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UAV ENGINES LIMITED
DIRECTORS' REPORT &
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

Company Registration No. 2691211 (England and Wales)



Edwards
Chartered Accountants
Registered Auditor

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 47 Anchor Road Aldridge West Midlands WS9 8PT
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 2003

The directors present their report and financial statements for the year ended 31 December 2003.

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 2003:

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 2003	1 January 2003
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 2003


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



I Dvir

Director

12 February 2004

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 2003. 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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Edwards



12 February 2004

Chartered Accountants
Registered Auditor

47 Anchor Road
Aldridge
West Midlands
WS9 8PT

UAV ENGINES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £	2002 £
Turnover	2	3,951,431	3,350,087
Cost of sales		(2,750,941)	(2,368,416)
Gross profit		1,200,490	981,671
Administrative expenses		(518,750)	(485,913)
Operating profit	3	681,740	495,758
Other interest receivable and similar income		33,368	20,209
Interest payable and similar charges	4	4,035	(11,938)
Profit on ordinary activities before taxation		719,143	504,029
Tax on profit on ordinary activities	5	(207,886)	(127,372)
Profit on ordinary activities after taxation	13	511,257	376,657

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 2003

	Notes	2003 £	£	2002 £	£
Fixed assets					
Tangible assets	6		171,940		172,331
Current assets					
Stocks	7	567,153		472,051	
Debtors	8	801,402		816,567	
Cash at bank and in hand		1,241,644		981,830	
		<u>2,610,199</u>		<u>2,270,448</u>	
Creditors: amounts falling due within one year	9	<u>(1,125,285)</u>		<u>(1,297,182)</u>	
Net current assets			1,484,914		973,266
Total assets less current liabilities			1,656,854		1,145,597
			<u>1,656,854</u>		<u>1,145,597</u>
Capital and reserves					
Called up share capital	12	312,500		312,500	
Profit and loss account	13	1,344,354		833,097	
Shareholders' funds - equity interests	14		1,656,854		1,145,597
			<u>1,656,854</u>		<u>1,145,597</u>

The financial statements were approved by the Board on 12 February 2004


I Dvir
Director

A Dagan
Director



UAV ENGINES LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

	2003		2002	
	£	£	£	£
Net cash inflow from operating activities		471,909		805,778
Returns on investments and servicing of finance				
Interest received	33,368		20,209	
Interest paid	4,035		(11,938)	
Net cash inflow for returns on investments and servicing of finance		37,403		8,271
Taxation		(198,406)		(237,442)
Capital expenditure				
Payments to acquire tangible assets	(31,449)		(58,501)	
Receipts from sales of tangible assets	600		-	
Net cash outflow for capital expenditure		(30,849)		(58,501)
Net cash inflow before management of liquid resources and financing		280,057		518,106
Financing				
Capital element of hire purchase contracts	(20,243)		(2,507)	
Net cash outflow from financing		(20,243)		(2,507)
Increase in cash in the year		259,814		515,599

UAV ENGINES LIMITED

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

1	Reconciliation of operating profit to net cash inflow from operating activities		2003	2002	
			£	£	
	Operating profit		681,740	495,758	
	Depreciation of tangible assets		31,240	75,950	
	(Increase)/decrease in stocks		(95,102)	60,171	
	Decrease in debtors		15,320	87,308	
	(Decrease)/Increase in creditors within one year		(161,289)	86,591	
	Net cash inflow from operating activities		471,909	805,778	
2	Analysis of net funds	1 January 2003	Cash flow	Other non-cash changes	31 December 2003
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	981,830	259,814	-	1,241,644
	Debt:				
	Finance leases	(20,243)	20,243	-	-
	Net funds	961,587	280,057	-	1,241,644
3	Reconciliation of net cash flow to movement in net funds		2003	2002	
			£	£	
	Increase in cash in the year		259,814	515,599	
	Cash outflow from decrease in debt and lease financing		20,243	2,507	
	Change in net debt resulting from cash flows		280,057	518,106	
	New finance lease		-	(22,750)	
	Movement in net funds in the year		280,057	495,356	
	Opening net funds		961,587	466,231	
	Closing net funds		1,241,644	961,587	

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

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 and work in progress are 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 2003

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 £360,836 (2002 - £210,982).

Geographical market

	Turnover	
	2003	2002
	£	£
United Kingdom	153,487	33,963
United States of America	1,810,028	773,731
Europe	86,717	66,022
Rest of the World	1,901,199	2,476,371
	<u>3,951,431</u>	<u>3,350,087</u>

3 Operating profit

	2003	2002
	£	£
Operating profit is stated after charging:		
Depreciation of tangible assets	31,240	75,950
Loss on foreign exchange transactions	-	25,157
Research and development	69,027	15,784
Operating lease rentals		
- Plant and machinery	18,000	-
- Other assets	34,693	36,688
Auditors' remuneration	4,000	4,000
Remuneration of auditors for non-audit work	2,270	2,000
and after crediting:		
Profit on foreign exchange transactions	<u>(3,286)</u>	<u>-</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

