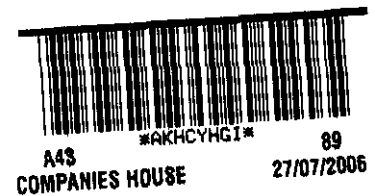


UAV ENGINES LIMITED
DIRECTORS' REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

Company Registration No. 2691211 (England and Wales)



Edwards
Chartered Accountants
Registered Auditors

UAV ENGINES LIMITED

COMPANY INFORMATION

Directors

I Dvir
J Gaspar
A Dagan

Secretary

C J Biddulph

Company number

2691211

Registered office

Lynn Lane
Shenstone
Lichfield
Staffordshire
WS14 0DT

Auditors

Edwards
Barclays Bank Chambers
22a High Street
Aldridge
West Midlands
WS9 8NE

Business address

Lynn Lane
Shenstone
Lichfield
Staffordshire
WS14 0DT

Bankers

Lloyds TSB plc
30 High Street
Coventry
CV1 5RA

UAV ENGINES LIMITED

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UAV ENGINES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2004

The directors present their report and financial statements for the year ended 31 December 2004.

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.

Results and dividends

The results for the year are set out on page 4.

The directors do not recommend payment of an ordinary dividend.

Future developments

The company shall continue in its policy of investing in the development of new engines.

Directors

The following directors have held office since 1 January 2004:

I Dvir
J Gaspar
A Dagan

Directors' interests

There are no directors' interests requiring disclosure under the Companies Act 1985.

	Ordinary shares of £ 1 each	
	31 December 2004	1 January 2004
I Dvir	-	-
J Gaspar	-	-
A Dagan	-	-

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Edwards be reappointed as auditors of the company will be put to the Annual General Meeting.

UAV ENGINES LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

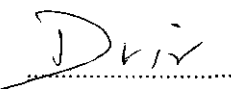
Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which 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 which disclose with reasonable accuracy at any time the financial position of the company and to 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.

On behalf of the board

Signature: 
I Dvir
Director
Date: 23 May 2005

UAV ENGINES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UAV ENGINES LIMITED

We have audited the financial statements of UAV Engines Limited on pages 4 to 15 for the year ended 31 December 2004. These financial statements have been prepared under the historical cost convention and 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 auditor's 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

As described in the statement of directors' responsibilities on page 2 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company 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 United Kingdom Auditing Standards 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Edwards



Chartered Accountants
Registered Auditor

23 May 2005

Barclays Bank Chambers
Aldridge
West Midlands
WS9 8NE

UAV ENGINES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 £	2003 £
Turnover	2	4,895,137	3,951,431
Cost of sales		(3,208,087)	(2,750,941)
	
Gross profit		1,687,050	1,200,490
Administrative expenses		(696,558)	(518,750)
	
Operating profit	3	990,492	681,740
Other interest receivable and similar income		44,720	33,368
Interest payable and similar charges	4	(845)	4,035
	
Profit on ordinary activities before taxation		1,034,367	719,143
Tax on profit on ordinary activities	5	(309,068)	(207,886)
	
Profit on ordinary activities after taxation	13	725,299	511,257
	

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 2004

	Notes	2004 £	£	2003 £	£
Fixed assets					
Tangible assets	6		149,959		171,940
Current assets					
Stocks	7	576,956		567,153	
Debtors	8	1,891,391		801,402	
Cash at bank and in hand		808,666		1,241,644	
		
		3,277,013		2,610,199	
Creditors: amounts falling due within one year	9	(1,044,819)		(1,125,285)	
		
Net current assets			2,232,194		1,484,914
		
Total assets less current liabilities			2,382,153		1,656,854
		
			2,382,153		1,656,854
		
Capital and reserves					
Called up share capital	12	312,500		312,500	
Profit and loss account	13	2,069,653		1,344,354	
		
Shareholders' funds - equity interests	14	2,382,153		1,656,854	
		

The financial statements were approved by the Board on 23 May 2005

I Dvir
I Dvir
Director

A Dagan
A Dagan
Director

UAV ENGINES LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	£	2004 £	£	2003 £
Net cash (outflow)/inflow from operating activities		(177,732)		471,909
Returns on investments and servicing of finance				
Interest received	44,720		33,368	
Interest paid	(845)		4,035	
	
Net cash inflow for returns on investments and servicing of finance		43,875		37,403
Taxation		(273,041)		(198,406)
Capital expenditure				
Payments to acquire tangible assets	(26,080)		(31,449)	
Receipts from sales of tangible assets	-		600	
	
Net cash outflow for capital expenditure		(26,080)		(30,849)
	
Net cash (outflow)/inflow before management of liquid resources and financing		(432,978)		280,057
Financing				
Capital element of hire purchase contracts	-		(20,243)	
	
Net cash outflow from financing		-		(20,243)
	
(Decrease)/increase in cash in the year		(432,978)		259,814
	

UAV ENGINES LIMITED

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

1	Reconciliation of operating profit to net cash (outflow)/inflow from operating activities		2004	2003	
			£	£	
	Operating profit		990,492	681,740	
	Depreciation of tangible assets		48,061	31,240	
	Increase in stocks		(9,803)	(95,102)	
	(Increase)/decrease in debtors		(1,073,303)	15,320	
	Decrease in creditors within one year		(133,179)	(161,289)	
			
	Net cash (outflow)/inflow from operating activities		(177,732)	471,909	
			
2	Analysis of net funds	1 January 2004	Cash flow	Other non-cash changes	31 December 2004
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	1,241,644	(432,978)	-	808,666
	
	Bank deposits	-	-	-	-
	
	Net funds	1,241,644	(432,978)	-	808,666
	
3	Reconciliation of net cash flow to movement in net funds		2004	2003	
			£	£	
	(Decrease)/increase in cash in the year		(432,978)	259,814	
	Cash (inflow)/outflow from (increase)/decrease in debt		-	20,243	
			
	Movement in net funds in the year		(432,978)	280,057	
	Opening net funds		1,241,644	961,587	
			
	Closing net funds		808,666	1,241,644	
			

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

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 accounting standards.

