elbit Systems, provided that the director or officer acted in good faith and had reasonable basis to assume that his or her act would not harm the interests of Elbit Systems;

(3) a financial obligation imposed on him or her in favor of another person;

(4) a payment that he or she is obligated to pay to an injured party as set forth in the relevant sections of the Securities Law;

(5) expenses incurred by him or her in connection with certain administrative proceedings specified in the Securities Law, including reasonable litigation expenses (including attorneys' fees); or

(6) any other event for which insurance of a director or officer is or may be permitted.

In addition, in accordance with and subject to the Companies Law and the Securities Law, Elbit Systems' Articles of Association permit indemnification, retroactively or in advance, of a director or officer against liability, payment or expense imposed on or incurred by him or her as a result of an act carried out in his or her capacity as a director or officer, that may include:

(1) a monetary liability imposed on the director or officer or paid by him or her in favor of a third party under a judgment, including a judgment by way of compromise or a judgment of an arbitrator approved by a court; provided however, that in case such undertaking is granted in advance it will be limited to events which, in the

Board's opinion, are foreseeable in light of the Elbit Systems' actual activities at the time of granting the obligation to indemnify, and to a sum or under criteria as the Board deems reasonable under the circumstances, and the undertaking to indemnify will specify the aforementioned events and sum or criteria;

(2) a payment imposed on him or her in favor of an injured party in the circumstances specified in the Securities Law;

reasonable litigation expenses (including attorneys' fees), incurred by a director or officer as a result of an investigation or proceeding conducted against him or her by an authority authorized to conduct such investigation or procedure, provided that such investigation or procedure: (i) concludes without the filing of an indictment
(3) against the director or officer and without imposition of monetary payment in lieu of criminal proceedings; or (ii) concludes with imposing on the director or officer a monetary payment in lieu of criminal proceedings, provided that the alleged criminal offense in question does not require proof of criminal intent or was incurred by the director or officer in connection with a monetary sanction imposed by the Companies Law or the Securities Law;

(4) expenses incurred by a director or a officer in connection with certain administrative proceedings set forth in the Securities Law, including reasonable litigation expenses (including attorneys' fees);

(5) reasonable litigation expenses (including attorneys' fees), expended by the director or officer or imposed on him or her by the court for:

(i) proceedings issued against him or her by or on Elbit Systems' behalf or by a third party;

(ii) criminal proceedings from which the director or officer was acquitted; or

(iii) criminal proceedings in which he or she was convicted of an offense that does not require proof of criminal intent; or

(6) any other liability or expense for which it is or may be permissible to indemnify a director or an officer.

The Articles of Association permit the grant of similar indemnification to any person acting on behalf or at the request of Elbit Systems as a director or officer of another company in which Elbit Systems is directly or indirectly a shareholder or has any other interest. However, any indemnification so granted by Elbit Systems may not exceed 25% of Elbit Systems' consolidated shareholders equity as reflected in our most recent consolidated financial statements published prior to the date of the indemnification payment.

In November 2011, Elbit Systems' Audit Committee, Board and shareholders approved the grant to members of our Board, including to Messrs. Michael Federmann and David Federmann (who may each be considered a direct or indirect controlling shareholder of the Company), of indemnification letters reflecting the above conditions and limitations. Similar letters were also approved by the Audit Committee and the Board for indemnification of Office Holders of Elbit Systems who are not directors.

According to the Companies Law, the granting by a public company, such as Elbit Systems, of an indemnification letter to an Office Holder who may be considered as a direct or indirect controlling shareholder of that company, requires re-approval every three years by the company's compensation committee, the board of directors and the company's shareholders.
On November 30, 2017, at the Annual General Meeting of Shareholders (the 2017 Annual Meeting), our shareholders re-approved the granting by the Company to Messrs. Michael Federmann and David Federmann (who may each be considered a direct or indirect controlling shareholder of the Company) of the indemnification letters originally granted to them in November 2011 and re-approved in January 2014, for an additional period of three years commencing on December 1, 2017.

At the 2017 Annual Meeting, our shareholders also approved a framework resolution (the Framework Resolution) allowing us to purchase, from time to time during a three-year period, or until the close of our annual general meeting of shareholders in 2020, whichever occurs later, a directors and officers (D&O) liability insurance policy covering liabilities of our directors and officers, including Messrs. Michael Federmann and David Federmann (who may each

be considered a direct or indirect controlling shareholder of the Company), and our CEO, provided that:

(1) the maximum aggregate coverage under such policy will not exceed $150 million for any year covered by such policy;

(2) the terms of any such policy and the annual premium to be paid by the Company reflect the then current market conditions with respect to the Company and the nature of its operations;

(3) prior to the purchase of any such policy, the Compensation Committee determines that the policy complies with the terms of the Framework Resolution; and

(4) in connection with the inclusion in any such policy of Messrs. Michael Federmann and David Federmann (who may each be considered a direct or indirect controlling shareholder of the Company), and our CEO, the Compensation Committee and the Board determine that:

(i) the terms and insurance coverage for Messrs. Michael Federmann, David Federmann and the CEO are the same as the terms and insurance coverage of all other Directors and officers of the Company;

(ii) the policy that will include Messrs. Michael Federmann and David Federmann and the CEO is purchased on market terms; and

(iii) the purchase of the policy that includes Messrs. Michael Federmann and David Federmann and the CEO will not have a material effect on the Company's profitability, assets or obligations.

In accordance with the Framework Resolution, our Compensation Committee and the Board each approved, in meetings held in March 2018, the purchase of a D&O liability insurance policy which complies with the requirements of the Framework Resolution and also approved the inclusion of Messrs. Michael Federmann and David Federmann (who may each be considered a direct or indirect controlling shareholder of the Company), and our CEO, in the coverage of such policy. As of March 15, 2018, the D&O policy's limit of liability was $100 million and the annual premium was $400,000.

Rights, Preferences and Restrictions of Shares

Elbit Systems currently has one type of share, this being ordinary shares. The share capital of Elbit Systems is NIS 80,000,000 divided into 80,000,000 ordinary shares of NIS 1 nominal (par) value each, of which 42,753,182 ordinary shares were issued and outstanding as of March 15, 2018. All issued and outstanding ordinary shares are fully paid and non-assessable.

Each ordinary share entitles its owner to receive notices of, to attend and to cast one vote at, a general meeting of shareholders.

Our Articles of Association do not grant shareholders any rights to share in our profits other than through dividends. Subject to Israeli law, dividends may be declared by our Board and paid to the shareholders according to their respective rights. In the event that we were to go into liquidation, any surplus remaining after the payment of liabilities would be distributed to the shareholders in proportion to the amount paid by each on account of the nominal value of the shares paid. No account is taken of any premiums paid in excess of the nominal value.

Our Board may make calls upon shareholders in respect of sums unpaid on their shares. Our Articles of Association contain no provisions which discriminate against any existing or future shareholder as a result of the number of shares such shareholder holds.

A change of Elbit Systems' share capital, by way of increasing the share capital, creation of new shares or cancellation of unissued registered shares (if there is no undertaking to allot such shares), requires a change to our Articles of Association and as such requires the vote of a special majority of the shareholders participating in a general meeting of shareholders (see "General Meetings of Shareholders" below.)

If at any time our share capital is divided into different classes of shares, we may change the rights of shareholders by way of a resolution at a general meeting of shareholders, subject to the consent of the shareholders of the class whose rights are being impaired by the proposed change or subject to the adoption of a resolution by a special majority of the general meeting of the shareholders of such class, all of which would be subject to other terms if and as provided by

the terms of issuance of a particular class of shares.

Our ordinary shares do not have pre-emptive rights.

General Meetings of Shareholders

An annual general meeting of our shareholders must be held once in each year and not later than 15 months after the preceding annual general meeting.

Any general meeting that is not an annual general meeting is defined as an extraordinary general meeting. All shareholders are entitled to attend any annual or extraordinary general meeting and vote at general meetings in person, by proxy or through the Israeli Securities Authority's electronic voting system. Notice of an annual or extraordinary general meeting may be sent by us by personal delivery or by sending it by prepaid registered mail. Such notice may be sent by cablegram, telex, facsimile or other electronic means provided confirmation is made by registered mail as stated above and should be sent to shareholders at the address in our records.

Our Board may convene an extraordinary general meeting when and as it sees fit. In addition the Board must, according to statute, convene an extraordinary general meeting if it receives a demand to do so from either: (i) at least two directors; (ii) at least one quarter of the members of the Board; or (iii) one or more shareholders who hold: (A) an aggregate of at least 5% of our issued share capital and at least 1% of all voting rights; or (B) at least 5% of the Company's issued voting shares, and in such case the extraordinary meeting must be held not more than 56 days from the submission date of such request to the Board and not later than 35 days from the applicable notice to shareholders described below. Any demand by a person or persons, as described in (i), (ii) and/or (iii) of this paragraph, who demands that an extraordinary general meeting be convened, must be made in writing and sent to our registered office.

Subject to the provisions of our Articles of Association, as well as applicable law and regulations, including applicable laws and regulations of any stock market on which our shares are listed, notice of an annual general meeting and of an extraordinary general meeting must be sent at least 21 days (and in some cases at least 35 days) in advance to all shareholders recorded in our shareholders registry. Such notice must include the place, date and hour of the meeting, the agenda for the meeting, the proposed resolutions and instructions for proxy voting.

The quorum required for a meeting of shareholders, except in the case of certain extraordinary meetings convened in special circumstances, consists of at least two shareholders present in person or by proxy or other voting instrument and holding or representing between them at least one-third of the voting power. The chair of our Board generally presides at our shareholders' meetings. A meeting adjourned for lack of a quorum will be adjourned to the same day in the following week, at the same time and place, or to the day, time and place that the Board determines, with notice to the shareholders. At the reconvened meeting, if a quorum is not present within one-half hour from the time appointed for holding the adjourned meeting, the required quorum then is two shareholders, present in person or by proxy or other voting instrument, representing at least 10% of the voting power. Nasdaq Listing Rule 5620(c) provides that a company listed on the Nasdaq Global Select Market should have a quorum requirement for shareholder meetings of at least one-third of the company's outstanding common voting stock. As described above, our general quorum requirement is consistent with the Nasdaq Listing Rule. However, in the case of an adjourned meeting, our Articles of Association, consistent with what is permissible under the Companies Law, provide for a 10% quorum requirement.

In general, subject to the Companies Law, ordinary resolutions in a general meeting require approval of a majority of the votes cast at the general meeting, whether in person or by proxy. (For information as to the required majority for the approval of related party transactions, see "Provisions Relating to Major Shareholders" below. For information as to the required majority for the approval of certain transactions with Office Holders of a public company, see "Approval of Certain Transactions - Approval of Transactions" and "Approval of Employment Terms" above). However, under our Articles of Association, certain resolutions require a special majority of at least 67% of all votes properly cast at a general meeting, without taking into account abstentions.

Limitations on Non-Israeli Shareholders

No limitations exist or are imposed by Israeli law or our constituent documents with regard to the rights of non-Israeli shareholders or shareholders not resident in Israel to hold or exercise voting rights except for shareholders who are subjects of countries that are enemies of the State of Israel. (For a description of Israeli regulations relating to acquisitions of a controlling interest in Israeli "defense entities" see Item 4. Information on the Company – Governmental

Regulation – Approval of Israeli Defense Acquisitions.)

Change of Control

Subject to certain exceptions, the Companies Law provides that a merger requires approval both by the board of directors and by the shareholders of each of the merging companies. In approving a merger, the board of directors must determine that there is no reasonable expectation that, as a result of the merger, the merged company will not be able to meet its obligations to its creditors. Creditors may seek a court order to enjoin or delay the merger if there is an expectation that the merged company will not be able to meet its obligations to its creditors. A court may also issue other instructions for the protection of the creditors' rights in connection with a merger.

Under the Companies Law, an acquisition of shares in a public company must be made by means of a tender offer to all shareholders if, as a result of the acquisition, the purchaser would hold 25% or more of the company's voting rights (where no other shareholder holds 25% or more) or 45% or more of the company's voting rights (where no other shareholder holds 45% or more). This rule does not apply to a purchase of shares by way of a "private offering" in certain circumstances provided under the Companies Law. (For information regarding Israeli law applicable to acquisition of Israeli "defense entities" see Item 4. Information on the Company – Governmental Regulations – Approval of Israeli Defense Acquisitions.)

Provisions Relating to Major Shareholders

We are required by law to maintain a separate registry of shareholders that hold 5% or more of either our issued shares or voting rights.

Under the Companies Law, the disclosure requirements with respect to the disclosure of a Personal Interest that apply to an Office Holder also apply to a controlling shareholder of a public company. A controlling shareholder is a shareholder who has the ability to direct the activities of a company, including a shareholder that holds 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company, but excluding a shareholder whose power derives solely from his or her position as a director of the company or any other position with the company.

Except for certain specified exemptions under the Companies Law, audit committee approval is required for extraordinary transactions, as defined by criteria established by the audit committee, with a controlling shareholder or in which a controlling shareholder has a Personal Interest, including a private offering in which the controlling shareholder has a Personal Interest, and an engagement of a public company with a controlling shareholder or his or her Relative, directly or indirectly, including through a company controlled by such person, regarding the grant of services to the applicable company (and regarding his or her Employment Terms if the controlling shareholder is an employee of the company but he or she is not an Office Holder). If the controlling shareholder is an Office Holder, his or her Employment Terms must be approved by the compensation committee, the board of directors and the shareholders of the company, in that order. Such shareholder approval requires a Special Uninterested Majority. (For further information see above - Approval of Certain Transactions.)

In addition, the Companies Law requires that, except for certain exemptions, transactions with a controlling shareholder whose terms are for a period of more than three years must be re-approved in same manner for every three-year period.

Also, under the Companies Law, each shareholder has a duty to act in good faith in exercising his or her rights and fulfilling his or her obligations toward the company and other shareholders and to refrain from abusing his or her power in the company, such as in certain shareholder votes. In addition, specified shareholders have a duty of fairness toward the company. These shareholders include any controlling shareholder, any shareholder who knows that it possesses the power to determine the outcome of a shareholder vote and any shareholder who, pursuant to the provisions of the articles of association, has the power to appoint or to prevent the appointment of an Office Holder or has any other power, beyond that of other shareholders, with respect to the company.

Borrowing Power

Our Articles of Association grant broad powers to the Board to have us borrow, repay borrowings, make guarantees and grant security interests in borrowings.

Exchange Controls and Other Limitations Affecting Security Holders

Non-residents of Israel may freely hold and trade our ordinary shares under general and specific permits issued under the Israeli Currency Control Law, 1978 (the Currency Control Law). Our Memorandum of Association and Articles of Association do not restrict the ownership of ordinary shares by non-residents of Israel. Neither the Memorandum of Association and Articles of Association nor Israeli law restrict the voting rights of non-residents.

Under the general permit given pursuant to the Currency Control Law, non-residents of Israel who buy our ordinary shares inside or outside of Israel with any foreign currency are able to receive a number of types of distributions in freely repatriable U.S. dollars or specified other currencies. These distributions include dividends, proceeds from the sale of shares and any amounts payable in the event of the dissolution, liquidation or winding-up of Elbit Systems.

Taxation

General

The following is a summary of some aspects of the current tax law applicable to companies in Israel, with special reference to its effect on Elbit Systems and our Israeli subsidiaries, and government programs from which Elbit Systems and some of our Israeli subsidiaries benefit.

The following also contains a discussion of specified Israeli and U.S. tax consequences to our shareholders. It also contains a discussion of the Israeli tax consequences to holders of our Series A Notes. See Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Israeli Debt Offering. The Series A Notes are not registered for trading in the U.S. and may not be sold in the U.S. without registration or compliance with Regulation "S" under the Securities Act. Therefore, we have not included a discussion of U.S. tax consequences to holders of the Series A Notes. To the extent that the discussion is based on tax legislation that has not been subject to judicial or administrative interpretation, there can be no assurance that the views expressed in the discussion will be accepted by the tax authorities in question. The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

Elbit Systems' income tax liability in Israel is based on our unconsolidated earnings and such earnings of our Israeli-based subsidiaries. It is determined in NIS and not in U.S. dollars. Tax liability of non-Israeli subsidiaries is determined according to the laws of their respective countries of residence. As a result, the tax provision in Elbit Systems' consolidated financial statements does not directly relate to income reported on these statements.

General Corporate Tax in Israel

Generally, Israeli companies were subject to corporate tax on taxable income and capital gains at the rate of 24%, 25% and 26.5% for the tax years 2017, 2016 and 2015, respectively. The corporate tax rate effective as of January 1, 2018 is 23%.

Under the Israeli Tax Ordinance, 1961 (the Ordinance) transfer pricing rules require that cross-border transactions between related parties be carried out implementing an arm's-length principle and reported and taxed accordingly.

A portion of our Israeli operations have been granted "Approved Enterprise", "Privileged Enterprise" and "Preferred Enterprise" status, as described under "Investment Law" below. These operations are subject to taxation at reduced rates applicable to those types of enterprises. We cannot assure that Elbit Systems or our Israeli subsidiaries will continue to qualify for such benefits, or benefits under the Law for Encouragement of Industry, in the future. We also cannot assure that we will continue to qualify as an Approved Enterprise, Privileged Enterprise or Preferred Enterprise, or that the benefits described above will be available in the future. See further Item 18. Financial Statements - Note 18(A)(5).

Industry Encouragement. Under the Law for the Encouragement of Industry (Taxes), 1969, a company qualifies as an "Industrial Company" if it is resident in Israel and at least 90% of its income (determined in Israeli currency) in a given tax year, with some exceptions, comes from "Industrial Enterprises" owned by that company. An Industrial Enterprise is defined as an enterprise whose primary activity in a particular tax year is industrial manufacturing activity. We believe Elbit Systems qualifies as an Industrial Company. See further Item 18. Financial Statements - Note 18(A)(2).

Investment Law. The Israeli Law for the Encouragement of Capital Investments, 1959 (the Investment Law) provides tax benefits to companies that make capital investments in eligible fixed assets. Under the Investment Law, subject to

applicable conditions, companies could apply to receive “Approved Enterprise”, “Privileged Enterprise” or "Preferred Enterprise” status, each of which provides various tax benefits. See Item 18. Financial Statements - Note 18(A).

Tax on IP-based Income. On December 29, 2016, Israel enacted a tax law amendment introducing a new tax regime for intellectual property (IP)-based companies. The regime is tailored to a post-BEPS (base erosion profit shifting) world, encouraging multinationals to consolidate IP ownership and profits in Israel along with existing Israeli R&D functions. Tax benefits created to achieve this goal include a reduced corporate income tax rate of 6% on IP-based income and on capital gains from the future sale of IP. The 6% rate would apply to qualifying Israeli companies that are part of a group with global consolidated revenue of over NIS 10 billion (approximately $2.9 billion). Other qualifying companies with global consolidated revenue below NIS 10 billion would be subject to a 12% tax rate. However, if the Israeli company is located in Jerusalem or in certain northern or southern parts of Israel, the tax rate is further reduced to 7.5%. Additionally, withholding tax on dividends would be subject to a reduced rate of 4% for all qualifying companies (unless further reduced by a treaty). See Item 18. Financial Statements - Note 18(A)(4).

Capital Gains to a Shareholder

Capital gains to Israeli residents. Starting in , 2012, the tax rate on capital gains to a “non-principal” individual shareholder (those persons holding less than 10% of our ordinary shares) has been 25%, and 30% to an individual “principal” shareholder. In 2013, the capital gains tax rate increased by 2% in the event the individual’s taxable income in any tax year exceeds NIS 810,720 (approximately $210,000) - linked to the CPI each year - including capital gains from marketable securities, dividends and interest income. As of January 1, 2017, the capital gain tax rate was increased by 3% (rather than the previous 2% increase) in the event the individual’s taxable income in 2017 exceeds ILS 640,000 (approximately $180,000) - linked to the CPI each year). Dealers in securities in Israel are taxed at regular tax rates applicable to business income. Companies resident in Israel are taxed at rates applicable to capital gains.

Capital gains to non-residents of Israel. Gains on the sale of ordinary shares traded on the TASE and on Nasdaq held by non-Israeli resident investors for tax purposes will generally be exempt from Israeli capital gains tax, subject to the provisions of the Israeli tax legislation. However, non-Israeli corporations will not be entitled to such exemption if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly. In addition, the United States - Israel tax treaty exempts United States residents who hold less than 10% of our voting rights, and who held less than 10% of our voting rights during the twelve months prior to a sale of their shares, from Israeli capital gains tax in connection with such sales under certain circumstances.

Capital Gains to a Holder of Series A Notes

Capital gains to Israeli residents. A capital gain for an individual derived from the sale of a debenture that is not linked to an index, such as our Series A Notes, will be taxable at a rate not to exceed 15% in case of a “non-principal” individual note holder, or 20% in the case of a “principal” individual note holder. Tax payers claiming a deduction of real interest expenses and linkage differences on debentures such as the Series A Notes will be taxed at a rate of 30% on their real capital gains. Dealers in securities in Israel are taxed at regular tax rates applicable to business income. Companies resident in Israel are taxed at rates applicable to capital gains.

Capital gains to non-residents of Israel. Gains on the sale of securities traded on the TASE, such as our Series A Notes, held by non-Israeli resident investors for tax purposes will generally be exempt from Israeli capital gains tax, subject to the provisions of the Israeli tax legislation. However, non-Israeli corporations will not be entitled to such exemption if an Israeli resident: (i) has a controlling interest of 25% or more in such non-Israeli corporation; or (ii) is the beneficiary or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

Taxation on Dividends Paid to a Shareholder

Income tax for individual Israeli residents. Residents of Israel are subject to income tax on distributions of dividends other than bonus shares (stock dividends). The tax rate on dividend income to a “non-principal” individual shareholder is 25% and 30% to an individual “principal” shareholder. The paying company withholds at source income tax at the rate of 25% or 30% in the case of a “principal shareholder”. A company whose stock is traded on a stock exchange withholds tax at the rate of 25% from dividends paid to a “principal” shareholder for shares registered and held by a registration company. Dividends distributed from “Preferred Income” under Preferred Enterprise status (see above “Investment Law”) are subject to a withholding tax rate of 20%. These rates are the final tax on dividends.

