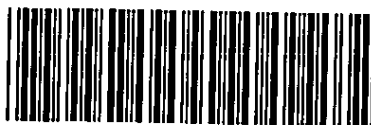


Company Registration No. 2691211 (England and Wales)

**UAV ENGINES LIMITED**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

TUESDAY



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# UAV ENGINES LIMITED

## COMPANY INFORMATION

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### Directors

I Dvir  
J Gaspar  
S Sarid

### Secretary

C J Biddulph

### Company number

2691211

### Registered office

Lynn Lane  
Shenstone  
Lichfield  
Staffordshire  
WS14 0DT

### Auditors

Edwards  
Harmony House  
34 High Street  
Aldridge  
West Midlands  
WS9 8LZ

### Business address

Lynn Lane  
Shenstone  
Lichfield  
Staffordshire  
WS14 0DT

### Bankers

HSBC plc  
49 Market Street  
Lichfield  
Staffordshire  
WS13 6LB

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# **UAV ENGINES LIMITED**

## **CONTENTS**

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|                                   | <b>Page</b> |
|-----------------------------------|-------------|
| Directors' report                 | 1 - 2       |
| Independent auditors' report      | 3 - 4       |
| Profit and loss account           | 5           |
| Balance sheet                     | 6           |
| Cash flow statement               | 7           |
| Notes to the cash flow statement  | 8           |
| Notes to the financial statements | 9 - 16      |

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# **UAV ENGINES LIMITED**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 DECEMBER 2008**

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The directors present their report and financial statements for the year ended 31 December 2008.

#### **Principal activities and review of the business**

The principal activity of the company continued to be that of the design, manufacture and sale of high performance rotary engines for unmanned air vehicles.

The results for the year and the financial position at the year end were considered satisfactory by the directors who expect continued growth in the foreseeable future.

The market for high performance rotary engines for unmanned air vehicles, is driven by the level of conflict in the world. UAV offers a unique product that controls a large percentage of sales within the unmanned air vehicles market. If all conflict in the world were to cease, the directors' are of the opinion that the company would still be able to operate profitably, via the sale of spare parts to maintain engines sold previously.

Export sales are subject to regulation from the Department of Trade and Industry, this is an area that could provide uncertainty, although no major problems have been encountered in the recent past.

Gross profit margin (gross profit as a percentage of turnover) for 2008 is 33.91% (2007: 39.84%). This is in line with the levels of gross profit achieved by the company in recent years. The margin is expected to remain stable in the coming year. Source data is taken from the audited financial statements.

Annualised sales growth (the annual increase in revenue as a percentage of revenue from the prior year) for 2008 is 0.44% (2007: 75.01%). Sales have continued to grow due to the continuing conflicts in the Middle East and around the World. Source data is taken from the audited financial statements.

#### **Results and dividends**

The results for the year are set out on page 5.

An interim ordinary dividend was paid amounting to £4,500,000. The directors do not recommend payment of a final dividend.

#### **Research and development**

The company continues to commit significant resource and time to the development of new engines and product enhancements that reinforce the competitive edge of the company's range of engines.

#### **Financial risk management objectives and policies**

The company finances its operations through retained profits and the use of local currency operational bank accounts, where necessary.

The directors' objectives are to retain sufficient liquid funds to enable the company to meet its day to day obligations as they fall due and to maximise returns on funds. They also seek to minimise the company's exposure to any foreign exchange movements by carefully managing the timing of remitting funds to the United Kingdom.

The company's funds are held primarily in short term deposit accounts. The directors believe that this gives them the flexibility to release cash resources at short notice and also allows them to take advantage of changing conditions in the finance markets as they arise.

# UAV ENGINES LIMITED

## DIRECTORS' REPORT (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2008**

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### Directors

The following directors have held office since 1 January 2008:

I Dvir  
J Gaspar  
S Sarid

### Auditors

In accordance with the company's articles, a resolution proposing that Edwards be reappointed as auditors of the company will be put at a General Meeting.

### Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Statement of disclosure to auditors

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



I Dvir

Director

9 February 2009

# **UAV ENGINES LIMITED**

## **INDEPENDENT AUDITORS' REPORT**

### **TO THE SHAREHOLDERS OF UAV ENGINES LIMITED**

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We have audited the financial statements of UAV Engines Limited for the year ended 31 December 2008 set out on pages 5 to 16. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

# UAV ENGINES LIMITED

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

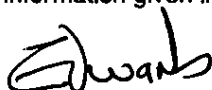
### TO THE SHAREHOLDERS OF UAV ENGINES LIMITED

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#### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.



