

UAV ENGINES LIMITED
**DIRECTORS' REPORT &
FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31 DECEMBER 2002

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 2002

The directors present their report and financial statements for the year ended 31 December 2002.

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 2002:

I Dvir
J Gaspar
A Dagan

Directors' interests

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

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 2002**

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

31 January 2003

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 2002. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

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.

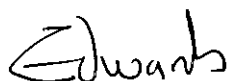
Basis of audit opinion

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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Edwards

31 January 2003

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 2002

	Notes	2002 £	2001 £
Turnover	2	3,350,087	2,584,875
Cost of sales		(2,368,416)	(1,926,239)
Gross profit		981,671	658,636
Administrative expenses		(485,913)	(382,874)
Operating profit	3	495,758	275,762
Other interest receivable and similar income		20,209	15,879
Interest payable and similar charges	4	(11,938)	(3,952)
Profit on ordinary activities before taxation		504,029	287,689
Tax on profit on ordinary activities	5	(127,372)	(108,000)
Profit on ordinary activities after taxation	12	376,657	179,689

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 2002

	Notes	2002 £	£	2001 £	£
Fixed assets					
Tangible assets	6		172,331 E1		167,030
Current assets					
Stocks	7	472,051 51		532,222	
Debtors	8	816,567 41		851,899	
Cash at bank and in hand		981,830 I1		466,231	
		2,270,448		1,850,352	
Creditors: amounts falling due within one year	9	(1,297,182) 31		(1,248,442)	
Net current assets			973,266		601,910
Total assets less current liabilities			1,145,597		768,940
Capital and reserves					
Called up share capital	11	312,500		312,500	
Profit and loss account	12	833,097 L		456,440	
Shareholders' funds - equity interests	13	1,145,597		768,940	

The financial statements were approved by the Board on 31 January 2003

Driv

I Dvir
Director

A Dagan

A Dagan
Director

UAV ENGINES LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

	2002		2001	
	£	£	£	£
Net cash inflow from operating activities		805,778		804
Returns on investments and servicing of finance				
Interest received	20,209		15,879	
Interest paid	(11,938)		(3,952)	
Net cash inflow for returns on investments and servicing of finance		8,271		11,927
Taxation		(237,442)		-
Capital expenditure				
Payments to acquire tangible assets	(58,501)		(37,705)	
Receipts from sales of tangible assets	-		3,122	
Net cash outflow for capital expenditure		(58,501)		(34,583)
Net cash inflow/(outflow) before management of liquid resources and financing		518,106		(21,852)
Financing				
Capital element of hire purchase contracts	(2,507)		-	
Net cash outflow from financing		(2,507)		-
Increase/(decrease) in cash in the year		515,599		(21,852)

UAV ENGINES LIMITED

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

1	Reconciliation of operating profit to net cash inflow from operating activities		2002	2001	
			£	£	
	Operating profit		495,758	275,762	
	Depreciation of tangible assets		75,950	74,696	
	Decrease/(increase) in stocks		60,171	(25,869)	
	Decrease/(increase) in debtors		87,308	(555,021)	
	Increase in creditors within one year		86,591	231,236	
	Net cash inflow from operating activities		805,778	804	
2	Analysis of net funds	1 January 2002	Cash flow	Other non-cash changes	31 December 2002
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	466,231	515,599	-	981,830
	Debt:				
	Finance leases	-	2,507	(22,750)	(20,243)
	Net funds	466,231	518,106	(22,750)	961,587
3	Reconciliation of net cash flow to movement in net funds		2002	2001	
			£	£	
	Increase/(decrease) in cash in the year		515,599	(21,852)	
	Cash outflow from decrease in debt and lease financing		2,507	-	
	Change in net debt resulting from cash flows		518,106	(21,852)	
	New finance lease		(22,750)	-	
	Movement in net funds in the year		495,356	(21,852)	
	Opening net funds		466,231	488,083	
	Closing net funds		961,587	466,231	

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

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 2002

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 £210,982 (2001 - £411,485).

Geographical market

	Turnover	
	2002	2001
	£	£
United Kingdom	33,963	32,954
United States of America	773,731	315,339
Europe	66,022	10,439
Rest of the World	2,476,371	2,226,143
	<u>3,350,087</u>	<u>2,584,875</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2002

3	Operating profit	2002	2001
		£	£
	Operating profit is stated after charging:		
	Depreciation of tangible assets	75,950	74,696
	Loss on foreign exchange transactions	25,157	-
	Research and development	15,784	96,385
	Operating lease rentals	38,608	36,577
	Auditors' remuneration	4,000	4,000
	and after crediting:		
	Exceptional items	(50,000)	(100,000)
	Profit on foreign exchange transactions	-	(786)
		<u> </u>	<u> </u>

A fire in the company's factory in December 1999 disrupted the company's activities in 2002, resulting in lower sales capacity and higher labour and indirect cost. These costs were met by a loss of profits claim and the exceptional credit to cost of sales of £50,000 (2001 - £100,000) represents the contribution to these additional costs from insurance monies received.