Income tax for non-residents of Israel. Non-residents of Israel are subject to income tax on distributions of dividends other than bonus shares (stock dividends). The tax rate on dividend income to a "non-principal" non-resident of Israel shareholder is 25% and 30% to a "principal" shareholder (including a foreign company as opposed to an Israeli company). The paying company withholds at source income tax at the rate of 25% for a "non-principal" shareholder, or 30% for a "principal" shareholder. A company whose stock is traded on a stock exchange will withhold tax at the rate of 25% from dividends paid to a "principal" shareholder for shares registered and held by a registration company, unless a lower rate is applicable under a double taxation treaty. Accordingly, Elbit Systems withholds income tax at the source. Generally, dividends distributed from taxable income accrued during the period of benefit of an Approved Enterprise, Privileged Enterprise or Preferred Enterprise are taxable at the rate of 15% if the dividend is distributed during the tax benefit period under the Investment Law or within 12 years after the period (this limitation does not apply if the company qualifies as a foreign investors' company according to the Investment Law). Following the enactment of the National Priorities Law, effective January 1, 2014, dividends distributed from "Preferred Income" under a Preferred Enterprise status are subject to a withholding tax rate of 20% (unless a lower treaty rate applies). These rates are the final taxes in Israel on dividends for individual and corporate non-residents of Israel. Foreign residents who have Israeli derived income for which tax was withheld at the source are generally exempt from the duty to file tax returns in Israel for such income. This includes income from Israeli derived interest, dividends and royalties.

Taxation of Interest Income of Holders of Series A Notes

Income tax for Israeli residents. Israeli resident individuals are tax exempt on the linkage differences derived from the debenture principal, under certain conditions. An individual is taxable at a rate of 15% on interest or discount fees originating from debentures which are not linked to the index, whether in whole or in part, such as the Series A Notes. The tax rate on interest income or discount fees originating from fully index-linked debentures, including debentures linked to a foreign currency, is 25% in case of a "non-principal" note holder. These tax rates will not apply if any of the following conditions are met: (1) the interest represents income from a "business" or is recorded in the individual's books of account or is required to be so recorded; (2) the individual has claimed deduction of linkage differences and interest expenses on the debentures; (3) the individual is a "principal" individual note holder; or (4) the individual is employed by a corporation that paid the interest, is a supplier of goods or services to the corporation or has other special relations with the corporation, unless the tax assessing officer is satisfied that the interest rate has been established in good faith and regardless of the existence of any such relations between the individual and the corporation. In these cases, the individual will be taxed at the marginal tax rate. The paying company will deduct tax at a rate of 15% on interest in respect of unlinked debentures, such as the Series A Notes, and at a rate of 25% in the case of linked debentures. The maximum tax rate will apply in the case of an individual who is a "principal" individual note holder, an individual employed by the interest-paying-corporation or a supplier of goods or services to the corporation. The tax rate applicable to interest income (including linkage differences) or discount fees of an Israeli resident corporation is the corporate tax rate. The paying company will deduct tax at the corporate tax rate.

Income tax for foreign residents. Interest, discount fees or linkage differences paid to a foreign resident on debentures listed on the TASE and issued by an Israeli resident corporation, such as our Series A Notes, are typically exempt from Israeli tax, provided that the income is not produced by the foreign resident's permanent establishment in Israel. The tax exemption will not apply in the following circumstances: (1) the foreign resident is a "principal" shareholder or note holder of the issuing company; (2) the foreign resident is a relative, as defined in the Ordinance, of the issuing company; (3) the foreign resident is an employee, a supplier of goods or services or has special relations with respect to the issuing company (unless it is demonstrated that the interest rate or discount fees have been determined in good faith and regardless of the existence of any special relations); or (4) the foreign resident company is held by Israeli residents. If the tax exemption does not apply as above, the tax rate applicable to interest income received by foreign residents (individuals and corporations) originating from securities will be established in accordance with the provisions of the Ordinance, or in accordance with the provisions of the relevant treaty for the avoidance of double taxation signed between the State of Israel and the foreign resident's country of residence. In such

case, the paying company will withhold tax according to the rates prescribed in the Ordinance as above, and this rate may be reduced subject to the relevant treaty for the avoidance of double taxation. As indicated above, the Series A Notes are not registered under the Securities Act and may not be offered or sold in the United States or to U.S. Persons (as defined in Regulation "S" under the Securities Act) without registration under the Securities Act or an exception from the registration requirements of the Securities Act.

Israeli Tax on United States Shareholders

Dividends paid by Elbit Systems to an individual shareholder resident in the United States are generally subject to withholding tax deducted at source in Israel. Israel and the United States are parties to a tax treaty. Under the treaty, the withholding tax rate on a dividend is normally 25%, or 15% in connection with an Approved Enterprise, Privileged Enterprise or Preferred Enterprise. (See above "Investment Law.")

A U.S. corporation would have a reduced withholding tax rate of 15% on dividends if it were to own 10% or more of Elbit Systems' voting shares under specified conditions. The reduced withholding tax rate on the dividend would be 12.5%. The U.S. corporation must own at least 10% of the voting shares during a portion of Elbit Systems' tax year in which the payment of the dividend occurs but prior to the payment date and during the entire prior tax year. The reduced rate is also subject to two other conditions. First, not more than 25% of Elbit Systems' gross income for the prior tax year may consist of interest, other than interest received from banking, financing or similar businesses or from certain subsidiaries. Second, the dividend may not be derived from income during any period for which Elbit Systems is entitled to the reduced tax rate applicable to an Approved Enterprise / Privileged Enterprise.

Under the terms of the tax treaty, Israel may tax capital gains realized by shareholders resident in the United States on a sale of ordinary shares of Elbit Systems if certain conditions exist, however, such right is subject to the following exemption. Since Elbit Systems' ordinary shares are traded on the TASE and on Nasdaq, gains on the sale of ordinary shares held by non-Israeli resident investors for tax purposes generally will be exempt from Israeli capital gains tax, subject to the provisions of the Israeli tax legislation.

Subject to certain conditions and limitations, any Israeli tax withheld or paid with respect to dividends on ordinary shares generally will be eligible for credit against a U.S. shareholder's U.S. federal income tax liability at such U.S. shareholder's election. The U.S. Internal Revenue Code of 1986, as amended, (the Code) provides limitations on the amount of foreign tax credits that a U.S. shareholder may claim, including extensive separate computation rules under which foreign tax credits allowable with respect to specific categories of income cannot exceed the U.S. federal income taxes otherwise payable with respect to each such category of income. U.S. shareholders that do not elect to claim a foreign tax credit may instead claim a deduction for Israeli income tax withheld or paid, but only for a year in which these U.S. shareholders elect to do so for all foreign income taxes. Dividends with respect to the ordinary shares will generally be classified as foreign source "passive income" for the purpose of computing a U.S. shareholder's foreign tax credit limitations for U.S. foreign tax credit purposes. The rules relating to foreign tax credits are complex, and each U.S. holder of our ordinary shares should consult his or her tax advisor to determine whether and if he or she would be entitled to this credit.

This summary of Israeli taxation is based on existing treaties, laws, regulations and judicial and administrative interpretations thereof. There can be no assurance that any of these may not be amended or repealed, possibly with retroactive effect, or that a tax authority may take a contrary position. Also, this summary does not address the tax consequences that may be applicable to specific persons based on their individual circumstances. It also does not address any local or other foreign tax consequences. A shareholder or holder of Series A Notes should consult his or her own tax advisor as to the specific tax consequences of purchasing, holding or transferring shares or Series A Notes of Elbit Systems.

United States Federal Income Tax Considerations

General

The following is a summary of material U.S. federal income tax considerations regarding the acquisition, ownership and disposition of Elbit Systems' ordinary shares by a "U.S. Shareholder", which, for these purposes, means a beneficial owner of an ordinary share who is, for U.S. federal income tax purposes:

(1) a citizen or individual resident of the United States;

(2) a corporation (or an entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any political subdivision thereof (including the District of Columbia);

(3) an estate whose income is subject to U.S. federal income taxation regardless of its source; or

(4) a trust if: (A) a U.S. court is able to exercise primary supervision over the trust's administration and (B) one or more U.S. persons have the authority to control all of the trust's substantial decisions or (C) if it has a valid election in place to be treated as a U.S. person.

This summary is based on provisions of the Code, existing and proposed U.S. Treasury regulations, administrative pronouncements, rulings and judicial decisions in effect as of the date of this annual report. These authorities and their interpretation are subject to change, possibly with retroactive effect. Notably, in December 2017, the U.S. President signed into law the "Tax Cuts and Jobs Act" (the "Tax Act"), which alters significantly the U.S. federal income tax system. Although this discussion takes into account provisions enacted under the Tax Act, given the complexity of this new law, investors should consult their own tax advisors regarding its potential impact on the U.S. Federal income tax consequences to them in light of their particular circumstances.

This summary applies to U.S. shareholders only if they hold ordinary shares as capital assets for tax purposes. In addition, this summary does not discuss all aspects of U.S. federal income taxation that may be applicable to investors in light of their particular circumstances or to investors who are subject to special treatment under U.S. federal income tax law, including, but not limited to, U.S. expatriates, insurance companies, banks, regulated investment companies and real estate investment trusts, securities broker-dealers, financial institutions, tax-exempt organizations, persons holding ordinary shares as part of a straddle, hedging or conversion transaction, traders in securities that elect to apply a mark to market method of accounting, persons subject to the alternative minimum tax, persons who acquired their Elbit Systems' ordinary shares pursuant to the exercise of employee stock options or otherwise as compensation, persons whose functional currency is not the U.S. dollar, and persons owning (directly, indirectly or by attribution) 10% or more of our outstanding voting shares. If a partnership or other entity treated as a partnership for U.S. federal income tax purposes holds ordinary shares of Elbit Systems, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner in a partnership that holds our ordinary shares is urged to consult its own tax advisor regarding the specific tax consequences of owning and disposing of our ordinary shares.

This summary does not address the U.S. federal estate or gift tax consequences, or any state, local or foreign tax consequences, of the acquisition, ownership and disposition of ordinary shares.

Dividends

A U.S. Shareholder generally will be required to include in gross income, as ordinary income, the amount of any distributions paid on ordinary shares of Elbit Systems to the extent of Elbit Systems' current or accumulated earnings and profits (calculated before the reduction of any corresponding Israeli withholding taxes). If a U.S. Shareholder is an individual, trust or estate, dividends received from Elbit Systems generally will be treated as "qualified dividend income", which is taxable to such U.S. Shareholder at preferential tax rates, provided the U.S. Shareholder has held the stock for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and certain other conditions are satisfied. There is no assurance that dividends received by U.S. Shareholders from Elbit Systems will be eligible for such preferential tax rates. Each individual U.S. Shareholder of ordinary shares is urged to consult his or her own tax advisor regarding the availability to him of the reduced dividend tax rate in light of his or her own particular situation and regarding the computations of his or her foreign tax credit limitation with respect to any qualified dividend income paid by us, as applicable. Dividends paid by Elbit Systems do not qualify for the dividends-received deduction applicable in certain cases to U.S. corporations. Elbit Systems does not intend to compute earnings and profits under U.S. tax principles; therefore, it is likely that all distributions will be treated as paid out of Elbit Systems' current and accumulated earnings and profits.

The amount of any distribution paid in NIS, including the amount of any Israeli withholding tax thereon, will be included in the gross income of a U.S. Shareholder in an amount equal to the U.S. dollar value of the NIS calculated by reference to the spot rate of exchange in effect on the date the distribution is received by the U.S. Shareholder. If a U.S. Shareholder converts dividends paid in NIS into U.S. dollars on the day Elbit Systems distributes the dividends, the U.S. Shareholder generally should not be required to recognize foreign currency gain or loss with respect to such conversion. If the NIS received in the distribution are not converted into U.S. dollars on the date of receipt, any

foreign currency gain or loss recognized upon a subsequent conversion or other disposition of the NIS will be treated as U.S. source ordinary income or loss. Special rules govern and special elections are available to accrual method taxpayers to determine the U.S. dollar amount that should be included in income in the case of taxes withheld in a foreign currency. Accrual basis taxpayers are urged to consult their own tax advisors regarding the requirements and the elections applicable in this regard.

Dividends paid by us to a U.S. Shareholder on our ordinary shares will be treated as foreign source income and will generally be categorized as "passive category income" for U.S. foreign tax credit purposes. Subject to the limitations in the Code, as modified by the applicable tax treaty, a U.S. Shareholder may elect to claim a foreign tax credit against its U.S. federal income tax liability for Israeli income tax withheld from dividends received in respect of ordinary shares. Dividends paid with respect to ordinary shares may be subject to special rules if a U.S. Shareholder owns more than 50 percent (by vote or value) of Elbit Systems, which could adversely affect a U.S. Shareholder's ability to use U.S. foreign tax credits. U.S. Shareholders who do not elect to claim the foreign tax credit may instead claim a deduction for Israeli income tax withheld, but only for a year in which the U.S. Shareholder elects to do so with respect to all foreign income taxes. A deduction does not reduce U.S. tax on a dollar-for-dollar basis as it does for a tax credit. The deduction, however, is not subject to the limitations applicable to foreign tax credits. The rules relating to the determination of the foreign tax credit are complex. Accordingly, a U.S. Shareholder should consult its own tax advisor to determine whether and to what extent it would be entitled to the credit.

Sale, exchange or other disposition

Upon the sale, exchange or other disposition of ordinary shares, a U.S. Shareholder generally will recognize capital gain or loss equal to the difference between the U.S. dollar value of the amount realized on the sale, exchange or other disposition and the U.S. Shareholder's adjusted tax basis, determined in U.S. dollars, of the ordinary shares. Any gain or loss recognized upon the sale, exchange or other disposition of the ordinary shares will be treated as long-term capital gain or loss if, at the time of the sale, exchange or other disposition, the holding period of the ordinary shares exceeds one year. In the case of individual U.S. Shareholders, long-term capital gains generally are subject to U.S. federal income tax at preferential rates. The deductibility of capital losses by a U.S. Shareholder is subject to significant limitations. U.S. Shareholders should consult their own tax advisors in this regard.

In general, gain or loss recognized by a U.S. Shareholder on the sale, exchange or other disposition of ordinary shares will be U.S. source income or loss for U.S. foreign tax credit purposes. U.S. Shareholders who hold ordinary shares through an Israeli stockbroker or other Israeli intermediary may be subject to Israeli withholding tax on any capital gains recognized if the U.S. Shareholder does not obtain approval of an exemption from the Israeli Tax Authorities. Israeli taxes paid under circumstances in which an exemption from such tax was available generally will not give rise to a deduction or credit for foreign taxes paid for U.S. federal income tax purposes. U.S. Shareholders should consult their Israeli stockbroker or other intermediary regarding the procedures for obtaining an exemption.

If a U.S. Shareholder receives NIS upon the sale of ordinary shares, that U.S. Shareholder may recognize ordinary income or loss as a result of currency fluctuations between the date of the sale of the ordinary shares and the date the sales proceeds are converted into U.S. dollars.

Medicare Tax

Non-corporate U.S. Shareholders may be subject to an additional 3.8% Medicare tax on all or a portion of "net investment income", which generally may include dividends on, or capital gains recognized from the disposition of, our ordinary shares. U.S. Shareholders should consult their own tax advisors regarding the applicability of the Medicare tax to their investment in our shares.

Passive Foreign Investment Company rules

A non-U.S. corporation will be classified as a Passive Foreign Investment Company (a PFIC) for any taxable year if at least 75% of its gross income consists of passive income (which is generally subject to certain exceptions for active businesses, dividends, interest, rents and royalties and gains from the sales of property generating such income), or at least 50% of the average value of its assets consists of assets that produce, or are held for the production of, passive

income. We currently believe that we were not a PFIC for the year ended December 31, 2017. However, this conclusion is a factual determination that must be made at the close of each year and is based on, among other things, a valuation of our ordinary shares and assets, which will likely change from time to time. If we were characterized as a PFIC for any taxable year, a U.S. Shareholder could suffer adverse tax consequences under certain circumstances. These consequences may include having gains realized on the disposition of ordinary shares treated as ordinary income rather than capital gains and being subject to punitive interest charges on certain dividends and on the proceeds of the sale or other disposition of the ordinary shares. Furthermore, dividends paid by a PFIC are not eligible to be treated as “qualified dividend income” (as discussed above).

The PFIC rules are complex. U.S. Shareholders should consult their own tax advisors regarding the potential application of the PFIC rules to the ownership of our ordinary shares.

Informational reporting and backup withholding

Dividend payments with respect to ordinary shares and proceeds from the sale, exchange or other disposition of ordinary shares may be subject to informational reporting to the Internal Revenue Service (the IRS) and possible U.S. backup withholding at a current rate of 24%. Backup withholding will not apply, however, to a holder who timely furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification or who is otherwise exempt from backup withholding. U.S. persons who are required to establish their exempt status generally must provide IRS Form W-9 (Request for Taxpayer Identification Number and Certification). Non-U.S. Shareholders generally will not be subject to U.S. informational reporting or backup withholding. However, such holders may be required to provide certification of non-U.S. status (generally on IRS Form W-8BEN) in connection with payments received in the United States or through certain U.S.-related financial intermediaries.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's U.S. federal income tax liability, and a holder may obtain a refund of any excess amounts withheld by timely filing the appropriate claim for refund with the IRS and furnishing any required information.

Holders of our ordinary shares should consult their own tax advisors concerning the specific U.S. federal, state and local tax consequences of the ownership and disposition of the ordinary shares in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction. In particular, U.S. Shareholders are urged to consult their own tax advisors concerning whether they will be eligible for benefits under the Unites States-Israel tax treaty.

Documents on Display

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file reports and other information with the SEC. These materials, including this annual report and its exhibits, may be inspected and copied at the SEC's Public Reference Room (the Public Reference Room) at 100 F Street, N.E., Washington, D.C. 20549, and copies of the materials may be obtained from the Public Reference Room at prescribed rates. The public may obtain information on the operation of the Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330.

Item 11. Quantitative and Qualitative Disclosures About Market Risk.

General

Market risks relating to our operations result primarily from changes in exchange rates and interest rates. We take various measures to compensate for the effects and fluctuation in both exchange rates and interest rates. We use financial instruments and derivatives in order to limit the exposure to risks deriving from changes in exchange rates and interest rates. No derivatives instruments are entered into for trading purposes.

Exchange Rate Risk Management

General

While our functional currency is the U.S. dollar, we also have some non-U.S. dollar or non-U.S. dollar linked currency exposures. These exposures are mainly derived from our revenues and expenses denominated in foreign currencies and non-U.S. dollar accounts receivable, payments to suppliers and subcontractors, obligations in other currencies and payroll related expenses incurred, mainly in NIS. Some subcontractors are paid in local currency under prime contracts where we are paid in U.S. dollars.

We take various measures to compensate for the effects of fluctuations in exchange rates. These measures include currency hedging transactions in which we purchase foreign exchange contracts to reduce the volatility of cash flows associated with project related revenues and expenses denominated in certain foreign currencies (mainly Euro and GBP) and attempts to maintain a balance between monetary assets and liabilities in our functional currencies. We also attempt to share currency risks with subcontractors on a “back-to-back” basis, by having the subcontractor assume a proportional amount of the exchange risk.

We use currency hedging contracts and other derivatives instruments to limit our exposure to exchange rate fluctuations related to payroll expenses incurred in NIS. The objective of the foreign exchange contracts is to better ensure that the U.S. dollar-equivalent cash flows are not adversely affected by changes in U.S. dollar/foreign currency exchange rates. In accordance with ASC 815, “Derivatives and Hedging”, these contracts are designated as cash flow hedges. The gain on the effective portion of a cash flow hedge is initially reported as a component of accumulated other comprehensive income and subsequently reclassified into revenues and to contract expenses when the hedged exposure affects revenues or contract expenses, or as financial expenses, if the hedged transaction becomes probable of not occurring. Any gain or loss after a hedge is de-designated, because the hedged transaction is no longer probable of occurring or related to an ineffective portion of a hedge, is recognized in “financial expenses, net” in our consolidated statements of income.

As of December 31, 2016 and December 31, 2017, the notional amount of our outstanding forward contracts was $853.9 million and $575.7 million, respectively. Most of these contracts met the requirements of hedge accounting.

The table below provides information regarding our derivatives instruments held in order to limit the exposure to exchange rate fluctuation as of December 31, 2017. The table does not include information regarding the cross currency interest rate swap transactions in order to effectively hedge the effect of interest and exchange rate differences resulting from the NIS Series A Notes.

Maturity Date - Notional Amount (US dollars in millions)						
2018	**2019**	**2020**	**2021**	**2022 onwards**	**Total**	**Fair Value at**

						December 31, 2017	
Buy US$ and sell:							
EUR	133.9	94.5	25.0	16.2	13.2	282.8	(8.1)
GBP	23.6	3.4	3.1	2.4	6.7	39.2	(0.8)
Other currencies	23.7	12.4	19.6	5.5	—	61.2	(1.2)
Total	181.2	110.3	47.7	24.1	19.9	383.2	(10.1)

	Maturity Date - Notional Amount (US dollars in millions)						
	2018	2019	2020	2021	2022 onwards	Total	Fair Value at December 31, 2017
Sell US$ and buy:							
EUR	35.2	26.3	10.5	2.2	6.8	81.0	2.3
GBP	3.7	—	—	—	—	3.7	0.1
NIS	71.2	—	—	—	—	71.2	2.5
Other currencies	23.3	10.5	2.2	0.6	—	36.6	(1.0)
Total	133.4	36.8	12.7	2.8	6.8	192.5	3.9

At December 31, 2017, a 5% and 10% strengthening of the U.S. dollar relative to the currencies in which our derivative instruments were denominated would have resulted in unrealized losses of $10.2 and $20.2 million, respectively, and a 5% and 10% weakening in the value of the U.S. dollar relative to the currencies in which our derivative instruments were denominated would have resulted in unrealized gains of $10.5 and $21.3 million, respectively. This calculation assumes that each exchange rate would have changed in the same direction relative to the U.S. dollar. Consistent with the use of these contracts to neutralize the effect of exchange rate fluctuations, most of such unrealized losses or gains would be offset by corresponding gains or losses, respectively, in the remeasurement of the underlying transactions being hedged. When taken together, these forward currency contracts and the offsetting underlying commitments did not create material market risk.

Interest Rate Risk Management

On December 31, 2017, our liquid assets and obligations were comprised of cash and cash equivalents, bank deposits, short and long-term loans and Series A Notes. Our deposits are mainly in U.S. dollars.

In 2010, we issued NIS 1.1 billion (approximately $283 million) of Senior A Notes in a public offering on the TASE. These Senior A Notes are payable in ten equal annual installments on June 30 of each of the years 2011 through 2020 and bear a fixed interest rate of 4.84% per annum, payable semi-annually on June 30 and December 30 of each of the years 2010 through 2020. In 2012, we issued through a public offering on the TASE additional Series A Notes in the aggregate principal amount of NIS 807 million (approximately $217 million), and we issued additional Series A Notes in an aggregate principal amount of NIS 92 million (approximately $24 million) through a private placement to Israeli institutional investors. As of December 31, 2016 and December 31, 2017, the total principal amount of the Series A Notes was $218.5 million and $181.7 million, respectively.

We also entered into ten-year cross currency interest rate swap transactions in order to effectively hedge the effect of interest and exchange rate differences resulting from the NIS Series A Notes (including the additional Series A Notes that were issued in 2012). Under the cross currency interest rate swaps, the Company received fixed NIS at a rate of 4.84% on NIS 2 billion and pays floating six-month USD LIBOR + an average spread of 1.84% on $524 million, which reflects the U.S. dollar value of the Series A Notes on the specific dates the transactions were entered. (See above Item 5. Operating and Financial Review and Prospects – Israeli Debt Offering.)