**Edwards**

9 February 2009

Chartered Accountants  
**Registered Auditor**

Harmony House  
34 High Street  
Aldridge  
West Midlands  
WS9 8LZ

# UAV ENGINES LIMITED

## PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2008

|   | Notes | 2008<br>£   | 2007<br>£   |
|---|-------|-------------|-------------|
| Turnover                                      | 2     | 12,686,663  | 12,631,157  |
| Cost of sales                                 |       | (8,382,642) | (7,624,417) |
| Gross profit                                  |       | 4,304,021   | 5,006,740   |
| Administrative expenses                       |       | (1,343,904) | (1,223,109) |
| Operating profit                              | 3     | 2,960,117   | 3,783,631   |
| Other interest receivable and similar income  | 4     | 251,247     | 211,079     |
| Interest payable and similar charges          | 5     | (16,132)    | -           |
| Profit on ordinary activities before taxation |       | 3,195,232   | 3,994,710   |
| Tax on profit on ordinary activities          | 6     | (952,673)   | (1,223,175) |
| Profit for the year                           | 15    | 2,242,559   | 2,771,535   |

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

# UAV ENGINES LIMITED

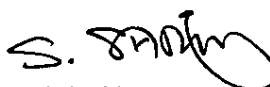
## BALANCE SHEET

AS AT 31 DECEMBER 2008

|   | Notes | 2008<br>£   | £         | 2007<br>£   | £         |
|---|-------|-------------|-----------|-------------|-----------|
| <b>Fixed assets</b>                                   |       |             |           |             |           |
| Tangible assets                                       | 8     |             | 553,712   |             | 507,013   |
| <b>Current assets</b>                                 |       |             |           |             |           |
| Stocks  | 9     | 1,945,434   |           | 1,086,081   |           |
| Debtors   | 10    | 3,774,478   |           | 6,802,488   |           |
| Cash at bank and in hand                              |       | 587,269     |           | 840,960     |           |
|   |       | 6,307,181   |           | 8,729,529   |           |
| <b>Creditors: amounts falling due within one year</b> | 11    | (2,060,315) |           | (2,178,523) |           |
| <b>Net current assets</b>                             |       |             | 4,246,866 |             | 6,551,006 |
| <b>Total assets less current liabilities</b>          |       |             | 4,800,578 |             | 7,058,019 |
|   |       |             | 4,800,578 |             | 7,058,019 |
| <b>Capital and reserves</b>                           |       |             |           |             |           |
| Called up share capital                               | 14    |             | 312,500   |             | 312,500   |
| Profit and loss account                               | 15    |             | 4,488,078 |             | 6,745,519 |
| <b>Shareholders' funds</b>                            | 16    |             | 4,800,578 |             | 7,058,019 |

Approved by the Board and authorised for issue on 9 February 2009

  
I Dvir  
Director

  
S Sarid  
Director

# UAV ENGINES LIMITED

## CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

|  | £         | 2008<br>£   | £         | 2007<br>£ |
|--|-----------|-------------|-----------|-----------|
| <b>Net cash inflow from operating activities</b>                                     |           | 5,459,910   |           | 1,299,054 |
| <b>Returns on Investments and servicing of finance</b>                               |           |             |           |           |
| Interest received  | 251,247   |             | 211,079   |           |
| Interest paid  | (16,132)  |             | -         |           |
| <b>Net cash inflow for returns on investments and servicing of finance</b>           |           | 235,115     |           | 211,079   |
| <b>Taxation</b>  |           | (1,091,356) |           | (782,704) |
| <b>Capital expenditure</b>   |           |             |           |           |
| Payments to acquire tangible assets  | (357,390) |             | (354,420) |           |
| Receipts from sales of tangible assets   | 30        |             | -         |           |
| <b>Net cash outflow for capital expenditure</b>                                      |           | (357,360)   |           | (354,420) |
| <b>Equity dividends paid</b>   |           | (4,500,000) |           | -         |
| <b>Net cash (outflow)/inflow before management of liquid resources and financing</b> |           | (253,691)   |           | 373,009   |
| <b>(Decrease)/increase in cash in the year</b>                                       |           | (253,691)   |           | 373,009   |