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	10-15% Straight line
Fixtures, fittings & equipment	10% Straight line
Motor vehicles	20% Straight line

1.6 Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

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 is valued at the lower of cost and net realisable value.

1.8 Long term contracts

Amounts recoverable on long term contracts, which are included in debtors, are stated at the net sales value of the work done after provision for contingencies and anticipated future losses on contracts, less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account.

1.9 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.

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

1 Accounting policies

(continued)

1.10 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.

1.11 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.

1.12 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

During the year sales to Silver Arrow Partnership Limited, the immediate holding company, were £152,329 (2003 - £360,836).

Geographical market

	Turnover	
	2004	2003
	£	£
United Kingdom	204,789	153,487
United States of America	2,682,596	1,810,028
Europe	40,595	86,717
Rest of the World	1,967,157	1,901,199

	4,895,137	3,951,431

3 Operating profit

	2004	2003
	£	£
Operating profit is stated after charging:		
Depreciation of tangible assets	48,061	31,240
Loss on foreign exchange transactions	3,604	-
Research and development	75,375	69,027
Operating lease rentals		
- Plant and machinery	985	18,000
- Land and buildings	41,840	34,693
Auditors' remuneration	4,200	4,000
and after crediting:		
Exceptional items	(50,000)	(100,000)
Profit on foreign exchange transactions	-	(3,286)

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

4	Interest payable	2004	2003
		£	£
	Hire purchase interest	-	1,237
	On overdue tax	845	(5,272)
	
		845	(4,035)
	
5	Taxation	2004	2003
		£	£
	Domestic current year tax		
	U.K. corporation tax	325,754	208,041
	
	Current tax charge	325,754	208,041
	Deferred tax		
	Deferred tax charge/credit current year	(16,686)	(155)
	
		309,068	207,886
	
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	1,034,367	719,143
	
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2003: 30.00%)	310,310	215,743
	
	Effects of:		
	Non deductible expenses	19,564	6,378
	Depreciation add back	14,418	9,372
	Capital allowances	(18,538)	(19,077)
	Other tax adjustments	-	(4,375)
	
		15,444	(7,702)
	
	Current tax charge	325,754	208,041
	

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

6 Tangible fixed assets

	Computer equipment	Plant and machinery	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£	£
Cost					
At 1 January 2004	76,411	392,099	76,802	45,749	591,061
Additions	-	5,918	20,162	-	26,080

At 31 December 2004	76,411	398,017	96,964	45,749	617,141

Depreciation					
At 1 January 2004	75,600	299,182	24,139	20,200	419,121
Charge for the year	811	27,599	8,001	11,650	48,061

At 31 December 2004	76,411	326,781	32,140	31,850	467,182

Net book value					
At 31 December 2004	-	71,236	64,824	13,899	149,959

At 31 December 2003	811	92,918	52,661	25,550	171,940

7 Stocks and work in progress

	2004 £	2003 £
Raw materials and consumables	576,956	476,825
Work in progress	-	90,328

	576,956	567,153

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

8 Debtors	2004 £	2003 £
Trade debtors	1,111,198	664,428
Amounts owed by parent and fellow subsidiary undertakings	615,357	-
Other debtors	54,999	53,385
Prepayments and accrued income	41,020	31,458
Deferred tax asset (see note 10)	68,817	52,131

	1,891,391	801,402

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.

9 Creditors: amounts falling due within one year	2004 £	2003 £
Payments received on account	98,463	151,279
Trade creditors	448,913	316,555
Amounts owed to parent and fellow subsidiary undertakings	-	54,427
Corporation tax	195,754	143,041
Other taxes and social security costs	-	20,136
Other creditors	784	104,969
Accruals and deferred income	300,905	334,878

	1,044,819	1,125,285

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

10 Provisions for liabilities and charges

The deferred tax asset (included in the debtors, note 8) is made up as follows:

	2004 £	
Balance at 1 January 2004	(52,131)	
Profit and loss account	(16,686)	
	
Balance at 31 December 2004	(68,817)	
	
	2004 £	2003 £
Decelerated capital allowances	(64,183)	(54,924)
Other timing differences	(4,634)	2,793

	(68,817)	(52,131)

11 Pension costs

Defined contribution

	2004 £	2003 £
Contributions payable by the company for the year	12,155	11,307

12 Share capital

Authorised

	2004 £	2003 £
312,500 Ordinary shares of £1 each	312,500	312,500

Allotted, called up and fully paid

	2004 £	2003 £
312,500 Ordinary shares of £1 each	312,500	312,500

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

13 Statement of movements on profit and loss account

	Profit and loss account £
Balance at 1 January 2004	1,344,354
Retained profit for the year	725,299

Balance at 31 December 2004	2,069,653

14 Reconciliation of movements in shareholders' funds

	2004 £	2003 £
Profit for the financial year	725,299	511,257
Opening shareholders' funds	1,656,854	1,145,597

Closing shareholders' funds	2,382,153	1,656,854

15 Financial commitments

At 31 December 2004 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2004 £	2003 £
Expiry date:		
In over five years	45,000	30,000

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

16 Employees

Number of employees

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

	2004 Number	2003 Number
Administration	7	7
Manufacturing	21	15

	28	22

Employment costs

	£	£
Wages and salaries	724,551	531,275
Social security costs	75,593	57,804
Other pension costs	12,155	11,307

	812,299	600,386

17 Control

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