The remaining debt is mainly in short and long-term loans in U.S. dollars at floating interest rates. The majority of our borrowings (net of the effect of the cross currency interest rate swap transaction) are usually linked to the relevant LIBOR plus a spread of 0.9% - 1.95%, and therefore are exposed to changes in interest rates. Most of our loans will mature within 2018 and 2019.

Should interest rates either increase or decrease, such change may affect our results of operations due to changes in the cost of the liabilities and the return on the assets that are based on variable rates. At December 31, 2017, a hypothetical 1% (100 basis points) increase in the current interest rates would result an additional expense of $4 millions.

Item 12. Description of Securities Other than Equity Securities.

Not applicable.

Item 13. Defaults, Dividend Arrearages and Delinquencies.

Not applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

Not applicable.

Item 15. Controls and Procedures.

Disclosure Controls and Procedures. We maintain disclosure controls and procedures designed to cause that information required to be disclosed in our periodic filings with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These controls and procedures also provide that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Also, management necessarily was required to use its judgment in evaluating the cost to benefit relationship of possible disclosure controls and procedures. As of December 31, 2017, we performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. The evaluation was performed with the participation of senior management of major business areas and key corporate functions, and under the supervision of the CEO and CFO. Based on the evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls after the date we completed the evaluation.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

(1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of assets;

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made in accordance with authorizations of our management and directors; and

(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements including the possibility of human error and the circumvention or overriding of sound control procedures. Projections

of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our CEO and CFO, assessed the effectiveness of our internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in “Internal Control – Integrated Framework (2013 Framework).” Based on this assessment, management believes that, as of December 31, 2017, our internal control over financial reporting is effective.

The effectiveness of our internal control over financial reporting as of December 31, 2017 has been audited by Kost Forer Gabbay & Kasierer (Kost), an independent registered public accounting firm in Israel and a member of Ernst & Young Global (EY), as stated in their report included in Item 18. Financial Statements.

***Changes in Internal Control over Financial Reporting*.** During the period covered by this annual report, there have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert.

Dr. Gleitman and Prof. Nisan, members of our Audit Committee, each meets the criteria of an "Audit Committee Financial Expert" under the applicable rules and regulations of the SEC, and each of their designations as an Audit Committee Financial Expert has been ratified by the Board. They are each "independent", as that term is defined in the Nasdaq listing standards.

Item 16B. Code of Ethics.

We have adopted a code of business conduct and ethics that is applicable to all our directors, officers and employees including our principal executive, financial and accounting officers and persons performing similar functions. The code of ethics was approved by our Board and covers areas of professional and business conduct. It is intended to promote honest and ethical behavior, including fair dealing and the ethical handling of conflicts of interest. The code of ethics includes a "whistleblower" process to encourage reports of violations. The code of ethics is supplemented by our anti-bribery compliance policy, and we have a supplier code of conduct that is applicable to our supply chain. We provide training on our code of ethics to all of our employees. Our code of ethics, anti-bribery compliance policy and supplier code of conduct are each posted on our website: *www.elbitsystems.com*.

Item 16C. Principal Accountant Fees and Services.

At the annual general shareholders meeting held in November 2017, our shareholders reappointed Kost to serve as our independent auditors. Kost and other EY affiliates billed the Company the following fees for professional services in each of the last two fiscal years:

	Year Ended December 31	
	2017	**2016**
	(U.S. dollars in thousands)	
Audit Fees	$3,064	$2,839
Tax Fees	307	318
Other Fees	319	137
Total	$3,690	$3,294

"Audit Fees" are the aggregate fees for the audit of our consolidated annual financial statements. This category also includes services generally provided by the independent auditor, such as consents and assistance with and review of documents filed with the SEC.. It also includes fees billed for accounting consultations regarding the accounting treatment of matters that occur in the regular course of business, implications of new accounting pronouncements and implementation of Topic 606 and other accounting issues that occur from time to time.

“Tax Fees” are the aggregate fees billed for professional services rendered for tax compliance and tax advice, other than in connection with the audit. Tax compliance involves preparation of original and amended tax returns, tax planning and tax advice.

“Other Fees” are fees billed for services related to assessment of finance software.

Kost and other EY affiliates did not bill the Company for services other than the Audit Fees, Tax Fees and Other Fees described above for fiscal year 2017 or fiscal year 2016.

Our Audit Committee has adopted a pre-approval policy for the engagement of our independent accountant to perform permitted audit and non-audit services. Under this policy, which is designed to assure that such engagements do not impair the independence of our auditors, the Audit Committee pre-approves annually a range of specific audit and non-audit services in the categories of Audit Services, Audit-Related Services, Tax Services and other services that may be performed by our independent accountants, and the maximum pre-approved fees that may be paid as compensation for each pre-approved service in those categories. The Audit Committee is notified periodically and before commencement of any work in these categories. Any proposed services exceeding the pre-approved fees or which includes other scope of work requires specific pre-approval by the Audit Committee. Accordingly, all of the above-mentioned independent auditor fees were pre-approved by our Audit Committee.

Item 16D. Exemptions from the Listing Standards for Audit Committees.

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

Reference is made to the disclosure relating to changes in shareholdings of major shareholders in Item 7 of this annual report on Form 20-F.

No shares were repurchased by Elbit Systems during 2017.

Item 16F. Changes in Registrant’s Certifying Accountant.

Not Applicable.

Item 16G. Corporate Governance.

Generally, we follow corporate governance standards applicable to us under Israeli and U.S. laws and regulations and Nasdaq listing standards.

As a foreign private issuer, Nasdaq Marketplace Rule 5615(a)(3) allows us to follow Israeli corporate governance practices instead of certain Nasdaq Stock Market requirements. That rule requires that we provide Nasdaq with a letter from outside Israeli counsel stating that our corporate governance practices are not prohibited by Israeli law and disclose in our annual reports the Nasdaq requirements we do not follow and the equivalent Israeli requirement.

On March 6, 2018, we notified Nasdaq of our intent to follow Israeli home country practice in connection with our 2018 Equity Incentive Plan for Executive Officers which was approved by our Board as permitted by Israeli law without approval by our shareholders. See also Item 6 - Share Ownership - Elbit Systems’ Stock Option Plans - 2018 - Equity Incentive Plan for Executive Officers.

Item 16H. Mine Safety Disclosure.

Not applicable.

Item 17. Financial Statements.

Not applicable.

Item 18. Financial Statements.

See Consolidated Financial Statements attached to this annual report on Form 20-F.

Item 19. Exhibits.

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(b) Exhibits

1.1 Elbit Systems' Memorandum of Association[1]
1.2 Elbit Systems' Restated Articles of Association[2]
4.1 Description of the Terms of Office and Employment of the Company's President and Chief Executive Officer[3]
4.2 Elbit Systems Ltd. 2018 Equity Incentive Plan for Executive Officers
4.3 Elbit Systems Ltd. 2014 Compensation Policy for Executive Officers and Directors[4]
4.4 (Proposed) Elbit Systems Ltd. 2018 Compensation Policy for Executive Officers and Directors[5]
8 Major Operating Subsidiaries of Elbit Systems
12.1 Certification of Chief Executive Officer of the Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2 Certification of Chief Financial Officer of the Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1 Certification of Chief Executive Officer of the Registrant pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2 Certification of Chief Financial Officer of the Registrant pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1 Consent of Kost Forer Gabbay & Kasierer

(1) Filed as an exhibit to Elbit Systems' Annual Report on Form 20-F (File No. 0-28998) for the year ended December 31, 2000, which was filed with the SEC on April 5, 2001, and incorporated herein by reference.

(2) Filed as Exhibit 2 to Elbit Systems' Report of Foreign Private Issuer on Form 6-K filed by Elbit Systems with the SEC on March 26, 2008, and incorporated herein by reference; as amended by that certain amendment filed as Annex A to Exhibit 1 to Elbit Systems' Report of Foreign Private Issuer on Form 6-K filed by Elbit Systems with the SEC on October 25, 2011, and incorporated herein by reference.

(3) Filed as Exhibit 4.2 to Elbit Systems' Annual Report on Form 20-F filed by Elbit Systems with the SEC on March 22, 2016 and incorporated herein by reference.

(4) Filed as Attachment “A” to Elbit Systems’ proxy statement dated November 27, 2013, which was filed as Exhibit 1 to Elbit Systems’ Report of Foreign Private Issuer on Form 6-K filed by Elbit Systems with the SEC on November 27, 2013, and incorporated herein by reference.

(5) Filed as Exhibit “A” to Elbit Systems’ proxy statement dated March 1, 2018, which was filed as Exhibit 1 to Elbit Systems’ Report of Foreign Private Issuer on Form 6-K filed by Elbit Systems on March 1, 2018, and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 20, 2018

ELBIT SYSTEMS LTD.

By: /s/ BEZHALEL MACHLIS
Name: Bezhalel Machlis
Title: President and Chief Executive Officer
(Principal Executive Officer)

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
as of and for the year ended December 31, 2017

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
as of and for the year ended December 31, 2017
in thousands of U.S. dollars

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Elbit Systems Ltd.

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of Elbit Systems Ltd. ("Elbit Systems") and subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements") and financial statement schedule listed in the index at Item 19. In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of Elbit Systems and subsidiaries as of December 31, 2017 and 2016, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board ("United States") ("PCAOB"), Elbit Systems and subsidiaries' internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated March 20, 2018, expressed an unqualified opinion thereon.

Basis for Opinion
These financial statements are the responsibility of Elbit Systems' management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to Elbit Systems in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Kost Forer Gabbay & Kasierer
A member of Ernst & Young Global

We have served as Elbit Systems' auditor since 2003.

Tel Aviv, Israel

March 20, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Elbit Systems Ltd.

Opinion on Internal Control over Financial Reporting
We have audited Elbit Systems Ltd. ("Elbit Systems") and subsidiaries' internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Elbit Systems and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Elbit Systems and subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2017, and our report dated March 20, 2018 expressed an unqualified opinion thereon.

Basis for Opinion
Elbit Systems' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Elbit Systems and subsidiaries' internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Kost Forer Gabbay & Kasierer
A member of Ernst & Young Global

Tel Aviv, Israel
March 20, 2018

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

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

	Note	December 31, 2017	2016
CURRENT ASSETS:			
Cash and cash equivalents		$156,074	$222,810
Short-term bank deposits		3,126	8,882
Available-for-sale marketable securities	(9)	13,371	13,370
Trade and unbilled receivables, net	(3)	1,406,563	1,232,591
Other receivables and prepaid expenses	(4)	128,946	102,979
Inventories, net of customer advances	(5)	902,954	840,266
Total current assets		2,611,034	2,420,898
LONG-TERM INVESTMENTS AND RECEIVABLES:			
Investments in affiliated companies, partnerships and other companies	(6)	172,338	180,962
Long-term trade and unbilled receivables	(7)	295,396	189,688
Long-term bank deposits and other receivables	(8)	38,082	15,917
Deferred income taxes, net	(18F)	51,358	79,639
Severance pay fund	(2R)	298,590	264,253
		855,764	730,459
PROPERTY, PLANT AND EQUIPMENT, NET	(10)	495,716	474,109
GOODWILL	(11)	646,715	616,997
OTHER INTANGIBLE ASSETS, NET	(11)	105,688	109,401
Total assets		$4,714,917	$4,351,864

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

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

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

	Note	December 31, 2017	2016
CURRENT LIABILITIES:			
Short-term bank credit and loans	(12)	$133,750	$5,027
Current maturities of long-term loans and Series A Notes	(15,16)	67,556	228,956
Trade payables		633,689	514,106
Other payables and accrued expenses	(13)	835,394	828,716
Customer advances in excess of costs incurred on contracts in progress	(14)	418,560	347,393
Total current liabilities		2,088,949	1,924,198
LONG-TERM LIABILITIES:			
Long-term loans, net of current maturities	(15)	119,514	475
Series A Notes, net of current maturities	(16)	124,865	171,066
Employee benefit liabilities	(2R)	413,117	376,115
Deferred income taxes and tax liabilities, net	(18F)	68,159	60,098
Customer advances in excess of costs incurred on contracts in progress	(14)	133,649	174,529
Other long-term liabilities		48,692	78,142
Total long-term liabilities		907,996	860,425
COMMITMENTS AND CONTINGENT LIABILITIES	(20)		
EQUITY:	(21)		
Elbit Systems Ltd. equity:			
Share capital:			
Ordinary shares of 1 New Israeli Shekels (“NIS”) par value each; Authorized – 80,000,000 shares as of December 31, 2017 and 2016; Issued 44,159,951 and 44,154,737 shares as of December 31, 2017 and 2016, respectively; Outstanding 42,751,030 and 42,745,816 shares as of December 31, 2017 and 2016, respectively		12,347	12,345
Additional paid-in capital		262,122	261,992
Treasury shares – 1,408,921 as of December 31, 2017 and 2016		(40,428)	(40,428)
Accumulated other comprehensive loss		(87,652)	(72,181)
Retained earnings		1,561,921	1,398,112
Total Elbit Systems Ltd. equity		1,708,310	1,559,840
Non-controlling interests		9,662	7,401
Total equity		1,717,972	1,567,241

Total liabilities and equity	$4,714,917	$4,351,864

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

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

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

		Year ended December 31,		
	Note	**2017**	**2016**	**2015**
Revenues	(22)	$3,377,825	$3,260,219	$3,107,581
Cost of revenues		2,379,905	2,300,636	2,210,528
Gross profit		997,920	959,583	897,053
Operating expenses:				
Research and development, net	(23)	265,060	255,792	243,416
Marketing and selling, net		280,246	271,037	239,366
General and administrative, net	(1C(6))	133,314	151,353	145,693
Other operating income, net	(1C)	—	(17,575)	—
Total operating expenses		678,620	660,607	628,475
Operating income		319,300	298,976	268,578
Financial expenses, net	(24)	(34,502)	(23,742)	(20,240)
Other income, net	(25)	48	3,967	216
Income before income taxes		284,846	279,201	248,554
Income taxes	(18D)	(55,585)	(45,617)	(46,235)
		229,261	233,584	202,319
Equity in net earnings of affiliated companies and partnerships	(6B)	11,361	5,224	4,542
Net income		$240,622	$238,808	$206,861
Less: net income attributable to non-controlling interests		(1,513)	(1,899)	(4,352)
Net income attributable to Elbit Systems Ltd.'s shareholders		$239,109	$236,909	$202,509
Basic net earnings per share attributable to Elbit Systems Ltd.'s shareholders	(21)	$5.59	$5.54	$4.74
Diluted net earnings per share attributable to Elbit Systems Ltd.'s shareholders		$5.59	$5.54	$4.74
Weighted average number of shares used in computation of basic net earnings per share		42,750	42,742	42,711
Weighted average number of shares used in computation of diluted net earnings per share		42,753	42,752	42,733

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

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
U.S. dollars (In thousands)

	Year ended December 31,		
	2017	**2016**	**2015**
Net income	$240,622	$238,808	$206,861
Other comprehensive income (loss),net of tax:(*)			
Foreign currency translation differences	8,169	(8,471)	(13,917)
Unrealized gains (losses) on derivative instruments, net of tax	(22,224)	6,741	30,632
Pension and other post-retirement benefit plans, net of tax	(662)	(56)	7,892
Unrealized losses on available-for-sale marketable securities, net of tax	(6)	(11)	(59)
	(14,723)	(1,797)	24,548
Total comprehensive income	225,899	237,011	231,409
Less: comprehensive income attributable to non-controlling interest	(2,261)	(673)	(3,927)
Comprehensive income attributable to Elbit Systems Ltd.’s shareholders	$223,638	$236,338	$227,482

(*) Other comprehensive income (loss), net of tax expenses in the amounts of $5,199, $1,904 and $9,209 for the years 2017, 2016 and 2015, respectively.

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

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY
U.S. dollars (In thousands, except share data)

	Number of outstanding shares	Share capital	Additional paid–in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury shares	Non–controlling interest	Total equity
Balance as of January 1, 2015	42,685,495	$12,330	$259,677	$ (96,583)	$1,088,711	$(40,428)	$12,228	$1,235,935
Exercise of options	44,573	11	1,605	—	—	—	—	1,616
Stock-based compensation	—	—	139	—	—	—	—	139
Dividends paid	—	—	—	—	(61,570)	—	(8,222)	(69,792)
Purchase of subsidiaries shares, net	—	—	—	—	—	—	120	120
Other comprehensive loss, net of tax expense of $9,209	—	—	—	24,973	—	—	(425)	24,548
Net income attributable to non-controlling interests	—	—	—	—	—	—	4,352	4,352
Net income attributable to Elbit Systems Ltd.'s shareholders	—	—	—	—	202,509	—	—	202,509
Balance as of December 31, 2015	42,730,068	$12,341	$261,421	$ (71,610)	$1,229,650	$(40,428)	$8,053	$1,399,427

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

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY
U.S. dollars (In thousands, except share data)

	Number of outstanding shares	Share capital	Additional paid–in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury shares	Non–controlling interest	Total equity
Balance as of January 1, 2016	42,730,068	$12,341	$261,421	$ (71,610)	$1,229,650	$(40,428)	$ 8,053	$1,399,427
Exercise of options	15,748	4	501	—	—	—	—	505
Stock-based compensation	—	—	70	—	—	—	—	70
Purchase of minority interest shares, net	—	—	—	—	—	—	(1,325)	(1,325)
Dividends paid	—	—	—	—	(68,447)	—	—	(68,447)
Other comprehensive income, net of tax expense of $1,904	—	—	—	(571)	—	—	(1,226)	(1,797)
Net income attributable to non-controlling interests	—	—	—	—	—	—	1,899	1,899
Net income attributable to Elbit Systems Ltd.'s shareholders	—	—	—	—	236,909	—	—	236,909
Balance as of December 31, 2016	42,745,816	$12,345	$261,992	$ (72,181)	$1,398,112	$(40,428)	$ 7,401	$1,567,241

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

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY
U.S. dollars (In thousands, except share data)

	Number of outstanding shares	Share capital	Additional paid–in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury shares	Non–controlling interest	Total equity
Balance as of January 1, 2017	42,745,816	$12,345	$261,992	$ (72,181)	$1,398,112	$(40,428)	$ 7,401	$1,567,241
Exercise of options	5,214	2	117	—	—	—	—	119
Stock-based compensation	—	—	13	—	—	—	—	13
Dividends paid	—	—	—	—	(75,300)	—	—	(75,300)
Other comprehensive loss, net of tax expense of $5,199	—	—	—	(15,471)	—	—	748	(14,723)
Net income attributable to non-controlling interests	—	—	—	—	—	—	1,513	1,513
Net income attributable to Elbit Systems Ltd.'s shareholders	—	—	—	—	239,109	—	—	239,109
Balance as of December 31, 2017	42,751,030	$12,347	$262,122	$ (87,652)	$1,561,921	$(40,428)	$ 9,662	$1,717,972

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

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars (In thousands)

	Year ended December 31,		
	2017	**2016**	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$240,622	$238,808	$206,861
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	114,017	122,888	122,354
Write-off impairment on marketable securities	—	86	—
Stock-based compensation	13	70	139
Amortization of Series A Notes discount (premium) and related issuance costs, net	(92)	(92)	(92)
Deferred income taxes and reserve, net	28,774	2,683	15,928
Loss (gain) on sale of property, plant and equipment	(2,440)	(3,347)	1,742
Loss (gain) on sale of investments and deconsolidation of subsidiary	1,358	(16,734)	33
Equity in net (earnings) losses of affiliated companies and partnerships, net of dividend received(*)	(1,987)	(1,728)	19,999
Changes in operating assets and liabilities, net of amounts acquired:			
Decrease (increase) in short and long-term trade receivables, and prepaid expenses	(315,236)	(297,439)	31,860
Decrease (increase) in inventories, net	(59,699)	(8,040)	39,801
Increase (decrease) in trade payables, other payables and accrued expenses	63,273	253,413	(74,280)
Severance, pension and termination indemnities, net	2,003	315	(799)
Increase (decrease) in advances received from customers	30,287	(82,881)	71,282
Net cash provided by operating activities	100,893	208,002	434,828
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and other assets	(107,880)	(124,221)	(99,175)
Acquisitions of subsidiaries and business operations (Schedule A)	(25,440)	—	(141,436)
Investments in affiliated companies and other companies	(4,964)	(19,277)	(23,852)
Deconsolidation of subsidiary(**)	—	(1,538)	—
Proceeds from sale of property, plant and equipment	6,270	15,745	11,563
Proceeds from sale of investments	12,067	—	—
Investment in long-term deposits	(1,396)	(417)	(396)
Proceeds from sale of long-term deposits	176	894	721
Investment in short-term deposits and available-for-sale marketable securities	(40,893)	(25,622)	(57,175)
Proceeds from sale of short-term deposits and available-for-sale marketable securities	46,491	36,619	128,187
Net cash used in investing activities	(115,569)	(117,817)	(181,563)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of options	119	505	1,616
Repayment of long-term loans	(167,425)	(48,250)	(226,635)
Proceeds from long-term loans	118,623	—	196,550
Repayment of Series A Notes	(55,532)	(55,532)	(55,532)

Dividends paid [***]	(75,300)	(68,447)	(69,792)
Change in short-term bank credit and loans, net	127,455	5,027	(557)
Net cash used in financing activities	(52,060)	(166,697)	(154,350)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(66,736)	(76,512)	98,915
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	$222,810	$299,322	$200,407
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$156,074	$222,810	$299,322
[*] Dividends received from affiliated companies and partnerships	$9,374	$3,496	$24,541

[**] During 2016, an Israeli subsidiary was deconsolidated. See Note 1(C)(5) and Note 6(B)(7).

[***] Dividends paid in 2015 included approximately $8,222 in dividends paid by a subsidiary to non-controlling interests.

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

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars (In thousands)

SUPPLEMENTAL CASH FLOW ACTIVITIES:

	Year ended December 31,		
	2017	2016	2015
Cash paid during the year for:			
Income taxes, net	$47,707	$28,603	$37,410
Interest	$9,379	$6,254	$3,631

Schedule A: Acquisitions of subsidiaries and business operations	Year ended December 31,		
	2017	2016	2015
Estimated net fair value of assets acquired and liabilities assumed at the date of acquisition was as follows:			
Working capital, net (excluding cash and cash equivalents)	$(10,454)	$—	$(7,210)
Property, plant and equipment	672	—	3,368
Other long-term assets	—	—	(250)
Goodwill and other intangible assets	50,185	—	183,718
Deferred income taxes	(3,543)	—	2,606
Long-term liabilities	(11,420)	—	(40,796)
	$25,440	$—	$141,436

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

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 1 - GENERAL

A. GENERAL DESCRIPTION

Elbit Systems Ltd. (“Elbit Systems” or the “Company”) is an Israeli corporation that is 45.80% owned by the Federmann Group. Elbit Systems’ shares are traded on the Nasdaq National Market in the United States (“Nasdaq”) and on the Tel-Aviv Stock Exchange (“TASE”). Elbit Systems and its subsidiaries (collectively the “Company”) are engaged mainly in the fields of defense, homeland security and commercial aviation. Elbit Systems’ major wholly-owned subsidiaries are the Elbit Systems of America, LLC (“ESA”) companies, Elbit Systems Electro-Optics Elop Ltd. (“Elop”), Elbit Systems Land and C4I Ltd. (“ESLC”) and Elbit Systems EW and SIGINT - Elisra Ltd. (“Elisra”).