# UAV ENGINES LIMITED

## NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

| 1 | Reconciliation of operating profit to net cash inflow from operating activities | 2008             | 2007             |
|---|---|------------------|------------------|
|   |   | £                | £                |
|   | Operating profit  | 2,960,117        | 3,783,631        |
|   | Depreciation of tangible assets   | 310,691          | 151,281          |
|   | Profit on disposal of tangible assets   | (30)             | -                |
|   | (Increase)/decrease in stocks   | (859,353)        | 275,315          |
|   | Decrease/(increase) in debtors  | 3,052,010        | (3,470,907)      |
|   | (Decrease)/Increase in creditors within one year                                | (3,525)          | 559,734          |
|   | <b>Net cash inflow from operating activities</b>                                | <b>5,459,910</b> | <b>1,299,054</b> |

| 2 | Analysis of net funds    | 1 January 2008 | Cash flow        | Other non-cash changes | 31 December 2008 |
|---|--------------------------|----------------|------------------|------------------------|------------------|
|   |                          | £              | £                | £                      | £                |
|   | Net cash:                |                |                  |                        |                  |
|   | Cash at bank and in hand | 840,960        | (253,691)        | -                      | 587,269          |
|   | <b>Net funds</b>         | <b>840,960</b> | <b>(253,691)</b> | <b>-</b>               | <b>587,269</b>   |

| 3 | Reconciliation of net cash flow to movement in net funds | 2008             | 2007           |
|---|--|------------------|----------------|
|   |  | £                | £              |
|   | (Decrease)/Increase in cash in the year                  | (253,691)        | 373,009        |
|   | <b>Movement in net funds in the year</b>                 | <b>(253,691)</b> | <b>373,009</b> |
|   | Opening net funds  | 840,960          | 467,951        |
|   | <b>Closing net funds</b>                                 | <b>587,269</b>   | <b>840,960</b> |

# UAV ENGINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

---

### 1 Accounting policies

#### 1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

#### 1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated).

#### 1.3 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

#### 1.4 Research and development

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the company is expected to benefit.

#### 1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

|                                |                      |
|--------------------------------|----------------------|
| Computer equipment             | 33.3% Straight line  |
| Plant and machinery            | 10-20% Straight line |
| Fixtures, fittings & equipment | 10-20% Straight line |
| Motor vehicles                 | 20% Straight line    |

#### 1.6 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

#### 1.7 Stock and work in progress

Stock and work in progress are valued at the lower of cost and net realisable value.

#### 1.8 Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the year in accordance with Financial Reporting Standard 17.

#### 1.9 Deferred taxation

Deferred taxation is provided at appropriate rates on all timing differences using the liability method only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

#### 1.10 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

# UAV ENGINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2008

### 1 Accounting policies (continued)

#### 1.11 Warranty provision

Provision is made for the estimated future cost of carrying out warranty work on engines previously sold and still under warranty.

### 2 Turnover

Turnover is attributable to the principal activity of the company.

#### Geographical market

|                          | Turnover<br>2008<br>£ | 2007<br>£         |
|--------------------------|-----------------------|-------------------|
| United Kingdom           | 205,929               | 270,355           |
| United States of America | 11,083,919            | 11,190,569        |
| Europe                   | 1,102,441             | 776,522           |
| Rest of the World        | 294,374               | 393,711           |
|                          | <u>12,686,663</u>     | <u>12,631,157</u> |

| 3 Operating profit   | 2008<br>£       | 2007<br>£    |
|--|-----------------|--------------|
| Operating profit is stated after charging:                       |                 |              |
| Depreciation of tangible assets                                  | 310,691         | 151,281      |
| Research and development   | 231,229         | 212,043      |
| Operating lease rentals  | 77,087          | 54,593       |
| Auditors' remuneration (including expenses and benefits in kind) | 8,450           | 11,100       |
| and after crediting:   |                 |              |
| Profit on disposal of tangible assets                            | (30)            | -            |
| Profit on foreign exchange transactions                          | <u>(11,343)</u> | <u>(245)</u> |

| 4 Investment Income | 2008<br>£      | 2007<br>£      |
|---------------------|----------------|----------------|
| Bank interest       | 46,893         | 52,839         |
| Other interest      | 204,354        | 158,240        |
|                     | <u>251,247</u> | <u>211,079</u> |