4	Interest payable	2002	2001
		£	£
	On bank loans and overdrafts	15	130
	Hire purchase interest	801	-
	On overdue tax	11,122	3,822
		<u> </u>	<u> </u>
		<u>11,938</u>	<u>3,952</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2002

5	Taxation	2002 £	2001 £
	Domestic current year tax		
	U.K. corporation tax	173,006	108,000
	Adjustment for prior years	6,342	-
	Current tax charge	<u>179,348</u>	<u>108,000</u>
	Deferred tax		
	Deferred tax charge/credit current year	(21,975)	-
	Deferred tax adjust re previous year	(30,001)	-
		<u>(51,976)</u>	<u>-</u>
		<u>127,372</u>	<u>108,000</u>
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	<u>504,029</u>	<u>287,689</u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2001 : 30.00%)	<u>151,209</u>	<u>86,307</u>
	Effects of:		
	Non deductible expenses	19,036	24,995
	Depreciation	22,785	22,409
	Capital allowances	(20,024)	(18,693)
	Adjustments to previous periods	6,342	-
	Other tax adjustments	-	(7,018)
		<u>28,139</u>	<u>21,693</u>
	Current tax charge	<u>179,348</u>	<u>108,000</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2002

6 Tangible fixed assets

	Computer equipment	Plant and machinery	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£	£
Cost					
At 1 January 2002	74,017	371,295	21,549	12,500	479,361
Additions	2,394	855	55,252	22,750	81,251
At 31 December 2002	76,411	372,150	76,801	35,250	560,612
Depreciation					
At 1 January 2002	53,718	239,573	10,290	8,750	312,331
Charge for the year	14,093	50,915	6,167	4,775	75,950
At 31 December 2002	67,811	290,488	16,457	13,525	388,281
Net book value					
At 31 December 2002	8,600	81,662	60,344	21,725	172,331
At 31 December 2001	20,299	131,722	11,259	3,750	167,030

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

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

7 Stocks and work in progress

	2002 £	2001 £
Raw materials and consumables	425,527	392,971
Work in progress	46,524	139,251
	472,051	532,222

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2002

8 Debtors	2002 £	2001 £
Trade debtors	716,808	591,172
Amounts owed by parent and fellow subsidiary undertakings	-	208,263
Other debtors	14,043	36,384
Prepayments and accrued income	33,740	16,080
Deferred tax asset	51,976	-
	<u>816,567</u>	<u>851,899</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	2002 £	2001 £
Payments received on account	182,333	213,489
Net obligations under hire purchase contracts	20,243	-
Trade creditors	426,725	642,025
Amounts owed to parent and fellow subsidiary undertakings	199,732	-
Corporation tax	133,406	191,500
Other taxes and social security costs	12,331	12,911
Other creditors	3,004	2,024
Accruals and deferred income	319,408	186,493
	<u>1,297,182</u>	<u>1,248,442</u>

Net obligations under hire purchase contracts

Repayable within one year	20,243	-
Finance charges and interest allocated to future accounting periods	-	-
	<u>20,243</u>	<u>-</u>

10 Pension costs

Defined contribution

	2002 £	2001 £
Contributions payable by the company for the year	<u>8,223</u>	<u>8,708</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2002

11 Share capital	2002	2001
	£	£
Authorised		
312,500 Ordinary shares of £ 1 each	312,500	312,500
	<u> </u>	<u> </u>
Allotted, called up and fully paid		
312,500 Ordinary shares of £ 1 each	312,500	312,500
	<u> </u>	<u> </u>
12 Statement of movements on profit and loss account		Profit and loss account £
Balance at 1 January 2002		456,440
Retained profit for the year		376,657
		<u> </u>
Balance at 31 December 2002		833,097
		<u> </u>
13 Reconciliation of movements in shareholders' funds	2002	2001
	£	£
Profit for the financial year	376,657	179,689
Opening shareholders' funds	768,940	589,251
	<u> </u>	<u> </u>
Closing shareholders' funds	1,145,597	768,940
	<u> </u>	<u> </u>

14 Financial commitments

At 31 December 2002 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2002	2001
	£	£
Expiry date:		
Within one year	-	35,820
In over five years	22,275	-
	<u> </u>	<u> </u>
	22,275	35,820
	<u> </u>	<u> </u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2002

15 Employees

Number of employees

The average monthly number of employees during the year was:

	2002 Number	2001 Number
Administration	7	7
Manufacturing	14	14
	<u>21</u>	<u>21</u>

Employment costs

	£	£
Wages and salaries	476,318	415,715
Social security costs	45,178	40,442
Other pension costs	8,223	8,708
	<u>529,719</u>	<u>464,865</u>

16 Control

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