B. SALES TO GOVERNMENTAL AGENCIES

The Company derives a majority of its revenues from direct or indirect sales to governments or governmental agencies. As a result, these sales are subject to the special risks associated with sales to governments or governmental agencies. These risks include, among others, dependence on the resources allocated by governments to defense programs, changes in governmental priorities, anti-corruption regulations, changes in governmental regulations and changes in governmental approvals regarding export licenses required for the Company’s products and for its suppliers. As for major customers, refer to Note 22(C).

C. ACQUISITIONS AND INVESTMENTS

(1) In June 2017, the Company completed the acquisition of a 100% interest in a Canadian company for a purchase price of approximately $20,200, of which $10,500 is contingent consideration, which may become payable on the occurrence of certain future events. Based on a purchase price allocation (“PPA”) performed by an independent adviser, the purchase price was attributed mainly to goodwill (approximately $9,500) and to other intangible assets (approximately $9,500). The results of operation of the acquired company were consolidated in the Company's financial statements commencing on the date of acquisition.The effect on consolidated revenues and net income were immaterial. Pro-forma information was not provided due to immateriality.

(2) Also, in June 2017, the Company completed the acquisition of a 100% interest in a Brazilian company for a purchase price of approximately $23,000, of which approximately $9,700 is contingent consideration, which may

become payable on the occurrence of certain future events. Based on a PPA performed by an independent adviser, the purchase price was attributed mainly to goodwill (approximately $15,600) and to other intangible assets (approximately $12,300). The results of operation of the acquired company were consolidated in the Company's financial statements commencing on the date of acquisition.The effect on consolidated revenues and net income were immaterial. Pro-forma information was not provided due to immateriality.

(3) In the third quarter of 2016, a third party invested in a newly established Israeli subsidiary acting in the area of energy technology solutions for civilian transportation applications. The third party investor holds certain substantial participation rights. As a result, the Company recognized in other operating income a net gain of approximately $10,500 related to valuation of the shares previously held by the Company.

(4) In the second quarter of 2016, the Company invested approximately $13,400 in a U.K. company that is a joint venture held 50% by a wholly-owned U.K. subsidiary of the Company and 50% by Kellogg Brown & Root Limited (“KBR”). The joint venture is engaged in the area of flight training systems.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 1 - GENERAL (Cont.)

C. ACQUISITIONS AND INVESTMENTS (Cont.)

(5) In the first quarter of 2016, an Israeli subsidiary was deconsolidated following an investment by a third party, which included certain substantial participating rights. As a result, the Company recognized in other operating income a net gain related to the revaluation of the investment of approximately $7,000.

(6) In July 2015, the Company acquired a division from an Israeli-based company (the "Seller"), for a total consideration of approximately $154,000, of which approximately $40,000 is contingent consideration, which may become payable on the occurrence of certain future events.

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

	Fair value	Expected useful lives
Net tangible assets and liabilities assumed (current and non-current)	$(10,287)	
Technology	31,997	7.5 years
In-process research and development ("IPR&D")	714	2.5 years
Customer relationships	9,127	8.5 years
Backlog	11,689	5.5 years
Goodwill	111,142	
	$154,382	

The results of operation of the acquired business were consolidated in the Company's financial statements commencing on the date of acquisition. The effects on consolidated revenues and net income were immaterial. Pro-forma information was not provided due to immateriality.

In December 2016, following certain claims and allegations demanding indemnification pursuant to the asset purchase agreement, the Company signed a settlement agreement with the Seller, in which the parties agreed on certain cash payments and a reduction of up to $4,000 from any contingent consideration payment to Seller. During 2017, the Company recognized a reduction of approximately $31,200 in its contingent consideration related to the acquisition of the division from the Seller (the reductions in the contingent consideration offset general and administrative

expenses).

(7) In April 2015, the Company completed the acquisition of a 100% interest in an Israeli company for a purchase price of approximately $24,000. Based on a PPA performed by an independent adviser, the purchase price was attributed mainly to goodwill (approximately $8,300) and to other intangible assets (approximately $9,300). The results of operation of the acquired company were consolidated in the Company's financial statements commencing on the date of acquisition.The effect on consolidated revenues and net income were immaterial. Pro-forma information was not provided due to immateriality.

(8) In 2010, the Company acquired a 49% interest in an Israeli company (the “Israeli Subsidiary”). On March 30, 2014, the Company, through another wholly-owned Israeli subsidiary, increased its holdings in the Israeli Subsidiary to 90% and, as a result, the Company recognized a gain of approximately $6,000, included in “other operating income, net”, based on the re-measurement of the fair-value of its previously held 49% equity interest in the Israeli Subsidiary. The acquisition was accounted for using the purchase method as a business combination achieved in stages. The results of the Israeli Subsidiary were consolidated in the Company's consolidated financial statements commencing on the date of acquisition. Revenues and earnings from the acquisition date through December 31, 2014, were immaterial to the consolidated results of the Company. In 2016, the Company acquired the additional 10% non-controlling interest in the Israeli Subsidiary for a consideration of $1,300.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 2 - SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP").

A. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant assumptions are employed in estimates used in determining values of intangible assets, warranty and contract loss accruals, legal contingencies, tax assets and tax liabilities, stock-based compensation costs, retirement and post-retirement benefits (including the actuarial assumptions), financial instruments with no observable market quotes, as well as in estimates used in applying the Company's revenue recognition policies. Actual results may differ from estimated results.

B. FUNCTIONAL CURRENCY

The Company's revenues are generated mainly in U.S. dollars. In addition, most of the Company's costs are incurred in U.S. dollars. The Company's management believes that the U.S. dollar is the primary currency of the economic environment in which the Company operates. Thus, the functional and reporting currency of the Company is the U.S. dollar.

Transactions and balances of the Company and certain subsidiaries that are denominated in other currencies have been remeasured into U.S. dollars in accordance with principles set forth in ASC 830, "Foreign Currency Matters". All exchange gains and losses from the remeasurement mentioned above are reflected in the statement of income as financial expenses or income, as appropriate.

For those foreign subsidiaries and investees whose functional currency has been determined to be other than the U.S. dollar, assets and liabilities are translated at year-end exchange rates, and statement of income items are translated at average exchange rates prevailing during the year. Resulting translation differences are recorded as a separate component of accumulated other comprehensive income (loss) in equity.

C. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Elbit Systems and its wholly and majority-owned subsidiaries and variable interests entities that are required to be consolidated.

Intercompany transactions and balances, including profit from intercompany sales not yet realized outside the Company, have been eliminated upon consolidation.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. COMPREHENSIVE INCOME

The Company accounts for comprehensive income in accordance with ASC 220, “Comprehensive Income”. This statement establishes standards for the reporting and display of comprehensive income and its components. Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders. Accordingly, the Company presents a separate statement of consolidated comprehensive income.

The following table displays the changes in accumulated other comprehensive income (loss), net of taxes, in the amount of $15,471 and $571, for the years ended December 31, 2017 and December 31, 2016, respectively, by components:

	Unrealized gains (losses) on derivative instruments	Unrealized gains (losses) on available-for-sale marketable securities	Pension and post-retirement benefit plans	Foreign currency translation differences	Total
Balance as of December 31, 2016	$ 15,261	$ 17	$ (46,807)	$ (40,652)	$ (72,181)
Other comprehensive income (loss) before reclassifications	25,306	—	(4,441)	7,421	28,286
Amount reclassified from accumulated other comprehensive income (loss)	(47,530)	(6)	3,779	—	(43,757)
Net current-period other comprehensive income (loss)	(22,224)	(6)	(662)	7,421	(15,471)
Balance as of December 31, 2017	$ (6,963)	$ 11	$ (47,469)	$ (33,231)	$ (87,652)

	Unrealized gains (losses) on derivative	Unrealized gains (losses) on available-for-sale	Pension and post-retirement benefit plans	Foreign currency translation differences	Total

	instruments	marketable securities			
Balance as of December 31, 2015	$ 8,520	$ 28	$ (46,751)	$ (33,407)	$ (71,610)
Other comprehensive income (loss) before reclassifications	18,619	—	(3,642)	(7,245)	7,732
Amount reclassified from accumulated other comprehensive income (loss)	(11,878)	(11)	3,586	—	(8,303)
Net current-period other comprehensive income (loss)	6,741	(11)	(56)	(7,245)	(571)
Balance as of December 31, 2016	$ 15,261	$ 17	$ (46,807)	$ (40,652)	$ (72,181)

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. BUSINESS COMBINATIONS

The Company applies ASC 805, "Business Combinations". ASC 805 requires recognition of assets acquired, liabilities assumed and non-controlling interest in the acquired entity at the acquisition date, measured at their fair values as of that date. This ASC also requires the fair value of acquired in-process research and development ("IPR&D") to be recorded as intangibles with indefinite lives, contingent consideration to be recorded on the acquisition date and restructuring and acquisition-related deal costs to be expensed as incurred. Any excess of the fair value of net assets acquired over purchase price and any subsequent changes in estimated contingencies are to be recorded in earnings. In addition, changes in valuation allowance related to acquired deferred tax assets and in acquired income tax position are to be recognized in earnings.

F. CASH AND CASH EQUIVALENTS

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less, when purchased.

G. SHORT-TERM BANK DEPOSITS

Short-term bank deposits are deposits with original maturities of more than three months but less than one year. The short-term bank deposits are presented at their cost, which approximates fair value.

H. AVAILABLE-FOR-SALE MARKETABLE SECURITIES

The Company accounts for its investments in debt securities, and marketable equity securities of entities in which it does not have significant influence, in accordance with ASC 320, "Investments - Debt and Equity Securities". The Company classifies all debt securities and marketable equity securities as "available-for-sale". All of the Company's investments in available-for-sale securities are reported at fair value. Unrealized gains and losses are comprised of the difference between fair value and the cost of such securities and are recognized, net of tax, in accumulated other comprehensive income ("OCI").

The amortized cost of debt securities reflects amortization of premiums and accretion of discounts to maturity. Such amortization and accretion together with interest and dividends on securities are included in “financial expenses, net”.

The Company recognizes an impairment charge when a decline in the fair value of its investments in debt securities below the amortized cost basis of such securities is judged to be other-than-temporary impairment (“OTTI”). Factors considered in making such a determination include the duration and severity of the impairment, the reason for the decline in value, the potential recovery period,if the entity has the intent to sell the debt security or if it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. However, if an entity does not expect to sell a debt security, it will still need to evaluate expected cash flows to be received and determine if a credit loss exists. In the event of a credit loss, only the amount of impairment associated with the credit loss is recognized in earnings. Amounts relating to factors other than credit losses are recorded in OCI.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

I. INVENTORIES

Inventories are stated at the lower of cost or market value. Inventory write-offs are provided to cover risks arising from slow-moving items or technological obsolescence for which recoverability is not probable.

Cost is determined as follows:

- Raw materials using the average or FIFO cost method.
- Work in progress:
  - Costs incurred on long-term contracts in progress include direct labor, material, subcontractors, other direct costs and an allocation of overheads, which represent recoverable costs incurred for production, allocable operating overhead cost and, where appropriate, research and development costs (See Note 2(V)).
  - Labor overhead is generally included on the basis of updated hourly rates and is allocated to each project according to the amount of hours expended. Material overhead is generally allocated to each project based on the value of direct material that is charged to the project.

Advances from customers are allocated to the applicable contract inventories and are deducted from the inventory balance. Advances in excess of related inventories are classified as liabilities.

Pre-contract costs are generally expensed, but can be deferred and included in inventory only when such costs can be directly associated with a specific anticipated contract and if their recoverability from the specific anticipated contract is probable according to the guidelines of ASC 605-35.

J. INVESTMENT IN AFFILIATED COMPANIES, PARTNERSHIPS AND OTHER COMPANIES

Investments in affiliated companies and partnerships that are not controlled but over which the Company can exercise significant influence (generally, entities in which the Company holds approximately between 20% to 50% of the voting rights of the investee) are presented using the equity method of accounting. Profits on intercompany sales, not realized outside the Company, are eliminated. The Company discontinues applying the equity method when its investment (including advances and loans) is reduced to zero and the Company has not guaranteed obligations of the affiliate or otherwise committed to provide further financial support to the affiliate.

Investments in preferred shares, which are not in substance common stock, are recorded on a cost basis according to ASC 323-10-15-13, “Investments - Equity Method and Joint Ventures - In-substance Common Stock” and ASC 323-10-40-1, “Investment - Equity Method and Joint Ventures - Investee Capital Transactions”.

A change in the Company’s proportionate share of an investee’s equity, resulting from issuance of common or in-substance common shares by the investee to third parties, is recorded as a gain or loss in the consolidated income statements in accordance with ASC 323-10-40-1.

Investments in non-marketable equity securities of entities in which the Company does not have control or the ability to exercise significant influence over their operation and financial policies, are recorded at cost (generally when the Company holds less than 20% of the voting rights).

Management evaluates investments in affiliated companies, partnerships and other non-marketable equity securities for evidence of other-than-temporary declines in value. Such evaluation is dependent on the specific facts and circumstances. Accordingly, in determining whether other-than-temporary declines exist, management evaluates various indicators for other-than-temporary declines and evaluates financial information (e.g. budgets, business plans, financial statements, etc.). During 2017 no material impairment was recognized. During 2016 the Company recorded an impairment of approximately $2,500 for one of its affiliated companies and during 2015 no material impairment was recognized.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

K. VARIABLE INTEREST ENTITIES

ASC 810-10, "Consolidation", provides a framework for identifying variable interest entities ("VIEs") and determining when a company should include the assets, liabilities, non-controlling interests and results of activities of a VIE in its consolidated financial statements. According to ASC 810-10, the Company consolidates a VIE when it has both (1) the power to direct the economically significant activities of the entity and (2) the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to the VIE. The determination of whether the Company should consolidate a VIE is evaluated continuously as existing relationships change or future transactions occur.

The Company's assessment of whether an entity is a VIE and the determination of the primary beneficiary is judgmental in nature and involves the use of significant estimates and assumptions. Those include, among others, forecasted cash flows, their respective probabilities and the economic value of certain preference rights. In addition, such assessment also involves estimates of whether an entity can finance its current activities, until it reaches profitability, without additional subordinated financial support.

Also according to ASC 810, a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as a separate component of equity in the consolidated financial statements. As such, changes in the parent's ownership interest with no change of control are treated as equity transactions, rather than acquisitions achieved in stages or dilution gains or losses. Losses of partially-owned consolidated subsidiaries will continue to be allocated to the non-controlling interests even when the investment in the subsidiary was already reduced to zero.

A 51%-held subsidiary in the U.K. (the "UK Subsidiary") is considered to be a VIE. As Elbit Systems is the primary beneficiary and has both the power to direct its activities and absorb the majority of its losses or the right to the majority of its earnings based upon holding the 51% economic interest, the UK Subsidiary is consolidated in the Company's financial statements.

The Company holds 50% of the contractual rights in and is the primary beneficiary of, an Israeli limited partnership, which is considered to be a VIE and is consolidated in the Company's financial statements.

L. LONG-TERM RECEIVABLES

Long-term trade, unbilled and other receivables, with payment terms in excess of one year that are considered collectible, are recorded at their estimated present values (determined based on the market interest rates at the date of initial recognition).

M. LONG-TERM BANK DEPOSITS

Long-term bank deposits are deposits with maturities of more than one year. These deposits are presented at cost and earn interest at market rates. Accumulated interest to be received over the next year is recorded as a current asset. The deposits and accumulated interest approximate fair value.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

N. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost, net of accumulated depreciation and investment grants. For equipment produced for the Company's own use, cost includes materials, labor and overhead (including interest costs, when applicable) but not in excess of the fair value of the equipment.

Depreciation is calculated by the straight-line method over the estimated useful life of the assets at the following annual rates:

	%	
Buildings and leasehold improvements (*)	2-20	
Instruments, machinery and equipment	3-33	
Office furniture and other	4-33	
Motor vehicles	12-33	(Mainly 15%)

(*) Prepayments for operating leases and leasehold improvements are amortized generally over the term of the lease or the useful life of the assets, whichever is shorter.

The Company capitalizes direct costs (internal and external) of materials and services used in the development and purchase of internal-use software. Amounts capitalized are amortized on a straight-line basis over a period of three to twelve years and are reported as a component of property and equipment.

The Company is in the process of developing and implementing a new Enterprise Resource Planning ("ERP") system. Certain costs incurred during the application development stage have been capitalized in accordance with authoritative accounting guidance related to accounting for the cost of computer software developed or obtained for internal use. The net book value of capitalized costs for this new ERP system was approximately $20,600 and $100 as of December 31, 2017 and 2016, respectively. These costs will be amortized over the system's estimated useful life as the ERP system is placed in service.

O. OTHER INTANGIBLE ASSETS

Other identifiable intangible assets mainly consist of purchased technology, customer relations and trademarks. These intangible assets are stated at cost, net of accumulated amortization and impairments, and are amortized over their useful life using the straight-line method or the accelerated method, whichever better reflects the applicable expected utilization pattern.

P. IMPAIRMENT OF LONG-LIVED ASSETS

The Company's long-lived assets and finite-lived intangible assets are reviewed for impairment in accordance with ASC 360-10-35 "Property, Plant and Equipment – Subsequent Measurement" whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of assets (or assets group) to be held and used is determined by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If the carrying amount is higher, an asset is deemed to be impaired and the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. For each of the three years ended December 31, 2017, 2016 and 2015, no impairment was identified.

As required by ASC 820, "Fair Value Measurements", the Company applies assumptions that marketplace participants would consider in determining the fair value of long-lived assets (or asset groups).

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Q. GOODWILL IMPAIRMENT

Goodwill is subject to an impairment test at the reporting unit level on an annual basis (or more frequently if impairment indicators arise).

The Company identified several reporting units based on the guidance of ASC 350, “Intangibles – Goodwill and Other”.

ASC 350 prescribes a two-phase process for impairment testing of goodwill. The first phase screens for impairment, while the second phase (if necessary) measures impairment.

Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. In such case, the second phase is then performed, and the Company measures impairment by comparing the carrying amount of the reporting unit’s goodwill to the implied fair value of that goodwill. An impairment loss is recognized in an amount equal to the excess. For each of the three years in the period ended December 31, 2017, no impairment losses were identified.

As required by ASC 820, “Fair Value Measurement”, the Company applies assumptions that market place participants would consider in determining the fair value of each reporting unit.

R. SEVERANCE PAY

Elbit Systems’ and its Israeli subsidiaries’ obligations for severance pay are calculated pursuant to Israel’s Severance Pay Law, based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date and are presented on an undiscounted basis (the “Shut Down Method”). Subject to certain conditions, employees are entitled to one month’s salary for each year of employment or a portion thereof. The obligation is funded by monthly deposits through insurance policies and by an accrual. The value of these policies is recorded as an asset on the Company’s balance sheet. The deposited funds may be withdrawn only upon the fulfillment of the obligation, pursuant to the Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrender value of these policies and includes profits (or losses) accumulated to the balance sheet date.

Elbit Systems and its Israeli subsidiaries have entered into an agreement with some of its employees implementing Section 14 of the Severance Pay Law and the General Approval of the Labor Minister dated June 30, 1998, issued in accordance with such Section 14. The agreement mandates that upon termination of such employees' employment, all the amounts accrued in their insurance policies will be released to them. The severance pay liabilities and deposits covered by these plans are not reflected in the balance sheet, as the severance pay risks have been irrevocably transferred to the severance funds.

Severance pay expenses for the years ended December 31, 2017, 2016 and 2015 amounted to approximately $62,777, $55,294 and $47,407, respectively.

S. PENSION AND OTHER POSTRETIREMENT BENEFITS

The Company accounts for its obligations for pension and other post-retirement benefits in accordance with ASC 715, "Compensation – Retirement Benefits" (see Note 17).

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

T. REVENUE RECOGNITION

The Company generates revenues principally from long-term contracts involving the design, development, manufacture and integration of defense systems and products. In addition, to a lesser extent, the Company provides non-defense systems and products as well as support and services for the Company's systems and products.

In 2017, revenues from long-term contracts were recognized primarily using ASC 605-35, “Revenue Recognition - Construction-Type and Production-Type Contracts”, according to which revenues are recognized on the percentage-of-completion (“POC”) basis.

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

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

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

The POC method of accounting requires management to estimate the cost and gross profit margin for each individual contract. Estimated gross profit or loss from long-term contracts may change due to differences between actual

performance and original estimated forecasts.

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

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

Under the POC method, changes in estimated revenues and/or estimated project costs are recorded in the period the change is reasonably determinable, with the full amount of the inception-to-date effect of such changes recorded in such period on a “cumulative catch-up” basis. The cumulative catch-up basis amounts in the contract estimated total costs are charged to cost of revenues (“COR”) and are reflected in the reported gross profit in the consolidated financial statements. Any changes in performance costs estimates that result in an anticipated loss on contracts are charged to COR when they are probable and reasonably determinable by management. The Company reviews the actual costs and the estimated costs to complete long-term contracts on a quarterly basis. In addition, the Company periodically monitors the impact of changes in estimated contract performance costs that result from cumulative catch-up cost adjustments on COR.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

T. REVENUE RECOGNITION (Cont.)

The nature of the Company's numerous contracts is such that refinements of the estimated performance costs or revenues for a project may occur for various reasons, including: change orders, contract price adjustments, significant technical and development matters encountered during performance and provision for loss and contract costs changes that may occur in a situation where: (a) identified contract risks cannot be resolved within the cost estimates included in a contract estimated costs at completion (“EAC”); or (b) new or unforeseen risks or changes in the performance cost estimates must be incorporated into the contract EAC. In addition, anticipated losses on contracts are recognized when determined to be probable.

These adjustments may result from positive program performance, in which case they would be reflected as a decrease in COR during the period. Likewise, these adjustments may result in an increase in COR if the Company determines it will not be successful in mitigating these risks or realizing related opportunities.

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

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

A number of internal and external factors affect the Company's cost estimates, including labor rates, estimated future prices of material, revised estimates of uncompleted work, efficiency variances, linkage to indices and exchange rates, customer specifications and testing requirement changes. If any of the above factors were to change, or if different

assumptions were used in estimating progress cost and measuring progress towards completion, it is possible that materially different amounts would be reported in the Company’s consolidated financial statements.