4	Interest payable	2003	2002
		£	£
	On bank loans and overdrafts	-	15
	Hire purchase interest	1,237	801
	On overdue tax	(5,272)	11,122
		<u>(4,035)</u>	<u>11,938</u>
5	Taxation	2003	2002
		£	£
	Domestic current year tax		
	U.K. corporation tax	208,041	173,006
	Adjustment for prior years	-	6,342
	Current tax charge	<u>208,041</u>	<u>179,348</u>
	Deferred tax		
	Deferred tax charge/credit current year	(155)	(21,975)
	Deferred tax adjust re previous year	-	(30,001)
		<u>(155)</u>	<u>(51,976)</u>
		<u>207,886</u>	<u>127,372</u>
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	<u>719,143</u>	<u>504,029</u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00 % (2002 : 30.00 %)	<u>215,743</u>	<u>151,209</u>
	Effects of:		
	Non deductible expenses	6,378	19,036
	Depreciation add back	9,372	22,785
	Capital allowances	(19,077)	(20,024)
	Adjustments to previous periods	-	6,342
	Other tax adjustments	(4,375)	-
		<u>(7,702)</u>	<u>28,139</u>
	Current tax charge	<u>208,041</u>	<u>179,348</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

6 Tangible fixed assets

	Computer equipment	Plant and machinery	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£	£
Cost					
At 1 January 2003	76,411	372,150	76,801	35,250	560,612
Additions	-	20,950	-	10,499	31,449
Disposals	-	(1,000)	-	-	(1,000)
At 31 December 2003	76,411	392,100	76,801	45,749	591,061
Depreciation					
At 1 January 2003	67,811	290,488	16,457	13,525	388,281
On disposals	-	(400)	-	-	(400)
Charge for the year	7,789	9,094	7,683	6,674	31,240
At 31 December 2003	75,600	299,182	24,140	20,199	419,121
Net book value					
At 31 December 2003	811	92,918	52,661	25,550	171,940
At 31 December 2002	8,600	81,662	60,344	21,725	172,331

Included above are assets held under finance leases or hire purchase contracts as follows:

	Motor vehicles £
Net book values	
At 31 December 2003	-
At 31 December 2002	20,475
Depreciation charge for the year	
31 December 2003	-
31 December 2002	2,275

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

7	Stocks and work in progress	2003 £	2002 £
	Raw materials and consumables	476,825	425,527
	Work in progress	90,328	46,524
		<u>567,153</u>	<u>472,051</u>

8	Debtors	2003 £	2002 £
	Trade debtors	664,428	716,808
	Other debtors	53,385	14,043
	Prepayments and accrued income	31,458	33,740
	Deferred tax asset (see note 10)	52,131	51,976
		<u>801,402</u>	<u>816,567</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.

9	Creditors: amounts falling due within one year	2003 £	2002 £
	Payments received on account	151,279	182,333
	Net obligations under hire purchase contracts	-	20,243
	Trade creditors	316,555	426,725
	Amounts owed to parent and fellow subsidiary undertakings	54,427	199,732
	Corporation tax	143,041	133,406
	Other taxes and social security costs	20,136	12,331
	Other creditors	104,969	3,004
	Accruals and deferred income	334,878	319,408
		<u>1,125,285</u>	<u>1,297,182</u>
	Net obligations under hire purchase contracts		
	Repayable within one year	-	20,243
	Finance charges and interest allocated to future accounting periods	-	-
		<u>-</u>	<u>20,243</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

10 Provisions for liabilities and charges

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

	2003 £	
Balance at 1 January 2003	(51,976)	
Profit and loss account	(155)	
	<hr/>	
Balance at 31 December 2003	(52,131)	
	<hr/>	
	2003 £	2002 £
Accelerated capital allowances	(54,924)	(11,597)
Other timing differences	2,793	(40,379)
	<hr/>	<hr/>
	(52,131)	(51,976)
	<hr/>	<hr/>

11 Pension costs

Defined contribution

	2003 £	2002 £
Contributions payable by the company for the year	11,307	8,223
	<hr/>	<hr/>

12 Share capital

Authorised

	2003 £	2002 £
312,500 Ordinary shares of £ 1 each	312,500	312,500
	<hr/>	<hr/>

Allotted, called up and fully paid

	2003 £	2002 £
312,500 Ordinary shares of £ 1 each	312,500	312,500
	<hr/>	<hr/>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

13 Statement of movements on profit and loss account

	Profit and loss account £
Balance at 1 January 2003	833,097
Retained profit for the year	511,257
	<hr/>
Balance at 31 December 2003	1,344,354
	<hr/>

14 Reconciliation of movements in shareholders' funds

	2003 £	2002 £
Profit for the financial year	511,257	376,657
Opening shareholders' funds	1,145,597	768,940
	<hr/>	<hr/>
Closing shareholders' funds	1,656,854	1,145,597
	<hr/>	<hr/>

15 Financial commitments

At 31 December 2003 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2003 £	2002 £
Expiry date:		
In over five years	30,000	22,275
	<hr/>	<hr/>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

16 Employees

Number of employees

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

	2003 Number	2002 Number
Administration	7	7
Manufacturing	15	14
	<u>22</u>	<u>21</u>

Employment costs

	£	£
Wages and salaries	531,275	476,318
Social security costs	57,804	45,178
Other pension costs	11,307	8,223
	<u>600,386</u>	<u>529,719</u>

17 Control

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