# UAV ENGINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2008

|          |   |                   |                   |
|----------|---|-------------------|-------------------|
| <b>5</b> | <b>Interest payable</b>   | <b>2008</b>       | <b>2007</b>       |
|          |   | <b>£</b>          | <b>£</b>          |
|          | On overdue tax  | 16,132            | -                 |
|          |   | <u>          </u> | <u>          </u> |
| <b>6</b> | <b>Taxation</b>   | <b>2008</b>       | <b>2007</b>       |
|          |   | <b>£</b>          | <b>£</b>          |
|          | <b>Domestic current year tax</b>  |                   |                   |
|          | U.K. corporation tax  | 976,673           | 1,231,356         |
|          |   | <u>          </u> | <u>          </u> |
|          | <b>Current tax charge</b>   | 976,673           | 1,231,356         |
|          | <b>Deferred tax</b>   |                   |                   |
|          | Deferred tax charge/credit current year   | (24,000)          | (8,181)           |
|          |   | <u>          </u> | <u>          </u> |
|          |   | 952,673           | 1,223,175         |
|          |   | <u>          </u> | <u>          </u> |
|          | <b>Factors affecting the tax charge for the year</b>  |                   |                   |
|          | Profit on ordinary activities before taxation   | 3,195,232         | 3,994,710         |
|          |   | <u>          </u> | <u>          </u> |
|          | Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28.50% (2007 - 30.00%) | 910,641           | 1,198,413         |
|          |   | <u>          </u> | <u>          </u> |
|          | Effects of:   |                   |                   |
|          | Non deductible expenses   | 36,628            | 28,198            |
|          | Depreciation add back   | 88,547            | 45,384            |
|          | Capital allowances  | (59,049)          | (40,639)          |
|          | Other tax adjustments   | (94)              | -                 |
|          |   | <u>          </u> | <u>          </u> |
|          |   | 66,032            | 32,943            |
|          |   | <u>          </u> | <u>          </u> |
|          | <b>Current tax charge</b>   | 976,673           | 1,231,356         |
|          |   | <u>          </u> | <u>          </u> |
| <b>7</b> | <b>Dividends</b>  | <b>2008</b>       | <b>2007</b>       |
|          |   | <b>£</b>          | <b>£</b>          |
|          | Ordinary interim paid   | 4,500,000         | -                 |
|          |   | <u>          </u> | <u>          </u> |

# UAV ENGINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2008

### 8 Tangible fixed assets

|                       | Computer<br>equipment | Plant and<br>machinery | Fixtures,<br>fittings &<br>equipment | Motor<br>vehicles | Total     |
|-----------------------|-----------------------|------------------------|--------------------------------------|-------------------|-----------|
|                       | £                     | £                      | £                                    | £                 | £         |
| <b>Cost</b>           |                       |                        |                                      |                   |           |
| At 1 January 2008     | 212,355               | 557,918                | 473,270                              | 10,499            | 1,254,042 |
| Additions             | 15,964                | 67,590                 | 273,836                              | -                 | 357,390   |
| Disposals             | -                     | -                      | -                                    | (10,499)          | (10,499)  |
| At 31 December 2008   | 228,319               | 625,508                | 747,106                              | -                 | 1,600,933 |
| <b>Depreciation</b>   |                       |                        |                                      |                   |           |
| At 1 January 2008     | 117,141               | 399,382                | 221,231                              | 9,275             | 747,029   |
| On disposals          | -                     | -                      | -                                    | (10,499)          | (10,499)  |
| Charge for the year   | 49,279                | 23,772                 | 236,416                              | 1,224             | 310,691   |
| At 31 December 2008   | 166,420               | 423,154                | 457,647                              | -                 | 1,047,221 |
| <b>Net book value</b> |                       |                        |                                      |                   |           |
| At 31 December 2008   | 61,899                | 202,354                | 289,459                              | -                 | 553,712   |
| At 31 December 2007   | 95,214                | 158,536                | 252,039                              | 1,224             | 507,013   |

### 9 Stocks and work in progress

|                               | 2008<br>£        | 2007<br>£        |
|-------------------------------|------------------|------------------|
| Raw materials and consumables | 1,650,444        | 991,721          |
| Work in progress              | 294,990          | 94,360           |
|                               | <u>1,945,434</u> | <u>1,086,081</u> |

# UAV ENGINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2008

| 10 Debtors  | 2008<br>£        | 2007<br>£        |
|---|------------------|------------------|
| Trade debtors   | 2,389,121        | 2,666,855        |
| Amounts owed by parent and fellow subsidiary undertakings | 837,946          | 3,765,672        |
| Other debtors   | 301,442          | 231,766          |
| Prepayments and accrued income                            | 155,969          | 72,195           |
| Deferred tax asset (see note 12)                          | 90,000           | 66,000           |
|   | <u>3,774,478</u> | <u>6,802,488</u> |

The deferred tax asset relates to the excess of depreciation charged in the accounts, over the tax allowances claimed for corporation tax. These will be recoverable in the foreseeable future.