The Company's COR included net EAC adjustments resulting from changes in performance cost estimates of approximately $42,700 (1.79% of COR and 4.28% of gross profit), $33,700 (1.47% of COR and 3.52% of gross profit) and $2,600 (0.12% of COR and 0.29% of gross profit) for the years ended December 31, 2017, 2016 and 2015, respectively. Accordingly, during the above mentioned periods there were no material net EAC adjustments to COR.

These adjustments changed the Company's net income by approximately $34,400 ($0.80 per diluted share), $28,200 ($0.66 per diluted share) and $2,100 ($0.05 per diluted share) for the years ended December 31, 2017, 2016 and 2015, respectively.

In certain circumstances, sales under short-term fixed-price production type contracts or sales of products are accounted for in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, “Revenue Recognition in Financial Statements” (“SAB 104”), and recognized when all the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the seller’s price to the buyer is fixed or determinable, no further obligation exists and collectability is reasonably assured.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

T. REVENUE RECOGNITION (Cont.)

In cases where the contract involves the delivery of products and performance of services, or other obligations such as buy-back (see Note 20(B)), the Company follows the guidelines specified in ASC 605-25, “Revenue Recognition – Multiple-Element Arrangements” in order to allocate the contract consideration between the identified different elements using the relative selling price method. The selling price for each element would be allocated by using a hierarchy of: (1) Vendor Specific Objective Evidence (“VSOE”); (2) Third-Party Evidence (“TPE”) of the selling price for that element; or (3) Estimated Selling Price (“ESP”) for individual elements of an arrangement when VSOE or TPE of the selling price are unavailable.

The Company determines ESP for the purposes of allocating the consideration to individual elements of an arrangement by considering several external and internal factors including, but not limited to, pricing practices, margin objectives, geographies in which the Company offers products and services and internal costs. The determination of ESP is judgmental and is made through consultation with and approval by management.

Service revenues include contracts primarily for rendering of services not associated with design, development, manufacturing or production activities. Such revenues may be derived from a stand-alone service contract or a service element which was separated from the design, development or production contract according to the criteria established in ASC 605-25. Service contracts primarily include operation contracts, outsourcing-type arrangements, maintenance contracts, training, installation services and similar items. Revenues from services were less than 10% of consolidated revenues in each of the years ended December 31, 2017, 2016 and 2015.

Such service revenues are usually recognized in accordance with SAB 104 ratably over the service period and when all other revenue recognition criteria are met. Buy-back obligations are recognized upon fulfillment, generally when the related products have been delivered or services have been rendered. In addition, where applicable, the Company recognizes service revenues upon achievement of related performance milestones.

As for research and development costs accounted for as contract costs, refer to Note 2(V).

During 2017, the Company reviewed implementation of a new standard of revenue recognition under ASU 2014-09 "Revenues from Contracts with Customers", which ASU became effective for the Company as of January 1, 2018. See Note 2(AE)(3).

U. WARRANTY

The Company estimates the costs that may be incurred under its basic warranty. Such costs are estimated as part of the total contract's cost and are recorded as a liability at the time revenue for delivered products is recognized. The specific terms and conditions of those warranties vary depending upon the product sold and the country in which the Company does business. Factors that affect the Company's warranty cost include the number of delivered products, engineering estimates and anticipated rates of warranty claims. The Company periodically assesses the adequacy of its recorded warranty cost and adjusts the amount as necessary.

Changes in the Company's provision for warranty, which is included mainly in other payables and accrued expenses in the balance sheet, are as follows:

	2017	**2016**
Balance, at January 1	$245,728	$191,948
Warranties issued during the year	75,819	111,835
Reduction due to warranties expired or claimed during the year	(126,068)	(58,055)
Additions resulting from acquisitions	2,747	—
Balance, at December 31	$198,226	$245,728

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

V. RESEARCH AND DEVELOPMENT COSTS

Research and development costs, net of participation grants, include costs incurred for independent research and development and bid and proposal efforts and are expensed as incurred unless the costs are related to certain contractual arrangements, which are recorded as part of cost of revenues over the period that revenue is recognized, consistent with the Company's revenue recognition accounting policy. The Company does not perform significant stand-alone research and development for others.

The Company has certain research and development contractual arrangements that meet the requirements for best efforts research and development accounting. Accordingly, the amounts funded by the customer are recognized as an offset to its research and development expenses rather than as contract revenues.

Elbit Systems and certain Israeli subsidiaries receive grants (mainly royalty-bearing) from the Israeli Innovation Authority of the Ministry of Economy and Industry (formerly the Office of Chief Scientist's) and from other sources for the purpose of partially funding approved research and development projects. The grants are not to be repaid, but instead Elbit Systems and certain Israeli subsidiaries are required to pay royalties as a percentage of future sales if and when sales from the funded projects are generated. These grants are recognized as a deduction from research and development costs at the time the applicable entity is entitled to such grants on the basis of the research and development costs incurred. Since the payment of royalties is not probable when the grants are received, the Company records a liability in the amount of the estimated royalties for each individual contract, when the related revenues are recognized, as part of COR. For more information regarding such royalty commitments see Note 20(A). For more information regarding grants and participation received, see Note 23.

W. INCOME TAXES

The Company accounts for income taxes and uncertain tax positions in accordance with ASC 740, "Income Taxes". This guidance prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to amounts that are more likely than not to be realized.

The Company establishes reserves for uncertain tax positions based on an evaluation of whether the tax position is "more likely than not" to be sustained upon examination. The Company records interest and penalties pertaining to its uncertain tax positions in the financial statements as income tax expense.

X. CONCENTRATION OF CREDIT RISKS

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short and long-term deposits, marketable securities and trade receivables.

The majority of the Company's cash and cash equivalents and short and long-term deposits are invested with major banks, mainly in Israel and the United States. Deposits in the U.S. may be in excess of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions that hold the Company's investments have a high credit rating.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

X. CONCENTRATION OF CREDIT RISKS (Cont.)

The Company's marketable securities include investments in corporate debentures and Israeli Treasury Bills. The Company's investment policy limits the amount that the Company may invest in any one type of investment or issuer, thereby reducing credit risk concentrations.

The Company’s trade receivables are derived primarily from sales to large and stable customers and governments located mainly in Israel, the United States, Europe and Asia-Pacific. The Company performs ongoing credit evaluations of its customers and has not experienced in recent years any unexpected material losses. An allowance for doubtful accounts is recognized with respect to those amounts that the Company has determined to be doubtful of collection.

The Company entered into foreign exchange forward contracts and cross currency interest rate swaps (together “derivative instruments”) intended to protect against the increase in the dollar equivalent value of forecasted non-dollar currency cash flows and interest as applicable. These derivative instruments are designed to effectively hedge the Company’s non-dollar currency and interest rates exposures (see Note 2(Y)).

Y. DERIVATIVE FINANCIAL INSTRUMENTS

The Company accounts for derivatives and hedging based on ASC 815, “Derivatives and Hedging”, which requires the Company to recognize all derivatives on the balance sheet at fair value. If a derivative meets the definition of a cash flow hedge and is so designated, changes in the fair value of the derivative will be recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative’s change in fair value is recognized immediately in earnings. If a derivative does not meet the definition of a hedge, the changes in the fair value are included immediately in earnings in “Financial expenses, net”, in each reporting period (see Note 24).

As part of its hedging strategy, the Company enters into forward exchange contracts in order to protect the Company from the risk that the eventual dollar cash flows from the sale to international customers and purchase of products from international vendors will be adversely affected by changes in exchange rates.

The Company also may enter into forward exchange contracts and options strategies in order to limit the exposure to exchange rate fluctuation associated with payroll expenses mainly incurred in NIS.

In connection with the issuance of Series A Notes in 2010 and in 2012 on the Tel Aviv Stock Exchange (see Note 16), the Company entered into cross-currency interest rate swap transactions with a notional principal of the NIS 1.1 billion and NIS 0.9 billion, respectively, to effectively hedge the effect of interest and exchange rate difference from the NIS Series A Notes. The cross-currency interest rate swap instruments effectively convert the fixed interest rate of the debt to a floating interest rate. The terms of the swap agreements substantially match the terms of the debt. Under the terms of the swap agreements, the Company receives interest payments semi-annually in NIS at an annual rate of 4.84% on the notional principal and pays interest semi-annually in U.S. dollars at an annual weighted rate of six-month LIBOR plus 1.84% on the notional principal.

In addition, in connection with an NIS denominated loan received from a financial institution at a fixed interest rate of 3% in 2013, the Company entered into cross-currency interest rate swap transactions with a notional principal of NIS 440 million to effectively hedge the effect of interest and exchange rate differences from the NIS loan. Under the terms of the cross currency interest rate swap, the Company receives fixed NIS at a rate of 3% and pays interest semi-annually at the rate of USD LIBOR plus 1.35% on the notional principal. As of December 31, 2017, the Company has fully repaid the NIS loan and the swap transaction has fully matured.

The swap agreements are designated as a fair value hedge. The gains and losses related to changes in the fair value of the cross-currency interest rate swap transactions are included in interest expense and substantially offset changes in the fair value of the hedged portion of the underlying hedged Series A Notes.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Z. STOCK-BASED COMPENSATION

The Company accounts for share-based arrangements under ASC 718, “Compensation – Stock Compensation”, which requires all share-based payments, including grants of employee stock options and grants under the Company's Phantom Bonus Retention Plan, to be recognized in the income statement based on their fair values.

AA. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, short-term bank deposits, trade receivables, short-term bank credit and loans and trade payables approximate their fair values due to the short-term maturities of such instruments.

The fair value of long-term loans is estimated by discounting the future cash flows using current interest rates for loans of similar terms and maturities. The carrying amount of the long-term loans approximates their fair value.

As of December 31, 2017, the fair value of the Series A Notes, based on the quoted market price on the Tel-Aviv Stock Exchange, was approximately $193,561.

The Company accounts for certain assets and liabilities at fair value under ASC 820, “Fair Value Measurement”. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. The Company categorizes each of its fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety.

The three levels of inputs that may be used to measure fair value are as follows:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 - Includes other inputs that are directly or indirectly observable in the marketplace, other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets with insufficient volume or infrequent transactions or other inputs that are observable (model-derived valuations in which significant inputs are observable), or can be derived principally from or corroborated by observable market data; and

Level 3 - Unobservable inputs that are supported by little or no market activity.

The availability of observable inputs can vary from instrument to instrument and is affected by a wide variety of factors, including, for example, the type of instrument, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment and the instruments are categorized as Level 3.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AA. FAIR VALUE OF FINANCIAL INSTRUMENTS (Cont.)

Under FASB ASC 825-10, the Company may elect to report certain other items at fair value on an instrument-by-instrument basis with changes in fair value reported in net income. After the initial adoption, the election is made at the time an eligible financial assetor financial liability or firm commitment is acquired or incurred, as applicable, or when certain specified reconsideration events occur. The fair value election, with respect to an item, may not be revoked once an election is made.

The Company has elected to account for certain investments that would otherwise be accounted for under the equity method using the fair value method (see Note 6). For these investments the Company will also measure any guarantee at fair value, with changes in fair value reported through earnings. Such investments are categorized as level 3.

The Company’s cross-currency interest rate swaps are valued under an income approach using industry-standard models that consider various assumptions, including time value, volatility factors, current market and contractual prices for the underlying and counterparty non-performance risk. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instruments, and can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Accordingly, such instruments are categorized as Level 2.

The Company measures its marketable equity securities, debt securities and foreign currency derivative instruments at fair value. Government debt securities are classified as Level 1. The Company's corporate debt marketable securities trade in markets that are not considered to be active, but are valued based on quoted market prices, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency and accordingly are categorized as Level 2.

The Company’s foreign currency derivative instruments are classified as Level 2 because valuation inputs are based on quoted prices and market observable data of similar instruments.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AA. FAIR VALUE OF FINANCIAL INSTRUMENTS (Cont.)

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair value measurement at December 31, 2017 using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Description of Assets			
Available-for-sale marketable securities:			
Government bonds	$1,415	$ —	$ —
Corporate bonds	—	11,956	—
Foreign currency derivatives and option contracts	—	5,953	—
Cross-currency interest rate swap	—	24,009	—
Investment elected to be accounted for using the fair value method	—	—	5,114
Liabilities			
Foreign currency derivative and option contracts	—	(12,200)	—
Total	$1,415	$ 29,718	$ 5,114

	Fair value measurement at December 31, 2016 using		
	Quoted Prices	**Significant Other**	**Significant Unobservable**

	in Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)
Description of Assets			
Available-for-sale marketable securities:			
Government bonds	$1,051	$ —	$ —
Corporate bonds	—	12,319	—
Foreign currency derivatives and option contracts	—	14,218	—
Cross-currency interest rate swap	—	10,339	—
Investment elected to be accounted for using the fair value method	—	—	5,107
Liabilities			
Foreign currency derivative and option contracts	—	(3,636)	—
Cross-currency interest rate swap	—	(1,798)	—
Total	$1,051	$ 31,442	$ 5,107

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AB. TRANSFERS OF FINANCIAL ASSETS

ASC 860, “Transfers and Servicing”, establishes a standard for determining when a transfer of financial assets should be accounted for as a sale. The Company's arrangements are such that the underlying conditions are met for transfers of financial assets to qualify for accounting as a sale. Transfers of financial assets typically consist of the factoring of receivables to Israeli and European financial institutions. During 2017, the Company sold rights to receive payments from the Israeli Ministry of Defense (“IMOD”) and a European customer in a total amount of $79,633. Control and risk of these rights were fully transferred in accordance with ASC 860.

The Company's agreement pursuant to which the Company sells its trade receivables is structured such that the Company (i) transfers the proprietary rights in the receivable from the Company to the financial institution, (ii) legally isolates the receivable from the Company's other assets, and presumptively puts the receivable beyond the lawful reach of the Company and its creditors, even in bankruptcy or other receivership, (iii) confers on the financial institution the right to further pledge or exchange the receivable and (iv) eliminates the Company's effective control over the receivable, in the sense that the Company is not entitled and will not be obligated to repurchase the receivable other than in case of failure by the Company to fulfill its commercial obligation under the contract giving rise to the receivable.

AC. BASIC AND DILUTED NET EARNINGS PER SHARE

Basic earnings per share are computed based on the weighted average number of outstanding ordinary shares during each year. Diluted earnings per share are computed based on the weighted average number of outstanding ordinary shares during each year, plus dilutive potential ordinary shares outstanding during the year. Outstanding stock options are excluded from the calculation of the diluted earnings per share when their effect is anti-dilutive.
The weighted average number of shares related to outstanding anti-dilutive stock options excluded from the calculations of diluted net earnings per share was not material in each of the three years ended December 31, 2017.

AD. TREASURY SHARES

Elbit Systems’ shares held by the Company are recognized at cost and presented as a reduction of shareholders’ equity.

AE. RECENT ACCOUNTING PRONOUNCEMENTS

(1) In August 2014, the FASB issued ASU 2014-15, “Presentation of Financial Statements - Going Concern”, which requires management to evaluate certain conditions, events and management plans that are known or reasonably knowable and that, when considered in the aggregate, raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that financial statements are issued. This ASU is effective for annual reporting periods ending after December 15, 2016. ASU 2014-15 was adopted by the Company for the annual period ending December 31, 2017 and did not have a material impact on the consolidated financial statements.

(2) In November 2015, the FASB issued ASU 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes”, which requires that all deferred income tax assets and liabilities be presented as non-current in the Company’s consolidated balance sheet. ASU 2015-17 represents a change in accounting principles and is effective for fiscal years, and the interim periods within those years, beginning after December 15, 2016. ASU 2015-17 was adopted by the Company for the fiscal year ended December 31, 2017, and the ASU was applied retrospectively to all periods presented, resulting in the reclassification of $32,336 of deferred tax assets from current assets to long-term assets and of $1,800 of deferred tax liabilities from current liabilities to long-term liabilities in the Company's consolidated balance sheet at December 31, 2016.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

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

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AE. RECENT ACCOUNTING PRONOUNCEMENTS **(Cont.)**

(3) In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (Topic 606 or “the New Standard”). The New Standard permits adoption either by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach with the cumulative effect of initially applying the New Standard recognized at the date of initial application and providing certain additional disclosures. ASU 2014-09, as amended, is effective for annual periods and interim periods beginning on or after December 15, 2017.

Accordingly, the Company adopted the New Standard on January 1, 2018, using the modified retrospective transition method applied to those contracts that were not substantially completed as of that date. Upon adoption, the Company recognized the cumulative effect of adopting this guidance as an adjustment to the opening balance of retained earnings. Prior periods have not been retrospectively adjusted. The Company has completed its evaluation of the potential changes from adopting the New Standard in its financial reporting and disclosures. In addition, the Company has evaluated the impact of the accounting and disclosure changes on its business processes, controls and systems, designed changes to such business processes, controls and systems and implemented the changes during 2017.

The adoption of the New Standard will primarily impact the Company's contracts where revenue was recognized using the percentage-of-completion units-of-delivery method, with the possible resulting impact being revenue that may be recognized over time because control is transferred continuously to the customers over the performance period for contracts recognized over time. The Company will use the cost incurred to date relative to total estimated costs at completion to measure progress toward satisfying the Company's performance obligation, since incurred costs represent work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. This change also impacts the Company's balance sheet presentation with a decrease in inventories, an increase in contract assets (i.e., unbilled receivables) and a net increase in retained earnings.

In addition, the New Standard requires product engineering and development costs under contracts (or anticipated contracts) with customers to be capitalized as contract fulfillment costs, to the extent recoverable from the associated contract (or anticipated contract) margin, and subsequently amortized as the related goods or services are transfered to the customer.

The New Standard also requires disclosure of remaining performance obligations, which is in concept similar to the backlog data reported by the Company.

The cumulative effect of the transition to the New Standard resulted in an adjustment on January 1, 2018 (effective date of adoption), of a $1,676 increase in retained earnings, a decrease in inventories of $81,864, an increase in contract assets (unbilled receivables) of $80,452 and a net decrease in customer advances and contract liabilities and deferred tax assets in the aggregate amount of $3,088.

(4) In January 2016, the FASB issued guidance on Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities, ASU 2016-01 - "Financial Instruments - Overall" (Subtopic 825-10). The ASU revises the classification and measurement of investments in certain equity investments and the presentation of certain fair value changes for certain financial liabilities measured at fair value. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. The adoption of this ASU will not have a material impact on our consolidated financial statements.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AE. RECENT ACCOUNTING PRONOUNCEMENTS (Cont.)

In February 2016, the FASB issued guidance on the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors), ASU 2016-02 - "Leases" (Topic 842). The ASU requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases
(5) with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for in a manner similar to the accounting under existing guidance for operating leases. The ASU requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. Topic 842 supersedes the previous leases standard, ASC 840, “Leases”. ASU 2016-02 is effective for the interim and annual periods beginning on or after December 15, 2018 (early adoption is permitted). The Company is currently evaluating the potential effect of the guidance on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments". This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not presented in the balance sheet at fair value. The ASU will replace the current incurred loss approach with an expected loss model for instruments measured at amortized cost. For available-for-sale debt securities, entities will be required to record allowances rather than
(6) reduce the carrying amount, as they do currently under the other-than-temporary impairment model. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, and interim periods therein. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods therein. The Company is currently evaluating the potential effect of the ASU on its consolidated financial statements.

(7) In August 2016, the FASB issued ASU 2016-15 - "Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments", which is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the Consolidated Statement of Cash Flows by providing guidance on eight specific cash flow issues. ASU 2016-15 is effective retrospectively on January 1, 2018, with

early adoption permitted. The adoption of this ASU will not have a material impact on our consolidated financial statements.

(8) In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash”. The ASU requires that the Consolidated Statement of Cash Flows explain the change in total cash and equivalents and amounts generally described as restricted cash or restricted cash equivalents when reconciling the beginning-of-period and end-of-period total amounts. The ASU also requires a reconciliation between the total of cash and equivalents and restricted cash presented on the Consolidated Statement of Cash Flows and the cash and equivalents balance presented on the Consolidated Balance Sheet. ASU 2016-18 is effective retrospectively on January 1, 2018, with early adoption permitted. The adoption of this ASU will not have a material impact on our consolidated financial statements.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

AE. RECENT ACCOUNTING PRONOUNCEMENTS (Cont.)

(9) In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business". The amendments in this ASU clarify the definition of a business, with the objective of adding guidance to assist entities in evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. ASU 2017-01 is effective for fiscal years beginning after December 15, 2017. The adoption of this ASU will not have a material impact on our consolidated financial statements.

(10) In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 eliminates step two of the goodwill impairment test and specifies that goodwill impairment should be measured by comparing the fair value of a reporting unit with its carrying amount. Additionally, the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets should be disclosed. ASU 2017-04 is effective for annual or interim goodwill impairment tests performed in fiscal years beginning after December 15, 2019, and early adoption is permitted. The Company does not expect this ASU to have a material effect on its consolidated financial statements.

(11) In February 2017, the FASB issued ASU 2017-05, “Other Income - Gains and Losses from the Derecognition of Non-financial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Non-financial Assets”. This ASU clarifies the scope and application of ASC 610-20 on the sale or transfer of non-financial assets and in substance non-financial assets to non-customers, including partial sales. The amendments in ASU 2017-05 are effective for annual reporting periods beginning after December 15, 2017. The adoption of this ASU will not have a material impact on our consolidated financial statements.

(12) In March 2017, the FASB issued ASU 2017-07, “Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”. ASU 2017-07 was issued to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost within an entity's financial statements. The amendments in ASU 2017-07 are effective for annual reporting periods beginning after December 15, 2017. The adoption of this ASU will not have a material impact on our consolidated financial statements.

(13) In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities”, which is intended to simplify and amend the application of hedge accounting to more clearly portray the economics of an entity’s risk management strategies in its financial statements. The ASU will make more financial and nonfinancial hedging strategies eligible for hedge accounting, reduce complexity in fair value hedges of interest rate risk and ease certain documentation and assessment requirements of hedge effectiveness. It also changes how companies assess effectiveness and amends the presentation and disclosure requirements. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of adopting the ASU on its consolidated financial statements.

AF. RECLASSIFICATIONS

Certain financial statement data for prior years has been reclassified to conform to current year financial statement presentation.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 3 - TRADE AND UNBILLED RECEIVABLES, NET

The following table presents the components of trade and unbilled receivables, net as of December 31, 2017 and 2016.

	December 31,	
	2017	**2016**
Receivables [1]	$747,327	$723,538
Unbilled receivables	668,821	516,469
Less – allowance for doubtful accounts	(9,585)	(7,416)
	$1,406,563	$1,232,591
(1) Includes receivables from affiliated companies	$75,340	$84,969

Unbilled receivables on long-term contracts principally represent sales recorded under the percentage-of-completion method of accounting, when sales or revenues based on performance attainment, though appropriately recognized, cannot be billed yet under terms of the contract as of the balance sheet date. Accounts receivable include claims on items that the Company believes are earned. Trade receivables and unbilled receivables, other than those detailed under Note 7, are expected to be billed and collected during 2018.

Short and long-term receivables and unbilled receivables include amounts related to contracts with the IMOD in the aggregate amounts of $547,970 and $498,964, as of December 31, 2017 and 2016, respectively.

As for long-term trade and unbilled receivables – see Note 7.

Note 4 - OTHER RECEIVABLES AND PREPAID EXPENSES

The following table presents the components of other receivables and prepaid expenses as of December 31, 2017 and 2016.

	December 31,	
	2017	**2016**
Prepaid expenses	38,420	32,254
Government institutions	66,189	37,937
Derivative instruments	5,953	14,218

Cross-currency interest rate swap	7,501	2,275
Other	10,883	16,295
	$128,946	$102,979

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 5 - INVENTORIES, NET OF CUSTOMER ADVANCES

The following table presents the components of other inventories, net of customer advances as of December 31, 2017 and 2016.

	December 31,	
	2017	**2016**
Cost incurred on long-term contracts in progress	$612,763	$650,721
Raw materials	342,274	310,780
Advances to suppliers and subcontractors	57,726	52,728
	1,012,763	1,014,229
Less -		
Cost incurred on contracts in progress deducted from customer advances	34,523	65,032
Advances received from customers (*)	52,596	65,418
Provision for losses on long-term contracts	22,690	43,513
	$902,954	$840,266

(*) The Company has transferred legal title of inventories to certain customers as collateral for advances received. Advances are allocated to the relevant inventories on a per-project basis. In cases where advances are in excess of the inventories, the net amount is presented in customer advances (see Note 14).

Note 6 - INVESTMENTS IN AFFILIATED COMPANIES, PARTNERSHIPS AND OTHER COMPANIES

A. INVESTMENT IN AFFILIATED COMPANIES:

	December 31,	
	2017	**2016**
Companies accounted for under the equity method and the fair value method	$164,761	$173,396
Companies accounted for on a cost basis	7,577	7,566
	$172,338	$180,962

B. INVESTMENT IN COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD AND THE FAIR VALUE METHOD:

December 31,

	2017	2016
Company A [1]	$65,799	$65,594
Company B [2]	21,708	19,974
Company C [3]	—	11,881
Company D [4]	15,000	19,120
Company E [5]	18,003	18,003
Company F [6]	27,927	25,707
Company G [7]	5,114	5,107
Other	11,210	8,010
	$164,761	$173,396

(1) Company A is an Israeli partnership, held 50% by the Company and 50% by Rafael Advanced Defense Systems Ltd. (“Rafael”). Company A is engaged in the development and production of various thermal detectors and laser diodes. Company A is jointly controlled and therefore is not consolidated in the Company’s financial statements. During 2017 and 2016, the Company received dividends in the amount of $9,374 and $2,140, respectively from Company A.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 6 - INVESTMENTS IN AFFILIATED COMPANIES, PARTNERSHIPS AND OTHER COMPANIES (Cont.)

B. INVESTMENT IN COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD AND THE FAIR VALUE METHOD (Cont.):

(2) Company B is an Israeli company owned 50.00001% by the Company and 49.99999% by Rafael. Company B focuses mainly on commercial applications of thermal imaging and electro-optic technologies. The Company jointly controls Company B with Rafael, and therefore Company B is not consolidated in the Company's financial statements.

(3) Company C is a Romanian company that was held 40% by the Company. Company C is engaged in the construction of fiber optic-telecommunication networks in Romania. During 2016, the Company wrote off $2,500 of its investment in Company C. During 2017, the Company sold all of its holding in Company C, for a consideration of approximately $12,000.

(4) Company D is a European company held 33% by the Company. During 2015, the Company, through a wholly-owned Israeli subsidiary, invested approximately $20,000 in Company D, which is engaged in the area of composite aerostructure parts manufacturing for commercial aircraft.

(5) Company E is an Israeli company held 77% by the Company. During 2016, the Company established Company E, based on its in-house developed energy technology for transportation, that is engaged in developing energy solutions for civilian transportation applications. In July 2016, an international strategic investor invested €16,000 (approximately $18,000) in exchange for 20% of Company E's ownership interest (in preferred shares) and was granted rights in several of Company E's energy related technologies. The investor has certain participating rights in the day-to-day operations of Company E. As a result, the Company deconsolidated Company E and reevaluated its remaining holdings, recognizing a gain of approximately $10,500, which was included in "other operating income, net". During 2017, the investor invested €2,500 (approximately $2,800) in exchange for an additional 3% ownership in Company E.

(6) Company F is a U.K. joint venture held 50% by a wholly-owned U.K. subsidiary of the Company and 50% by Kellogg Brown & Root Limited. During 2016, the Company invested in Company F approximately $13,400. Company F is engaged in the area of flight training systems..

(7) Company G is an Israeli company held 71% by the Company. During 2016, due to an external investment in Company G, in which a third party investor acquired substantial participation rights, Company G ceased to be consolidated in the Company's financial results. The Company has chosen to make a fair value election pursuant to ASC 825, "Financial Instruments", for its investment in Company G. This investment was recorded at fair market value on the consolidated balance sheets and the periodic change in fair market value is recorded as a component of other income (expense), net on the consolidated statements of income. For the year ended December 31, 2017, there was no significant change in fair value.

Equity in net earnings (losses) of affiliated companies and partnerships is as follows:

	Year ended December 31,		
	2017	**2016**	**2015**
Company A	$9,579	$6,157	$3,948
Company B	1,734	2,047	2,284
Company F	6,427	4,253	—
Company D	(4,129)	(872)	—
Other (*)	(2,250)	(6,361)	(1,690)
	$11,361	$5,224	$4,542

(*) Includes write-off impairment in Company C in the amount of approximately $2,500 in 2016.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 6 - INVESTMENTS IN AFFILIATED COMPANIES, PARTNERSHIPS AND OTHER COMPANIES (Cont.)

B. INVESTMENT IN COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD AND THE FAIR VALUE METHOD (Cont.)

The summarized aggregate financial information of companies accounted for under the equity method and the fair value method is as follows:

Balance Sheet Information:

	December 31,	
	2017	**2016**
Current assets	$542,600	$452,343
Non-current assets	117,438	145,346
Total assets	$660,038	$597,689
Current liabilities	$161,414	$168,352
Non-current liabilities	223,253	103,656
Shareholders' equity	275,371	325,681
Total liabilities and equity	$660,038	$597,689

Income Statement Information:

	Year ended December 31,		
	2017	**2016**	**2015**
Revenues	$466,349	$424,045	$250,499
Gross profit	$101,242	$83,266	$67,747
Net income	$10,338	$21,252	$13,920

See Note 20(E) for guarantees.

Note 7 - LONG-TERM TRADE AND UNBILLED RECEIVABLES

The following table presents the components of long-term trade and unbilled receivables as of December 31, 2017 and 2016.

	December 31,	
	2017	**2016**
Receivables	$63,833	$—
Unbilled receivables	231,563	189,688
	$295,396	$189,688

The majority of the long-term unbilled receivables are expected to be billed and collected during the years 2019 - 2021. Long-term trade and unbilled receivables are mainly related to contracts with the IMOD.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 8 - LONG-TERM BANK DEPOSITS AND OTHER RECEIVABLES

The following table presents the components of long-term bank deposits and other receivables as of December 31, 2017 and 2016.

	December 31,	
	2017	2016
Cross-currency interest rate swap	16,508	8,064
Long-term receivables[1]	11,300	—
Deposits with banks and other long-term receivables [2]	10,274	7,853
	$38,082	$15,917

(1) Includes $9,400 related to legal expenses (see Note 20C).

(2) Includes long-term balances of a non-qualified deferred compensation plan structured under Section 409A of the U.S. Internal Revenue Code in the amount of $8,220 and $7,106 as of December 31, 2017 and 2016, respectively (see Note 17).

Note 9 - AVAILABLE-FOR-SALE MARKETABLE SECURITIES

As of December 31, 2017 and 2016, the fair value, amortized cost and gross unrealized holding gains and losses of available-for-sale marketable securities were as follows:

	December 31, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Government debentures - fixed and floating interest rate	$1,409	6	—	$1,415
Corporate debentures - fixed and floating interest rate	11,951	5	—	11,956
	$13,360	11	—	$13,371

	December 31, 2016			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value

Government debentures - fixed and floating interest rate	$1,051	—	—	$1,051
Corporate debentures - fixed and floating interest rate	12,302	17	—	12,319
	$13,353	17	—	$13,370

The contractual maturities of the available-for-sale marketable securities in future years are as follows:

	December 31, 2017
2018	$ 374
2019	1,568
2020	2,405
2021	2,564
2022 and after	6,218
	$ 13,129

As of December 31, 2017 and 2016, interest receivable included in other receivables amounted to $118 and $147, respectively.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 10 - PROPERTY, PLANT AND EQUIPMENT, NET

The following table presents the components of property, plant and equipment, net as of December 31, 2017 and 2016.

	December 31,	
	2017	**2016**
Cost [(1)]:		
Land, buildings and leasehold improvements [(2)]	$473,483	$450,301
Instruments, machinery and equipment [(3)]	882,858	807,791
Office furniture and other	90,602	83,431
Motor vehicles and airplanes	48,281	55,457
	1,495,224	1,396,980
Accumulated depreciation	(999,508)	(922,871)
Depreciated cost	$495,716	$474,109

Depreciation expenses for the years ended December 31, 2017, 2016 and 2015 amounted to $85,449, $81,728 and $74,239, respectively.

(1) Net of investment grants received (mainly for instruments, machinery and equipment) in the amounts of $15,208 and $15,023 as of December 31, 2017 and 2016, respectively.

(2) Set forth below is additional information regarding the real estate owned or leased by the Company:

	Israel[(a)]	U.S.[(b)]	Other Countries[(c)]
Owned	2,175,000 square feet	634,000 square feet	891,000 square feet
Leased	2,206,000 square feet	661,000 square feet	472,000 square feet

(a) Includes offices, development and engineering facilities, manufacturing facilities, maintenance facilities, hangar facilities and landing strips in various locations in Israel.

(b) Includes offices, development and engineering facilities, manufacturing facilities and maintenance facilities of ESA primarily in Texas, New Hampshire, Florida, Alabama and Virginia.

(c) Includes offices, design and engineering facilities and manufacturing facilities, mainly in Europe, Latin America and Asia-Pacific.

(3) Includes equipment produced by the Company for its own use in the aggregate amount of $121,205 and $114,241 as of December 31, 2017 and 2016, respectively, and capitalized costs related to the new ERP system (see Note 2(N)).

As for liens on assets – see Notes 20(H) and 20(I).

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 11 - GOODWILL AND OTHER INTANGIBLE ASSETS, NET

A. COMPOSITION OF IDENTIFIABLE INTANGIBLE ASSETS:

	Weighted average useful lives	December 31,	
		2017	2016
Original cost:			
Technology	11	$244,352	$234,081
Customer relations	12	114,696	169,695
Trademarks and other	14	160,917	161,019
		519,965	564,795
Accumulated amortization:			
Technology		191,866	172,649
Customer relations		89,982	157,179
Trademarks and other		132,429	125,566
		414,277	455,394
Amortized cost		$105,688	$109,401

B. AMORTIZATION EXPENSES

Amortization expenses amounted to $28,568, $41,160 and $48,115 for the years ended December 31, 2017, 2016 and 2015, respectively.

C. AMORTIZATION EXPENSES FOR FIVE SUCCEEDING YEARS

The estimated aggregate amortization expenses for each of the five succeeding fiscal years and thereafter are as follows:

2018	$29,056
2019	27,152
2020	22,317
2021	7,734

2022 and after	19,429
	105,688

D. CHANGES IN GOODWILL

Changes in goodwill during 2017 were as follows:

	2017
Balance, at January 1	$616,997
Additions [1]	26,012
Net translation differences [2]	3,706
Balance, at December 31	$646,715

(1) See Note 1(C).

(2) Foreign currency translation differences resulting from goodwill allocated to reporting units, whose functional currency has been determined to be other than the U.S. dollar.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

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Note 12 - SHORT-TERM BANK CREDIT AND LOANS

	Interest %	December 31,	
		2017	2016
Short-term loans	Libor+0.9%	$122,118	$—
Short-term bank credit	Mainly Libor+0.9%	11,632	5,027
		$133,750	$5,027

Note 13 - OTHER PAYABLES AND ACCRUED EXPENSES

	December 31,	
	2017	2016
Payroll and related expenses	$190,028	$187,051
Provision for warranty and cost	203,632	250,212
Provision for vendors on accrued expenses	46,773	55,379
Provision for vacation pay [(1)]	52,891	46,878
Provision for losses on long-term contracts[(2)]	24,088	39,835
Provision for income tax, net of advances	23,453	33,541
Provision for royalties	36,941	34,330
Other income tax liabilities	4,954	9,762
Value added tax (“VAT”) payable	21,510	6,433
Derivative instruments	12,200	5,429
Purchase obligation	14,159	—
Other [(3)]	204,765	159,866
	$835,394	$828,716

(1) Long-term provision for vacation pay as of December 31, 2017 and 2016 was $30,813 and $27,696, respectively, included in other long-term liabilities.

(2) Includes a provision of $4,586 as of December 31, 2016, related to the cessation of a program with a foreign customer. During 2017, the Company recorded a reversal of reserve which offset COR related to the cessation of the program.

(3) Includes provisions for estimated future costs in respect of (1) penalties and the probable loss from claims (legal or unasserted) in the ordinary course of business (e.g. damages caused by the items sold and claims as to the specific

products ordered), and (2) unbilled services of certain third parties.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

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Note 14 - CUSTOMER ADVANCES IN EXCESS OF COSTS INCURRED ON CONTRACTS IN PROGRESS

	December 31,	
	2017	**2016**
Advances received	$639,328	$652,372
Less -		
Advances presented under long-term liabilities	133,649	174,529
Advances deducted from inventories	52,596	65,418
	453,083	412,425
Less -		
Costs incurred on contracts in progress (See Note 5)	34,523	65,032
	$418,560	$347,393

As for guarantees and liens, see Notes 20(E), 20(H) and 20(I).

Note 15 - LONG-TERM LOANS, NET OF CURRENT MATURITIES

				December 31,	
	Currency	**Interest %**	**Years of maturity**	**2017**	**2016**
Long-term loans (*)	USD	Libor + 1.45%	1	$ 118,550	$ 118,550
	NIS (**)	2.56% - Libor + 1.35%	mainly 1	—	47,317
	Other			1,023	—
				119,573	165,867
Less: current maturities				59	165,392
				$ 119,514	$ 475

(*) For covenants see Note 20(F).
(**) Includes derivative instrument defined as hedge accounting. See Note 2(Y) and Note 2(AA).

As of December 31, 2017, the LIBOR semi-annual rate for long-term loans denominated in U.S. dollars was 1.837%.

The maturities of these loans for periods after December 31, 2017, are as follows:

2018 - current maturities	$59
2019	118,641
2020	146
2021 and after	727
	$119,573

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Note 16 - SERIES A NOTES, NET OF CURRENT MATURITIES

	December 31,	
	2017	**2016**
Series A Notes	$181,713	$218,466
Less – Current maturities	(67,497)	(63,564)
Carrying amount adjustments on Series A Notes (*)	10,420	15,843
Premium on Series A Notes, net	229	321
	$124,865	$171,066

(*) As a result of fair value hedge accounting, described below and in Notes 2(Y) and 2(AA), the carrying amount of the Series A Notes is adjusted for changes in the interest rates.

In June 2010, the Company issued Series A Notes in the aggregate principal amount of NIS 1.1 billion (approximately $283,000), payable in 10 equal annual installments on June 30 of each of the years 2011 through 2020. The Series A Notes bear a fixed interest rate of 4.84% per annum, payable on June 30 and December 30 of each of the years 2010 through 2020 (the first interest payment was made on December 30, 2010, and the last interest payment will be made on June 30, 2020). Debt issuance costs were approximately $2,530, of which $2,164 were allocated to the Series A Notes discount, and $366 were allocated to deferred issuance costs and are amortized as financial expenses over the term of the Series A Notes due in 2020.

In March 2012, the Company issued additional Series A Notes in the aggregate principal amount of NIS 807 million (approximately $217,420). The immediate gross proceeds received by the Company for the issuance of the March 2012 Series A Notes were approximately NIS 831 million (approximately $224,000). Debt issuance costs were approximately $2,010, of which $1,795 was allocated to the Series A Notes discount, and $215 was allocated to deferred issuance costs and are amortized as financial expenses over the term of the Series A Notes due in 2020. The premium was approximately $3,675 and is amortized as financial income over the term of the Series A Notes due in December 2020.

In May 2012, the Company issued additional Series A Notes in an aggregate principal amount of NIS 92 million (approximately $24,407) through a private placement to Israeli institutional investors. The immediate gross proceeds received by the Company for the issuance of the May 2012 Series A Notes were approximately NIS 95 million (approximately $24,900). Debt issuance costs were approximately $94. These costs were allocated to deferred issuance costs and are amortized as financial expenses over the term of the Series A Notes due in 2020. The premium

was approximately $260 and is amortized as financial income over the term of the Series A Notes due in December 2020.

The 2010 Series A Notes together with the 2012 Series A Notes form one single series with the same terms and conditions.

The Series A Notes (principal and interest) are not linked to any currency or index. The Series A Notes are unsecured, non-convertible and do not restrict the Company's ability to issue additional notes of any class or distribute dividends in the future. There are no covenants on the Series A Notes. The Series A Notes are listed for trading on the Tel-Aviv Stock Exchange.

During the years ended December 31, 2017, 2016 and 2015, the Company recorded $6,112, $6,565 and $6,812, respectively, as interest expenses and $92, as amortization of debt issuance costs and premium, net, in each of the three years ended December 31, 2017 on the Series A Notes.

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

Note 16 - SERIES A NOTES, NET OF CURRENT MATURITIES (Cont.)

The Company also entered into 10-year cross currency interest rate swap transactions in order to effectively hedge the effect of interest and exchange rate differences resulting from the 2010 NIS Series A Notes. Under the cross currency interest rate swaps, the Company receives fixed NIS at a rate of 4.84% on NIS 1.1 billion and pays floating six-month USD LIBOR + an average spread of 1.65% on $287,000, which reflects the U.S. dollar value of the Series A Notes on the specific dates the transactions were consummated. Both the debt and the swap instruments pay semi-annual interest on June 30 and December 31. The purpose of these transactions was to convert the NIS fixed rate Series A Notes into USD LIBOR (six-month) floating rate obligations. As a result of these agreements, the Company is currently paying an effective interest rate of six-month LIBOR (1.84% at December 31, 2017) plus an average of 1.65% on the principal amount, as compared to the original 4.84% fixed rate. The above transactions qualify for fair value hedge accounting.

In April 2012 and May 2012, the Company entered into cross currency interest rate swap transactions in order to effectively hedge the effect of interest and exchange rate differences resulting from the 2012 issuance of Series A Notes. Under these cross currency interest rate swaps, the Company receives fixed NIS at a rate of 4.84% on NIS 807 million and NIS 92 million and pays floating six-month USD LIBOR + an average spread of 2.02% on $217,300 and 2.285% on $24,100, respectively, which reflects the U.S. dollar value of the 2012 issued Series A Notes on the specific dates the transactions were consummated. Both the debt and the swap instruments pay semi-annual interest on June 30 and December 31. The purpose of these transactions was to convert the NIS fixed rate Series A Notes into USD LIBOR (six-month) floating rate obligations. As a result of these agreements, the Company is currently paying an effective interest rate of six-month LIBOR (1.84% at December 31, 2017) plus an average of 2.05% on the 2012 principal amounts, as compared to the original 4.84% fixed rate. The above transactions qualify for fair value hedge accounting.

Future principal payments for the Series A Notes, including the effect of the cross-currency interest rate swap transactions are as follows:

	December 31, 2017
2018 current maturities	$ 55,533
2019	55,533
2020	55,533

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 17 - BENEFIT PLANS AND OBLIGATIONS FOR TERMINATION INDEMNITY

The Company's subsidiaries ESA, a German subsidiary (the "German Subsidiary") and a Belgian subsidiary (the "Belgian Subsidiary") sponsor benefit plans for their employees in the U.S., Germany and Belgium, respectively, as follows:

1. Defined Benefit Retirement Plan based on Employer's Contributions

a) ESA has three defined benefit pension plans (the "Plans") which cover the employees of ESA's two largest subsidiaries. Monthly benefits are based on years of benefit service and annual compensation. Annual contributions to the Plans are determined using the unit credit actuarial cost method and are equal to or exceed the minimum required by law. Pension fund assets of the Plans are invested primarily in stocks, bonds and cash through a financial institution, as the investment manager of the Plans' assets. Pension expense is allocated between cost of sales and general and administrative expenses, depending on the responsibilities of the employee. The measurement date for ESA subsidiaries' benefit obligation is December 31.

Participation in ESA's qualified defined benefit plans was frozen as of January 1, 2010, for non-represented employees. Current participants continue to accrue benefits; however no new non-represented employees were allowed to enter the plan.

b) The German Subsidiary, which is wholly-owned by the Company, has mainly one defined benefit pension plan (the "P3-plan") which covers all employees. The P3-plan provides for yearly cash balance credits equal to a percentage of a participant's compensation, which accumulate together with the respective interest credits on the employee's cash balance accounts. In case of an insured event (retirement, death or disability) the benefits can be paid as a lump sum, in installments or as a life-long annuity. The P3-plan is an unfunded plan.

c) The Belgian Subsidiary, which is wholly-owned by the Company, has a defined benefit pension plan, which is divided into two categories:

1) Normal retirement benefit plan, with eligibility at age 65. The lump sum is based on employee contributions of 2% of the final pensionable salary up to a certain breakpoint, plus 6% exceeding the breakpoint at a maximum of 5% of pensionable salary, and the employer contributions, with a maximum of 40 years. The vested benefit is equal to the retirement benefit calculated with the pensionable salary and pensionable service observed at the date of leaving service.

2) Pre-retirement death benefit to employees.

The plan is funded and includes profit sharing.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 17 - BENEFIT PLANS AND OBLIGATIONS FOR TERMINATION INDEMNITY (Cont.)