In addition the company has a policy for the warranty of its products sold, which is not allowable for corporation tax. As the true cost becomes known the tax relief will be recoverable.

| 11 Creditors: amounts falling due within one year | 2008<br>£        | 2007<br>£        |
|---|------------------|------------------|
| Trade creditors                                   | 979,864          | 1,128,375        |
| Corporation tax                                   | 516,673          | 631,356          |
| Other taxes and social security costs             | 39,615           | 39,198           |
| Other creditors                                   | 50,533           | 46,829           |
| Accruals and deferred income                      | 473,630          | 332,765          |
|   | <u>2,060,315</u> | <u>2,178,523</u> |

# UAV ENGINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2008

### 12 Provisions for liabilities and charges

The deferred tax asset (included in debtors, note 10) is made up as follows:

|                             | 2008<br>£       |
|-----------------------------|-----------------|
| Balance at 1 January 2008   | (66,000)        |
| Profit and loss account     | (24,000)        |
|                             | <u>(90,000)</u> |
| Balance at 31 December 2008 | <u>(90,000)</u> |

|                                | 2008<br>£       | 2007<br>£       |
|--------------------------------|-----------------|-----------------|
| Decelerated capital allowances | (30,000)        | (14,000)        |
| Other timing differences       | (60,000)        | (52,000)        |
|                                | <u>(90,000)</u> | <u>(66,000)</u> |

### 13 Pension and other post-retirement benefit commitments

#### Defined contribution

|   | 2008<br>£     | 2007<br>£     |
|---|---------------|---------------|
| Contributions payable by the company for the year | 19,922        | 26,985        |
|   | <u>19,922</u> | <u>26,985</u> |

### 14 Share capital

|   | 2008<br>£      | 2007<br>£      |
|---|----------------|----------------|
| <b>Authorised</b>                         |                |                |
| 312,500 Ordinary shares of £1 each        | 312,500        | 312,500        |
|   | <u>312,500</u> | <u>312,500</u> |
| <b>Allotted, called up and fully paid</b> |                |                |
| 312,500 Ordinary shares of £1 each        | 312,500        | 312,500        |
|   | <u>312,500</u> | <u>312,500</u> |

# UAV ENGINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2008

### 15 Statement of movements on profit and loss account

|                             | Profit and<br>loss<br>account<br>£ |
|-----------------------------|------------------------------------|
| Balance at 1 January 2008   | 6,745,519                          |
| Profit for the year         | 2,242,559                          |
| Dividends paid              | (4,500,000)                        |
| Balance at 31 December 2008 | <u>4,488,078</u>                   |

### 16 Reconciliation of movements in shareholders' funds

|  | 2008<br>£          | 2007<br>£        |
|--|--------------------|------------------|
| Profit for the financial year                      | 2,242,559          | 2,771,535        |
| Dividends  | (4,500,000)        | -                |
| Net (depletion in)/addition to shareholders' funds | <u>(2,257,441)</u> | <u>2,771,535</u> |
| Opening shareholders' funds                        | 7,058,019          | 4,286,484        |
| Closing shareholders' funds                        | <u>4,800,578</u>   | <u>7,058,019</u> |

### 17 Financial commitments

At 31 December 2008 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2009:

|                                | Land and buildings |               |
|--------------------------------|--------------------|---------------|
|                                | 2008<br>£          | 2007<br>£     |
| Operating leases which expire: |                    |               |
| Between two and five years     | <u>70,116</u>      | <u>70,116</u> |

# UAV ENGINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2008

### 18 Employees

#### Number of employees

The average monthly number of employees (including directors) during the year was:

|                | 2008<br>Number | 2007<br>Number |
|----------------|----------------|----------------|
| Administration | 6              | 6              |
| Manufacturing  | 35             | 30             |
|                | <u>41</u>      | <u>36</u>      |

#### Employment costs

|                       | 2008<br>£        | 2007<br>£        |
|-----------------------|------------------|------------------|
| Wages and salaries    | 1,208,898        | 1,055,211        |
| Social security costs | 126,080          | 111,824          |
| Other pension costs   | 19,922           | 26,985           |
|                       | <u>1,354,900</u> | <u>1,194,020</u> |

### 19 Control

The immediate parent is Silver Arrow Partnership Limited, registered in Israel. The ultimate holding company is Elbit Systems Limited, incorporated in Israel.

### 20 Related party transactions

During the year UAV Engines Limited made sales of £346,921 (2007: £273,471) to and purchases of £785,716 (2007: £835,716) from Silver Arrow Partnership Limited, the immediate parent company. There was also interest received of £204,354 (2007: £143,839) from Silver Arrow Partnership Limited, in relation to a loan advanced to them.

At the year end there was a balance of £837,946 (2007: £3,765,672) due from Silver Arrow Partnership Limited.