The following table sets forth the Plans' funded status and amounts recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016:

	December 31,	
	2017	**2016**
Changes in benefit obligation:		
Benefit obligation at beginning of year	$235,246	$219,360
Service cost	7,655	7,768
Interest cost	9,108	8,929
Exchange rate differences	1,551	(669)
Actuarial losses (gain)	19,794	6,861
Benefits paid	(6,213)	(7,003)
Benefit obligation at end of year	$267,141	$235,246
Changes in the Plans' assets:		
Fair value of Plans' assets at beginning of year	140,240	127,455
Actual return on Plans' assets (net of expenses)	23,343	10,035
Employer contribution	10,591	9,753
Benefits paid	(6,213)	(7,003)
Fair value of Plans' assets at end of year	$167,961	$140,240
Accrued benefit cost, end of year:		
Funded status	(99,180)	(95,003)
Unrecognized net actuarial loss	71,385	71,839
Unrecognized prior service cost	141	206
	$(27,654)	$(22,958)
Amount recognized in the statement of financial position:		
Accrued benefit liability, current	(1,580)	(1,254)
Accrued benefit liability, non-current	(97,600)	(93,749)
Accumulated other comprehensive income, pre-tax	71,526	72,045
Net amount recognized	$(27,654)	$(22,958)

	Year ended December 31,

	2017	2016	2015
Components of the Plans' net periodic pension cost:			
Service cost	$7,655	$7,768	$8,921
Interest cost	9,108	8,929	8,372
Expected return on Plans' assets	(10,203)	(9,057)	(8,970)
Amortization of prior service cost	64	65	(62)
Amortization of transition amount	—	—	46
Amortization of net actuarial loss	6,161	5,765	6,295
Total net periodic benefit cost	$12,785	$13,470	$14,602
Additional information			
Accumulated benefit obligation	$259,242	$227,799	$213,675

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 17 - BENEFIT PLANS AND OBLIGATIONS FOR TERMINATION INDEMNITY (Cont.)

	December 31,	
	2017	2016
Weighted average assumptions:		
Discount rate as of December 31	3.4%	4.3%
Expected long-term rate of return on Plans' assets	7.1%	7.3%
Rate of compensation increase	2.4%	2.4%

Asset allocation by category as of December 31:

	2017	2016
Asset Category:		
Equity Securities	66.8 %	66.3 %
Debt Securities	31.9 %	33.1 %
Other	1.3 %	0.6 %
Total	100.0%	100.0%

The investment policy of ESA is directed toward a broad range of securities. The diversified portfolio seeks to maximize investment return while minimizing the risk levels associated with investing. The investment policy is structured to consider the Plans' obligations and the expected timing of benefit payments. The target asset allocation for the Plans' years presented is as follows:

	2017	2016
Asset Category:		
Equity Securities	65.0 %	65.0 %
Debt Securities	35.0 %	35.0 %
Total	100.0%	100.0%

The fair value of the asset values by category at December 31, 2017 was as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Asset Category					
Cash	$1,913	$1,913	$	—$	—
Cash Equivalents:					
Money Market Funds (a)	383	383	—	—	
Fixed Income Securities:					
Mutual Funds (b)	53,519	53,519	—	—	
Equity Securities:					
International Companies (c)	5,172	5,172	—	—	
Mutual Funds (d)	106,974	106,974	—	—	
Total	$167,961	$167,961	$	—$	—

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 17 - BENEFIT PLANS AND OBLIGATIONS FOR TERMINATION INDEMNITY (Cont.)

(a) This category includes highly liquid daily traded cash-like vehicles.
(b) This category invests in highly liquid mutual funds representing a diverse offering of debt issuance.
(c) This category represents common stocks of companies domiciled outside of the U.S.; they can be represented by ordinary shares or ADRs.
(d) This category represents highly liquid diverse equity mutual funds of varying asset classes and styles.

In developing the overall expected long-term rate of return on assets assumption, ESA used a building block approach in which rates of return in excess of inflation were considered separately for equity securities, debt securities, real estate and all other assets. The excess returns were weighted by the representative target allocation and added along with an approximate rate of inflation to develop the overall expected long-term rate of return. It is the policy of ESA to meet the ERISA minimum contribution requirements for a Plan year. The minimum contribution requirements for the 2017 Plan year have been satisfied as of December 31, 2017. Benefit payments over the next five years are expected to be $7,070 in 2018, $7,811 in 2019, $8,663 in 2020, $9,576 in 2021 and $10,389 in 2022.

2. Retiree Medical Plan

ESA offers retiree medical benefits to a limited number of retirees, The measurement date for ESA's benefit obligation is December 31. The following table sets forth the retiree medical plans' funded status and amounts recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016:

	December 31,	
	2017	**2016**
Change in Benefit Obligation:		
Benefit obligation at beginning of period	$2,053	$1,791
Service cost	64	71
Interest cost	67	60
Actuarial (gain) loss	(439)	233
Employee contribution	36	33
Benefits paid	(140)	(135)
Benefit obligation at end of period	$1,641	$2,053
Change in Plan Assets:		

Employer contribution	$104	$102
Employee contribution	36	33
Benefits paid	(140)	(135)
Fair value of Plan assets at end of period	$—	$—

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 17 - BENEFIT PLANS AND OBLIGATIONS FOR TERMINATION INDEMNITY (Cont.)

	Year ended December 31,	
	2017	2016
Accrued benefit cost, end of period:		
Funded status	$(1,641)	$(2,053)
Unrecognized net actuarial (gain) loss	(1,420)	(1,110)
Accrued benefit cost, end of period	$(3,061)	$(3,163)
Amounts recognized in the statement of financial position:		
Accrued benefit liability, current	$(111)	$(180)
Accrued benefit liability, non-current	(1,531)	(1,873)
Accumulated other comprehensive gain, pretax	(1,419)	(1,110)
Net amount recognized	$(3,061)	$(3,163)

Components of net periodic pension cost (for period):		
Service cost	$64	$71
Interest cost	67	60
Amortization of net actuarial gain	(128)	(179)
Total net periodic benefit cost	$3	$(48)

Assumptions as of end of period:		
Discount rate	3.17%	3.50%
Health care cost trend rate assumed for next year	5.50%	6.50%
Ultimate health care cost trend rate	3.84%	3.80%

The effect of a 1% change in the health care cost trend rate at December 31, 2017 was as follows:

	1% increase	1% decrease
Net periodic benefit cost	$ 13	$ (12)
Benefit obligation	$ 114	$ (103)

3. Defined Contribution Plan

The 401(k) savings plan ("401(k) plan") is a defined contribution retirement plan that covers all eligible ESA employees, as defined in section 401(k) of the U.S. Internal Revenue Code. Employees may elect to contribute a percentage of their annual gross compensation to the 401(k) plan. ESA may make discretionary matching contributions as determined by ESA. Total expense under the 401(k) plan amounted to $5,646, $5,300 and $4,209 for the years ended December 31, 2017, 2016 and 2015, respectively. Expense for the deferred 401(k) plan is allocated between cost of sales and general and administrative expenses depending on the responsibilities of the related employees.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 17 - BENEFIT PLANS AND OBLIGATIONS FOR TERMINATION INDEMNITY (Cont.)

4. Non-Qualified Defined Contribution Plan

ESA has two benefit plans for the executives of the organization. The non-qualified, defined contribution plan is structured under Section 409(A). The plan provides the employees at vice president level and above the opportunity to defer up to 100% of their salary to the 409(A) plan. ESA provides a match of 50 cents on the dollar up to 10% of the employees' total salary and incentive-based compensation. The contribution can be made into the 401(k) plan, the 409(A) plan or both plans. The purpose is to provide comparable defined contribution plan benefits for the senior management across ESA locations. The 409(A) plan funds are contributed to several life insurance policies. Participant contributions to the plan were $1,962, $1,194 and $1,221 for the years ended December 31, 2017, 2016 and 2015, respectively, and the total ESA contribution to the plan was $334 for 2017. The cash and cash surrender value of these life insurance policies at December 31, 2017 was $5,190. The total liability related to the 409(A) plan was $8,847 at December 31, 2017.

The second plan implemented is a non-qualified, defined benefit plan for certain executives of ESA. The plan provides a calculated, guaranteed payment in addition to their regular pension through the company upon retirement. The plan is funded with several life insurance policies. They are not segregated into a trust or otherwise effectively restricted. These policies are corporate owned assets that are subject to the claims of general creditors and cannot be considered as formal plan assets. The defined benefit plan put in place meets the ERISA definition of an unfunded deferred compensation plan maintained for the benefit of a select group of management or highly compensated employees. The plan assets of life insurance policies have a cash surrender of $3,030 at December 31, 2017. Related liability for the pension payments is $5,155 at December 31, 2017. As of December 31, 2017, all executives had partially vested balances in the plan.

Note 18 - TAXES ON INCOME

A. APPLICABLE TAX LAWS

(1) Israeli Corporate Income Tax Rates

Corporate tax rates and real capital gains tax in Israel were 24% in 2017, 25% in 2016 and 26.5% in 2015.

In December 2016, the Israeli Parliament approved a reduction of the corporate tax rate to 24%, effective as of January 1, 2017 and 23% effective as of January 1, 2018.

(2) Tax benefits under Israel's Law for the Encouragement of Industry (Taxes), 1969:

Elbit Systems and most of its subsidiaries in Israel currently qualify as "Industrial Companies", as defined by the Law for the Encouragement of Industry (Taxes), 1969, and as such, these companies are entitled to certain tax benefits, mainly amortization of costs relating to know-how and patents over eight years, accelerated depreciation, the right to deduct public issuance expenses for tax purposes and an election under certain conditions to file a consolidated tax return with additional related Israeli Industrial Companies.

In December 2015, Elbit Systems and certain of its Israeli subsidiaries (also industrial companies) submitted an election notice to the Israel Tax Authority to file a consolidated tax return starting tax year 2015.

(3) Tax benefits under Israel's Law for the Encouragement of Capital Investments, 1959:

Elbit Systems' and certain of its Israeli subsidiaries' ("the companies") operations have been granted "Approved Enterprise" status under Israel's Law for the Encouragement of Capital Investments, 1959 (the "Law"). Accordingly, certain income of the companies derived from the "Approved Enterprise" programs is tax exempt for two years and subject to reduced tax rates of 25% for five year to eight year periods or tax exempt for a ten year period, commencing in the first year in which the companies had taxable income (limited to twelve years from commencement of production or fourteen years from the date of approval, whichever is earlier).

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 18 - TAXES ON INCOME (Cont.)

A. APPLICABLE TAX LAWS (Cont.)

(3) An Amendment to the Law from 2005 defines the "Privileged Enterprise" status rather than the previous "Approved Enterprise" status and limits the scope of enterprises which may qualify for "Privileged Enterprise" status by setting criteria such as that at least 25% of the "Privileged Enterprise" program's income be derived from exports. Additionally, the 2005 Amendment enacted major changes in the manner in which tax benefits are awarded under the Law so that companies no longer require an Investment Center approval in order to qualify for tax benefits. Similar criteria have been set for the "Preferred Enterprise" status which was added in an Amendment to the Law in 2011. Companies are not required to receive an Investment Center approval in order to qualify for the tax benefits under the "Preferred Enterprise"e status, however, companies which are under an "Approved Enterprise" or "Privileged Enterprise" program must waive their former benefits to elect the "Preferred Enterprise" benefits.

Tax-exempt income generated by the Company and certain of its Israeli subsidiaries' "Approved Enterprise" and "Privileged Enterprise" will be subject to tax upon dividend distribution or complete liquidation. Income generated under a "Preferred Enterprise" is not subject to additional taxation to the Company or its Israeli subsidiaries upon distribution or complete liquidation.

The entitlement to the above benefits is subject to the companies' fulfilling the conditions specified in the Law, and the regulations promulgated thereunder and the letters of approval for the specific investments in "Approved Enterprises". In the event of failure to comply with these conditions, the benefits may be canceled and the companies may be required to refund the amount of the benefits, in whole or in part, including interest. As of December 31, 2017, the Company's management believes that the Company and its Israeli subsidiaries met all conditions of the Law and letters of approval.

As of December 31, 2017, retained earnings of the Company included approximately $698,000 in tax-exempt profits earned by the Company's "Approved Enterprises". If the retained tax-exempt income is distributed, with respect to the "Approved Enterprises" it would be taxed at the corporate tax rate applicable to such profits as if the Company had not elected the alternative tax benefits track, and an income tax liability would have been incurred of approximately $174,500 as of December 31, 2017.

The boards of directors of the Company and its applicable Israeli subsidiaries have decided that their policy is not to declare dividends out of such tax-exempt income. Accordingly, no deferred income taxes have been provided on exempt income attributable to the companies' "Approved Enterprises" and "Privileged Enterprises", as such retained earnings are essentially permanent in duration.

In Israel, income from sources other than the "Approved Enterprise", "Privileged Enterprise" and "Preferred Enterprises" during the benefit period will be subject to tax at the regular corporate tax rate.

In December 2016, the Knesset (Israeli Parliament) approved amendments to the Law that introduce an innovation box regime for intellectual property (IP)-based companies, enhance tax incentives for certain industrial companies and reduce the standard corporate tax rate and certain withholding rates starting in 2017.

Innovation Box Regime Special Technological Preferred Enterprise

The new regime was tailored by the Israeli government to a post-base erosion and profit shifting ("BEPS") world, encouraging multinationals to consolidate IP ownership and profits in Israel along with existing Israeli research and development ("R&D") functions. Tax benefits created to achieve this goal include a reduced corporate income tax rate of 6% on IP-based income and on capital gains from future sale of IP.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 18 - TAXES ON INCOME (Cont.)

A. APPLICABLE TAX LAWS (Cont.)

The 6% rate would apply to qualifying Israeli companies that are part of a group with global consolidated revenue of over NIS 10 billion (approximately US $2.9 billion). Other qualifying companies with global consolidated revenue below NIS 10 billion would be subject to a 12% tax rate. However, if the Israeli company is located in Jerusalem or in certain northern or southern parts of Israel, the tax rate is further reduced to 7.5%. Additionally, withholding tax on dividends for foreign investors would be subject to a reduced rate of 4% for all qualifying companies (unless further reduced by a treaty).

Entering into the regime is not conditioned on making additional investments in Israel, and a company could qualify if it invested at least 7% of the last three years' revenue in R&D (or incurred NIS 75 million in R&D expense per year) and met one of the following three conditions:

1. At least 20% of its employees are R&D employees engaged in R&D (or more than 200 R&D employees);
2. Venture capital investments of NIS 8 million were previously made in the company; or
3. Average annual growth over three years of 25% in sales or employees.

Companies not meeting the above conditions may still be considered as a qualified company at the discretion of the Israeli Innovation Authority of the Ministry of Economy and Industry (formerly, the "Office of the Chief Scientist"). Companies wishing to exit from the regime in the future will not be subject to clawback of tax benefits. The Knesset also approved a stability clause in order to encourage multinationals to invest in Israel. Accordingly, companies will be able to confirm the applicability of tax incentives for a 10-year period under a pre-ruling process. Further, in line with the new Organization for Economic Co-operation and Development ("OECD") Nexus Approach, the Israeli Finance Minister will promulgate regulations to ensure companies are benefiting from the regime to the extent qualifying R&D expenditures are incurred. The regulations were set to be finalized by March 31, 2017, with new amendments to the Law coming into effect after the regulations have been finalized. Accordingly, the new law was not considered enacted at December 31, 2016.

On May 16, 2017, the Knesset Finance Committee approved the regulations effective as of January 1, 2017.

Enhancement of Current Tax Incentives Regime:

Tax incentives in Israel are also available to certain Israeli industrial companies and to R&D centers (operating on a cost plus basis) under two tracks: (i) a Preferred Enterprise and (ii) a Special Preferred Enterprise, aimed at large enterprises that meet certain investment requirements. Accordingly, a Preferred Enterprise is eligible for a reduced corporate income tax rate of 16%. However, if the company is located in Jerusalem or in certain northern or southern parts of Israel, the tax rate was further reduced to 9%. On 15 December 2016, the Finance Committee approved a further 1.5% reduction in the tax rate for such locations, from 9% to 7.5%.

Since the Company and its Israeli subsidiaries are operating under more than one program, and since part of their taxable income is not entitled to tax benefits under the Law and is taxed at the regular tax rates, the effective tax rate is the result of a weighted combination of the various applicable rates and tax exemptions, and the computation is made for income derived from each program on the basis of formulas specified in the law.

The Israeli Parlament enacted a reform to the Law, effective January 2011. According to the reform, a flat rate tax applies to companies eligible for the “Preferred Enterprise” status. In order to be eligible for a “Preferred Enterprise” status, a company must meet minimum requirements to establish that it contributes to the country’s economic growth and is a competitive factor for the Gross Domestic Product (a competitive enterprise).

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 18 - TAXES ON INCOME (Cont.)

A. APPLICABLE TAX LAWS (Cont.)

Israeli companies which currently benefit from an “Approved Enterprise” or “Privileged Enterprise” status and meet the criteria for qualification as a “Preferred Enterprise” can elect to apply the “Preferred Enterprise” benefits by waiving their benefits under the Approved and “Privileged Enterprise” status. The Company and several of its Israeli subsidiaries have elected the “Preferred Enterprise” status.

Benefits granted to a “Preferred Enterprise” include reduced and gradually decreasing tax rates. In peripheral regions (Development Area A) the reduced tax rate was 10% in 2012 and 7% in 2013. In other regions the tax rate was 15% in 2012, and 12.5% in 2013. Following the enactment of the National Priorities Law, effective January 1, 2014, the reduced tax rate is 9% in the Development Area A regions and 16% in other regions. “Preferred Enterprises” in peripheral regions are eligible for Investment Center grants, as well as the applicable reduced tax rates.

A distribution from a “Preferred Enterprise” out of the “Preferred Income” through December 31, 2013, was subject to 15% withholding tax for Israeli-resident individuals and non-Israeli residents (subject to applicable treaty rates) and effective January 1, 2014, is subject to 20% withholding tax for Israeli-resident individuals and non-Israeli residents (subject to applicable treaty rates).

As of December 31, 2017, the Company's management believes that Elbit Systems' and certain of its Israeli subsidiaries' meet the conditions and qualify as a "Special Preferred Technological Enterprise" tax regime. As a result, the primary effect of applying the "Special Preferred Technological Enterprise" tax regime on the Company's deferred tax assets, net, balance as of December 31, 2017, was a reduction in the amount of approximately $9,500.

B. NON-ISRAELI SUBSIDIARIES

Non-Israeli subsidiaries are generally taxed based upon tax laws applicable in their countries of residence.

In December 2017, the Tax Cuts and Jobs Act (the "2017 Tax Act") was enacted. The 2017 Tax Act represents major tax reform legislation that, among other provisions, reduces the U.S. corporate tax rate. The 2017 Tax Act includes a number of changes that impact the Company's U.S. subsidiaries, most notably, a reduction of the U.S. corporate

income tax rate from 35% to 21% effective January 1, 2018.

The 2017 Tax Act also provides for a one-time transition tax on certain foreign earnings and the acceleration of depreciation for certain assets placed into service after September 27, 2017, as well as prospective changes beginning in 2018, including repeal of the domestic manufacturing deduction, acceleration of tax revenue recognition, capitalization of research and development expenditures, additional limitations on executive compensation and limitations on the deductibility of interest.

The Company recognized the income tax effects of the 2017 Tax Act in its 2017 consolidated financial statements in accordance with Staff Accounting Bulletin No. 118, which provides SEC staff guidance for the application of ASC 740, "Income Taxes", in reporting period in which the 2017 Tax Act was enacted. As a result, the Company's financial results reflect in the income tax effects of the 2017 Tax Act for which the accounting under ASC 740 is complete and provisional amounts for those specific income tax effects of the 2017 Tax Act for which the accounting under ASC 740 is incomplete but a reasonable estimate could be determined.

As of December 31, 2017, the Company have not completed its accounting for the tax effects of enactment of the Act; however, in certain cases, as described below, we have made a reasonable estimate of the effects on our existing deferred tax balances.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 18 - TAXES ON INCOME (Cont.)

B. NON-ISRAELI SUBSIDIARIES (Cont.)

The changes to existing U.S. tax laws as a result of the 2017 Tax Act, which the Company believe have the most significant impact on the Company's federal income taxes are related to the reduction of the U.S. corporate income tax rate and such effect on deferred tax assets and liabilities, based on provisional amounts: the Company remeasured certain deferred tax assets, net, based on the rates at which they are expected to reverse in the future, which is generally 21%. However, the Company is still analyzing certain aspects of the 2017 Tax Act and refining its calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The provisional amount recorded related to the remeasurement of the Company's deferred tax assets, net, balance was $10,950, which is included as an increase in income tax expense and a corresponding reduction in the deferred tax assets, net, as of December 31, 2017.

In addition, the Company's estimates may also be affected as it gain a more thorough understanding of the 2017 Tax Act.

C. INCOME FROM CONTINUING OPERATIONS BEFORE TAXES ON INCOME

	Year ended December 31,		
	2017	**2016**	**2015**
Income before taxes on income:			
Domestic	$245,680	$234,643	$189,228
Foreign	39,166	44,558	59,326
	$284,846	$279,201	$248,554

D. TAXES ON INCOME

	Year ended December 31,		
	2017	**2016**	**2015**
Current taxes:			
Domestic	$24,070	$44,095	$34,693
Foreign	12,070	14,454	10,246
	36,140	58,549	44,939
Adjustment for previous years:			

Domestic	(2,481)	(18,630)	(903)
Foreign	(1,849)	8	(455)
	(4,330)	(18,622)	(1,358)
Deferred income taxes:			
Domestic	12,700	4,605	1,842
Foreign [*]	11,075	1,085	812
	23,775	5,690	2,654
Total taxes on income	$55,585	$45,617	$46,235
Total:			
Domestic	$34,289	$30,070	$35,632
Foreign	21,296	15,547	10,603
Total taxes on income	$55,585	$45,617	$46,235

[*] Includes $10,950 in deferred tax asset adjustments in 2017, related to the tax reform in the U.S.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 18 - TAXES ON INCOME (Cont.)

E. UNCERTAIN TAX POSITIONS

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2017	2016
Balance at the beginning of the year	$46,847	$49,813
Additions related to interest and currency translation	5,455	613
Additions based on tax positions taken during a prior period	2,708	14,353
Reductions related to tax positions taken during a prior period	(4,278)	(19,797)
Reductions related to settlement of tax matters	(5,589)	(12,222)
Additions based on tax positions taken during the current period	10,489	14,597
Reductions related to a lapse of applicable statute of limitation	(545)	(510)
Balance at the end of the year	$55,087	$46,847

At December 31, 2017 and 2016, the Company had a liability for unrecognized tax benefits of $55,087 and $46,847, respectively, including an accrual of $2,532 and $1,157 for the payment of related interest and penalties, respectively. The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes.

During 2017 and 2016, the Company and certain of its subsidiaries settled certain income tax matters pertaining to multiple years in Israel and Europe. As a result of the settlement of the tax matters, the Company recorded tax benefits of approximately $5,500 and $12,200 during the years 2017 and 2016, respectively, in the statements of income in “taxes on income”. Following the examination by the Israeli Tax Authority, the Company has applied some of the items for which a settlement was reached to subsequent outstanding years.

The Company operates in multiple jurisdictions throughout the world, and its tax returns are periodically audited or subject to review by both domestic and foreign authorities. Certain Israeli subsidiaries of the Company are currently undergoing tax audits by the Israeli Tax Authority.

As a result of ongoing examinations, tax proceedings in certain countries and additions to unrecognized tax benefits for positions taken and interest and penalties, if any, arising in 2017, it is not possible to estimate the potential net

increase or decrease to the Company's unrecognized tax benefits during the next twelve months.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 18 - TAXES ON INCOME (Cont.)

F. DEFERRED INCOME TAXES

Significant components of net deferred tax assets and liabilities are based on separate tax jurisdictions as follows:

	December 31,	
	2017	**2016**
Deferred tax assets:		
Reserves and allowances	$25,127	$38,441
Inventory allowances	—	3,730
Property, plant and equipment	(2,324)	(2,621)
Other assets	22,194	32,553
Net operating loss carry-forwards	13,687	14,141
	58,684	86,244
Valuation allowance	(7,326)	(6,605)
Net deferred tax assets	51,358	79,639
Deferred tax liabilities:		
Intangible assets	(2,591)	(6,538)
Property, plant and equipment	(10,661)	(11,775)
Reserves and allowances	(4,774)	(4,700)
	(18,026)	(23,013)
Net deferred tax assets	$33,332	$56,626

Deferred tax assets and liabilities are measured based on the enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. As such, during 2017, the Company remeasured its deferred tax assets net, as a result of the enactment of the 2017 Tax Act in the U.S. and applying the provisions of the "Special Preferred Technological Enterprise" tax regime in Israel. The primary effect of the remeasurements was a reduction in deferred tax assets, net, in the aggregate amount of approximately $20,450.

The net tax effect of applying the provisions of the "Special Preferred Technological Enterprise" tax regime in Israel is immaterial as the decrease in current taxes offset the increase in the deferred tax assets.

G. CARRY-FORWARD TAX LOSSES

As of December 31, 2017, Elbit Systems' Israeli subsidiaries had estimated total available carry-forward tax losses of approximately $132,912, and its non-Israeli subsidiaries had estimated available carry-forward tax losses of approximately $34,074. The Company had also carry-forward capital losses of approximately $63,824, for which a full valuation allowance was provided.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 18 - TAXES ON INCOME (Cont.)

H. RECONCILIATION

Reconciliation of the actual tax expense as reported in the statements of operations to the amount computed by applying the Israeli statutory tax rate is as follows:

	Year ended December 31,		
	2017	**2016**	**2015**
Income before taxes as reported in the consolidated statements of income	$284,846	$279,201	$248,554
Statutory tax rate	24.0 %	25.0 %	26.5 %
Theoretical tax expense	$68,363	$69,800	$65,867
Tax benefit arising from reduced rate as an “Approved, Privileged and Preferred Enterprise” and other tax benefits (*)	(15,749)	(16,072)	(20,818)
Tax adjustment in respect of different tax rates for foreign subsidiaries	2,946	3,597	2,433
Changes in carry-forward losses and valuation allowances	4,135	5,290	3,851
Taxes resulting from non-deductible expenses	1,634	3,144	776
Difference in basis of measurement for financial reporting and tax return purposes	(3,257)	135	(849)
Taxes in respect of prior years (See D above)	(4,330)	(18,622)	(1,358)
Other differences, net	1,843	(1,655)	(3,667)
Actual tax expenses	$55,585	$45,617	$46,235
Effective tax rate	19.51 %	16.34 %	18.60 %

(*) Net earnings per share – amounts of the benefit resulting from the Approved, Privileged and Preferred Enterprises:

Basic	$0.37	$0.38	$0.49
Diluted	$0.37	$0.38	$0.49

I. FINAL TAX ASSESSMENTS

Final tax assessments have been received by the Company up to and including the tax year 2014 and by certain subsidiaries up to 2015.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 19 - DERIVATIVE FINANCIAL INSTRUMENTS

A. FAIR VALUE OF DERIVATIVE INSTRUMENTS

Derivative financial instruments are presented as other assets or other payables. For asset derivatives and liability derivatives, the fair value of the Company's outstanding derivative instruments as of December 31, 2017 and December 31, 2016 is summarized below:

	Asset Derivatives (*)		Liability Derivatives (**)	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Derivatives designated as hedging instruments				
Foreign exchange contracts	5,235	13,719	11,025	2,926
Cross-currency interest rate swaps	24,009	10,339	—	1,798
	$29,244	$ 24,058	$11,025	$ 4,724
Derivatives not designated as hedging instruments				
Foreign exchange contracts	718	499	1,175	710
	$718	$ 499	$1,175	$ 710

(*) Presented as part of other receivables and long-term other receivables.
(**) Presented as part of other payables and long-term other payables.

B. EFFECT ON CASH FLOW HEDGING

The effect of derivative instruments on cash flow hedging and the relationship between income and other comprehensive income for the years ended December 31, 2017 and December 31, 2016, is summarized below:

	Gain (Loss) Recognized in Other Comprehensive	Gain (Loss) on Effective Portion of Derivative Reclassified	Ineffective Portion of Gain (Loss) of Derivative and Amount Excluded from Effectiveness

	Income on Effective-Portion of Derivative, net		from Accumulated Other Comprehensive Income (*)		Testing Recognized in Income (**)	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Derivatives designated as hedging instruments:						
Foreign exchange contracts	$27,841	$ 21,891	$55,851	$ 13,653	$(2,419)	$ —
Derivatives not designated as hedging instruments:						
Foreign exchange contracts and other derivatives instruments	$—	$ —	$—	$ —	$(1,494)	$ 1,592

(*) Presented as part of revenues/cost of revenue and equity in net earning of affiliated companies and partnerships.
(**) Presented as part of financial income (expenses), net

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 19 - DERIVATIVE FINANCIAL INSTRUMENTS (Cont.)

C. NET EFFECT OF CROSS-CURRENCY SWAPS

The annual net effect on earnings from the cross-currency swaps was a gain of approximately $8,500, of which approximately $4,535 was offset against exchange rate difference related to Series A Notes and approximately $3,964 was offset against interest expenses.

D. FORWARD CONTRACTS

The notional amounts of outstanding foreign exchange forward contracts at December 31, 2017 and December 31, 2016, is summarized below:

	Forward contracts			
	Buy		**Sell**	
	December 31,		**December 31,**	
	2017	**2016**	**2017**	**2016**
Euro	$81,037	$37,054	$282,760	$89,764
GBP	3,662	4,777	39,226	31,450
NIS	71,200	646,500	—	—
Other	36,555	25,078	61,228	19,260
	$192,454	$713,409	$383,214	$140,474

Note 20 - COMMITMENTS AND CONTINGENT LIABILITIES

A. ROYALTY COMMITMENTS

Elbit Systems and certain Israeli subsidiaries partially finance their research and development expenditures under grant programs sponsored by the Israel Innovation Authority (“IIA”) of the Ministry of Economy and Industry (formerly the "Office of Chief Scientist") for the support of research and development activities conducted in Israel. At the time the grants were received from the IIA, successful development of the related projects was not assured.

In exchange for participation in the programs by the IIA, Elbit Systems and the subsidiaries agreed to pay 2% - 5% of total sales of products developed within the framework of these programs. The royalties will be paid up to a maximum amount equaling 100% to 150% of the grants provided by the IIA, linked to the dollar, bearing annual interest at a rate based on LIBOR. The obligation to pay these royalties is contingent on actual sales of the products, and in the absence of such sales payment of royalties is not required.

In some cases, the Government of Israel's participation (through the IIA) is subject to export sales or other conditions. The maximum amount of royalties is increased in the event of production outside of Israel.

Elbit Systems and certain of its subsidiaries may also be obligated to pay certain amounts to the IMOD and others on certain sales including sales resulting from the development of certain technologies.

Royalties expenses amounted to $10,424, $4,460 and $7,811 in 2017, 2016 and 2015, respectively.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 20 - COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

B. COMMITMENTS IN RESPECT OF LONG-TERM PROJECTS

In connection with projects in certain countries, Elbit Systems and some of its subsidiaries have entered and may enter in the future into “buy-back” or “offset” agreements, required by a number of the Company’s customers for these projects as a condition to the Company obtaining orders for its products and services. These agreements are customary in the Company’s industry and are designed to facilitate economic flow back (buy-back) and/or technology transfer to businesses or government agencies in the applicable country.

These commitments may be satisfied by the Company’s placement of direct work or vendor orders for supplies and/or services, transfer of technology, investments or other forms of assistance in the applicable country. The buy-back rules and regulations, as well as the underlying contracts, may differ from one country to another. The ability to fulfill the buy-back obligations may depend, among other things, on the availability of local suppliers with sufficient capability to meet our requirements and which are competitive in cost, quality and schedule. In certain cases, the Company’s commitments may also be satisfied through transactions conducted by other parties.

The Company does not commit to buy-back agreements until orders for its products or services are definitive, but in some cases the orders for the Company’s products or services may become effective only after the Company’s corresponding buy-back commitments are in effect.

Buy-back programs generally extend at least over the relevant commercial contract period and may provide for penalties in the event the Company fails to perform in accordance with buy-back requirements. In some cases the Company provides guarantees in connection with the performance of its buy-back obligations.

Should the Company be unable to meet such obligations it may be subject to contractual penalties, the Company's guarantees may be drawn upon, and the Company's chances of receiving additional business from the applicable customers could be reduced or, in certain cases, eliminated.

At December 31, 2017, the Company had outstanding buy-back obligations totaling approximately $1,309,000 that extend through 2028.

C. LEGAL CLAIMS

The Company and its subsidiaries are involved in legal claims arising in the ordinary course of business. The Company’s management, based on the opinion of its legal counsel, believes that any financial impact from the settlement of such claims in excess of the accruals recorded in the financial statements will not have a material adverse effect on the financial position or results of operations of the Company. The following is a description of significant legal proceedings.

In 2015, Elbit Systems of America, LLC and Elbit Systems Land & C4I Ltd. (collectively “Elbit”) filed a claim for patent infringement in the U.S. District Court for the Eastern District of Texas (the “Court”) against Hughes Network Systems, LLC (“Hughes”), Black Elk Energy Offshore Operations, LLC (“Black Elk”), Blue Tide Communications, Inc. (“Blue Tide”) and Country Home Investments, Inc. (“Country Home”) (Hughes, Black Elk, Blue Tide and Country Home are referred to collectively as the “defendants”). The claim alleges that the defendants infringed the Company's patents relating to “Reverse Link for a Satellite Communications Network” and “Infrastructure for Telephony Network”. In June 2017, Elbit voluntarily dismissed Blue Tide and Country Home as defendants, and Black Elk was dismissed earlier since it was in bankruptcy. A trial was conducted before a jury from July 31 - August 7, 2017. The jury concluded that Hughes infringed Elbit's patents, rejected Hughes' invalidity arguments and returned a damages verdict in Elbit's favor of $21,075 . Elbit sought additional post verdict damages, interest and certain attorneys' fees and costs in excess of an additional $20,000 beyond the jury verdict. Hughes filed motions for a judgment in its favor as a matter of law and for a new trial. The court is expected to rule on the various motions by the middle of 2018.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 20 - COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

D. LEASE COMMITMENTS

The future minimum lease commitments of the Company under various non-cancelable operating lease agreements in respect of premises, motor vehicles and office equipment as of December 31, 2017, are as follows:

2018	$60,366
2019	53,806
2020	38,434
2021	24,280
2022 and after	118,142
	$295,028

Lease expenses for the years ended December 31, 2017, 2016 and 2015 amounted to $47,479, $44,614 and $37,169, respectively.

E. GUARANTEES

(1) As of December 31, 2017, guarantees in the amount of approximately $1,398,600 were issued by banks and other financial institutions on behalf of the Company and certain of its subsidiaries mainly in order to secure certain advances from customers and performance bonds.

(2) The Company has provided, on a basis proportional to its ownership interest, guarantees for one of its investees in respect of credit lines granted by banks in the aggregate amount of $4,207 as of December 31, 2016. As of December 31, 2017, the guarantees expired.

F. COVENANTS

In connection with bank credits and loans, including performance guarantees issued by banks and bank guarantees in order to secure certain advances from customers, the Company and certain subsidiaries are obligated to meet certain financial covenants. Such covenants include requirements for shareholders' equity, current ratio, operating profit

margin, tangible net worth, EBITDA, interest coverage ratio and total leverage.

As of December 31, 2017, the Company met all financial covenants.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 20 - COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

G. CONTRACTUAL OBLIGATIONS

Substantially all of the Company's purchase commitments relate to obligations under purchase orders and subcontracts entered into by the Company. These purchase orders and subcontracts are typically in standard formats proposed by the Company, with the subcontracts and purchase orders also reflecting provisions from the Company's applicable prime contract that apply on a flow down basis to subcontractors and vendors. The terms typically included in these purchase orders and subcontracts are consistent with Uniform Commercial Code provisions in the United States for sales of goods, as well as with specific terms called for by its customers in various countries. These terms include the Company's right to terminate the purchase order or subcontract in the event of the vendor's or subcontractor's default, and typically include the Company's right to terminate the order or subcontract for the Company's convenience (or if the Company's prime contractor has so terminated the prime contract). Such purchase orders and subcontracts typically are not subject to variable price provisions. As of December 31, 2017 and 2016, the purchase commitments were $1,592,000 and $1,313,000, respectively.

H. FIXED LIENS

In order to secure bank loans and bank and other financial institutions guarantees in the amount of approximately $1,398,600 as of December 31, 2017, certain Company entities recorded fixed liens on most of their machinery and equipment, mortgages on most of their real estate and floating charges on most of their assets.

I. LIEN ON APPROVED ENTERPRISES

A lien on the Company's Approved Enterprises has been registered in favor of the State of Israel (see Note 18(A)(3)).

Note 21 - SHAREHOLDERS' EQUITY

A. SHARE CAPITAL
Ordinary shares confer upon their holders voting rights and the right to receive dividends.

B. 2007 STOCK OPTION PLAN

In 2007 Elbit Systems' shareholders approved an employee Stock Option Plan (the “2007 Stock Option Plan”). As of December 31, 2017, there were 2,500 options remaining unexercised under the 2007 Stock Option Plan.

Compensation expenses related to the 2007 Option Plan amounting to $13, $70 and $139 were recognized during the years ended December 31, 2017, 2016 and 2015, respectively.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 21 - SHAREHOLDERS' EQUITY (Cont.)

C. COMPUTATION OF EARNINGS PER SHARE

Computation of basic and diluted net earnings per share:

	Year ended December 31, 2017			Year ended December 31, 2016			Year ended December 31, 2015		
	Net income to shareholders of ordinary shares	Weighted average number of shares (*)	Per Share amount	Net income to shareholders of ordinary shares	Weighted average number of shares (*)	Per Share amount	Net income to shareholders of ordinary shares	Weighted average number of shares (*)	Per Share amount
Basic net earnings	$239,109	42,750	$ 5.59	$236,909	42,742	$ 5.54	$202,509	42,711	$ 4.74
Effect of dilutive securities:									
Employee stock options	—	3		—	10		—	22	
Diluted net earnings	$239,109	42,753	$ 5.59	$236,909	42,752	$ 5.54	$202,509	42,733	$ 4.74

(*) In thousands

D. 2012 PHANTOM BONUS RETENTION PLAN

In August 2012, the Company's Board of Directors approved a "Phantom Bonus Retention Plan" for Senior Officers (the "Plan"). In August 2013, the Plan was extended to include other officers of the Company.

The Plan provides for phantom bonus units which entitle the recipients to receive payment in cash of an amount reflecting the "benefit factor", which is linked to the performance of Elbit Systems' stock price over the applicable periods (tranches) under the Plan. As of December 31, 2017, 2,335,010 phantom bonus units of the Plan were granted with a weighted average basic price per unit, as defined in the Plan, of $56.87.

The benefit earned for each year of a tranche is the difference between the basic price and the closing price of the Company's share for that year, as defined in the Plan, not to exceed an increase of 100% in the Company's share price

from the basic price of the first year of a tranche.

The Company recorded an amount of approximately $28,254, $32,065 and $25,893 in the years ended December 31, 2017, 2016 and 2015, respectively, as compensation costs related to the phantom bonus units granted under the Plan, as follows:

	Year ended December 31,		
	2017	**2016**	**2015**
Cost of revenues	$10,199	$10,056	$5,859
General and administration expenses	13,948	18,024	17,864
Marketing and selling	4,107	3,985	2,170
	$28,254	$32,065	$25,893

E. DIVIDEND POLICY

Dividends declared by Elbit Systems are paid subject to statutory limitations. Elbit Systems' Board of Directors has determined not to declare dividends out of tax exempt earnings.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 22 - MAJOR CUSTOMER AND GEOGRAPHIC INFORMATION

The Company operates in one reportable segment (see Note 1 for a brief description of the Company's business).

A. REVENUES ARE ATTRIBUTED TO GEOGRAPHIC AREAS BASED ON LOCATION OF THE END CUSTOMERS AS FOLLOWS:

	Year ended December 31,		
	2017	**2016**	**2015**
North America	$827,608	$825,665	$838,893
Asia-Pacific	670,490	801,639	800,333
Israel	741,873	709,562	616,611
Europe	763,963	640,763	497,559
Latin America	193,369	212,773	325,371
Other	180,522	69,817	28,814
	$3,377,825	$3,260,219	$3,107,581

B. REVENUES ARE GENERATED BY THE FOLLOWING AREAS OF OPERATIONS:

	Year ended December 31,		
	2017	**2016**	**2015**
Airborne systems	$1,272,075	$1,242,286	$1,225,678
C4ISR systems	1,144,789	1,220,917	995,200
Land systems	503,878	408,003	558,658
Electro-optic systems	341,215	276,029	231,939
Other (*)	115,868	112,984	96,106
	$3,377,825	$3,260,219	$3,107,581

(*) Mainly non-defense engineering and production services.

C. MAJOR CUSTOMER DATA AS A PERCENTAGE OF TOTAL REVENUES:

	Year ended December 31,

	2017	2016	2015
IMOD	19%	18%	17%

D. LONG-LIVED ASSETS BY GEOGRAPHIC AREAS:

	Year ended December 31,		
	2017	2016	2015
Israel	$922,367	$943,381	$946,870
U.S.	147,255	149,581	157,835
Other	178,497	107,545	115,330
	$1,248,119	$1,200,507	$1,220,035

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars (In thousands, except per share data)

Note 23 - RESEARCH AND DEVELOPMENT, NET

	Year ended December 31,		
	2017	**2016**	**2015**
Total expenses	$301,382	$291,749	$277,837
Less - grants and participations	(36,322)	(35,957)	(34,421)
	$265,060	$255,792	$243,416

Note 24 - FINANCIAL EXPENSES, NET

	Year ended December 31,		
	2017	**2016**	**2015**
Expenses:			
Interest on long-term bank debt	$(2,779)	$(1,489)	$(2,365)
Interest on Series A Notes, net	(6,112)	(6,565)	(6,812)
Interest on short-term bank credit and loans	(8,432)	(5,457)	(2,604)
Loss from exchange rate differences, net	(4,487)	(2,224)	(6,341)
Other	(14,253)	(9,495)	(4,144)
	(36,063)	(25,230)	(22,266)
Income:			
Interest on cash, cash equivalents and bank deposits	751	933	850
Other	810	555	1,176
	1,561	1,488	2,026
	$(34,502)	$(23,742)	$(20,240)

Note 25 - OTHER INCOME, NET

	Year ended December 31,		
	2017	**2016**	**2015**
Capital gain (*)	$—	$3,868	$133
Other	48	99	83
	$48	$3,967	$216

(*) During 2016, the Company recognized a gain from the sale of land and property.

ELBIT SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 26 - RELATED PARTIES' TRANSACTIONS AND BALANCES

Transactions:	Year ended December 31,		
	2017	2016	2015
Income -			
Sales to related-party companies (*)	$179,867	$176,429	$150,999
Participation in expenses	$2,625	$2,502	$2,257
Cost and expenses -			
Supplies from related parties (**)	$16,900	$20,224	$14,890

Balances:	December 31,	
	2017	2016
Trade receivables and other receivables (*)	$77,470	$88,876
Trade payables and advances (**)	$28,675	$16,110

The sales to the Company's related parties in respect of U.S. government defense contracts are made on the basis of cost.

(*) A significant portion of the sales and balances include sales of helmet mounted cueing systems purchased from the Company by 50%-owned subsidiaries of ESA.

(**) Includes mainly electro-optics components and sensors, purchased by the Company from a 50%-owned Israeli partnership, and electro-optics products purchased by the Company from another 50%-owned Israeli subsidiary.

Note 27 - SUBSEQUENT EVENT

On February 27, 2018, subsequent to the balance sheet date, the Board of Directors of the Company approved the 2018 Equity Incentive Plan for Executive Officers, to allocate up to 1,000,000 options to be exercised using a Net-Exercise Mechanism, which entitles the recipients to exercise the options for an amount of shares reflecting only the benefit factor.

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ELBIT SYSTEMS LTD. AND SUBSIDIARIES

Schedule II – Valuation and Qualifying Accounts

(In thousands of U.S. dollars)

Description	Column A Balance at Beginning of Period	Column B Additions (Charged to Costs and Expenses)	Column C Deductions (Write-Offs and Actual Losses Incurred)	Column D Additions Resulting from Acquisitions	Column E Balance at End of Period
Year ended December 31, 2017:					
Provisions for Losses on Long-Term Contracts (*)	83,348	14,149	50,719	—	46,778
Provisions for Claims and Potential Contractual Penalties and Others	4,484	1,186	264	—	5,406
Allowance for Doubtful Accounts	7,416	2,541	372	—	9,585
Valuation Allowance on Deferred Taxes	6,605	798	77	—	7,326
Year ended December 31, 2016:					
Provisions for Losses on Long-Term Contracts (*)	130,274	20,775	67,701	—	83,348
Provisions for Claims and Potential Contractual Penalties and Others	7,501	158	3,175	—	4,484
Allowance for Doubtful Accounts	6,738	1,554	876	—	7,416
Valuation Allowance on Deferred Taxes	6,540	2,641	2,576	—	6,605
Year ended December 31, 2015:					
Provisions for Losses on Long-Term Contracts (*)	135,548	20,588	31,961	6,099	130,274
Provisions for Claims and Potential Contractual Penalties and Others	7,557	1,860	1,916	—	7,501
Allowance for Doubtful Accounts	7,445	1,330	2,037	—	6,738
Valuation Allowance on Deferred Taxes	5,424	3,770	2,654	—	6,540

(*) An amount of $22,690, $43,513 and $80,464 as of December 31, 2017, 2016 and 2015, respectively, is presented as a deduction from inventories, and an amount of $24,088, $39,835 and $49,810 as of December 31, 2017, 2016 and 2015, respectively, is presented as part of other payables and accrued expenses.