

UAV ENGINES LIMITED

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

YEAR ENDED 31 DECEMBER 2001

Registered Number 2691211 (England and Wales)



Edwards

Chartered Accountants ♦ Registered Auditors ♦ Business Advisors

UAV ENGINES LIMITED

COMPANY INFORMATION

Directors	I Dvir J Gaspar A Dagan (Appointed 27 July 2001)
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 2001

The directors present their report and financial statements for the year ended 31 December 2001.

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 2001:

S Shapira (Resigned 27 July 2001)

I Dvir

J Gaspar

A Dagan (Appointed 27 July 2001)

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 2001

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 2002

UAV ENGINES LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS OF UAV ENGINES LIMITED

We have audited the financial statements on pages 4 to 13 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with 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 2001 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

31 January 2002

47 Anchor Road
Aldridge
West Midlands
WS9 8PT

UAV ENGINES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2001

	Notes	2001 £	2000 £
Turnover	2	2,584,875	2,117,895
Cost of sales		(1,917,452)	(1,538,045)
Gross profit		<u>667,423</u>	<u>579,850</u>
Administrative expenses		(391,661)	(332,804)
Operating profit	3	<u>275,762</u>	<u>247,046</u>
Other interest receivable and similar income		15,879	10,326
Interest payable and similar charges	4	(3,952)	(1,120)
Profit on ordinary activities before taxation		<u>287,689</u>	<u>256,252</u>
Tax on profit on ordinary activities	5	(108,000)	(83,219)
Profit on ordinary activities after taxation	12	<u><u>179,689</u></u>	<u><u>173,033</u></u>

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 2001

	Notes	2001 £	£	2000 £	£
Fixed assets					
Tangible assets	6		167,030		207,143
Current assets					
Stocks	7	532,222		506,353	
Debtors	8	851,899		296,878	
Cash at bank and in hand		466,231		488,083	
		1,850,352		1,291,314	
Creditors: amounts falling due within one year	9	(1,248,442)		(909,206)	
Net current assets			601,910		382,108
Total assets less current liabilities			768,940		589,251
Capital and reserves					
Called up share capital	11		312,500		312,500
Profit and loss account	12		456,440		276,751
Shareholders' funds - equity interests	13		768,940		589,251

The financial statements were approved by the Board on 31 January 2002



I Dvir
Director



A Dagan
Director

UAV ENGINES LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2001

	2001 £	2000 £
Net cash inflow from operating activities	804	425,113
Returns on investments and servicing of finance		
Interest received	15,879	10,326
Interest paid	(3,952)	(1,120)
Net cash inflow for returns on investments and servicing of finance	11,927	9,206
Taxation	-	(33,219)
Capital expenditure		
Payments to acquire tangible assets	(37,705)	(124,895)
Receipts from sales of tangible assets	3,122	-
Net cash outflow for capital expenditure	(34,583)	(124,895)
Net cash (outflow)/inflow before management of liquid resources and financing	(21,852)	276,205
(Decrease)/increase in cash in the year	(21,852)	276,205

UAV ENGINES LIMITED

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2001

1	Reconciliation of operating profit to net cash inflow from operating activities	2001		2000	
		£		£	
	Operating profit	275,762		247,046	
	Depreciation of tangible assets	74,696		70,271	
	(Increase)/decrease in stocks	(25,869)		133,880	
	(Increase)/decrease in debtors	(555,021)		70,063	
	Increase/(decrease) in creditors within one year	231,236		(96,147)	
	Net cash inflow from operating activities	804		425,113	
2	Analysis of net funds	1 January 2001		31 December 2001	
		£	Cash flow	Other non-cash changes	£
	Net cash:		£	£	
	Cash at bank and in hand	488,083	(21,852)	-	466,231
	Net funds	488,083	(21,852)	-	466,231
3	Reconciliation of net cash flow to movement in net funds	2001		2000	
		£		£	
	(Decrease)/increase in cash in the year	(21,852)		276,205	
	Movement in net funds in the year	(21,852)		276,205	
	Opening net funds	488,083		211,878	
	Closing net funds	466,231		488,083	

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2001

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

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 SSAP 24.

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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2001

1 Accounting policies

(continued)

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 £411,485 (2000 - £246,000).

Geographical market

	Turnover 2001 £	2000 £
United Kingdom	32,954	163,000
United States of America	315,339	294,000
Europe	10,439	43,000
Rest of the World	2,226,143	1,617,895
	<u>2,584,875</u>	<u>2,117,895</u>

3 Operating profit

	2001 £	2000 £
Operating profit is stated after charging:		
Exceptional items	(100,000)	(263,262)
Depreciation of tangible assets	74,696	70,271
Research and development	96,385	21,689
Operating lease rentals	36,577	36,509
Auditors' remuneration	4,000	8,500
	<u> </u>	<u> </u>

A fire in the company's factory in December 1999 disrupted the company's activities in 2001, 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 £100,000 (2000 - £263,262) represents the contribution to these additional costs from insurance monies received.

4 Interest payable

	2001 £	2000 £
On bank loans and overdrafts	130	37
On overdue tax	3,822	1,083
	<u>3,952</u>	<u>1,120</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2001

5	Taxation				2001	2000
					£	£
	U.K. current year taxation					
	U.K. corporation tax at 30% (2000 - 30%)				108,000	83,500
	Prior years					
	U.K. corporation tax				-	(281)
					<u>108,000</u>	<u>83,219</u>
6	Tangible fixed assets					
		Computer equipment	Plant and machinery	Fixtures, fittings & equipment	Motor vehicles	Total
		£	£	£	£	£
	Cost					
	At 1 January 2001	53,046	96,348	279,762	24,500	453,656
	Re-classification	-	273,947	(273,947)	-	-
	Additions	20,971	1,000	15,734	-	37,705
	Disposals	-	-	-	(12,000)	(12,000)
	At 31 December 2001	<u>74,017</u>	<u>371,295</u>	<u>21,549</u>	<u>12,500</u>	<u>479,361</u>
	Depreciation					
	At 1 January 2001	36,585	54,730	142,148	13,050	246,513
	Re-classification	-	175,108	(175,108)	-	-
	On disposals	-	-	-	(8,878)	(8,878)
	Charge for the year	17,133	9,735	43,250	4,578	74,696
	At 31 December 2001	<u>53,718</u>	<u>239,573</u>	<u>10,290</u>	<u>8,750</u>	<u>312,331</u>
	Net book value					
	At 31 December 2001	<u>20,299</u>	<u>131,722</u>	<u>11,259</u>	<u>3,750</u>	<u>167,030</u>
	At 31 December 2000	<u>16,461</u>	<u>41,618</u>	<u>137,614</u>	<u>11,450</u>	<u>207,143</u>
7	Stocks and work in progress				2001	2000
					£	£
	Raw materials and consumables				392,971	429,877
	Work in progress				139,251	76,476
					<u>532,222</u>	<u>506,353</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2001

8 Debtors	2001	2000
	£	£
Trade debtors	591,172	253,587
Amounts owed by parent and fellow subsidiary undertakings	208,263	-
Other debtors	36,384	27,377
Prepayments and accrued income	16,080	15,914
	<u>851,899</u>	<u>296,878</u>
9 Creditors: amounts falling due within one year	2001	2000
	£	£
Payments received on account	213,489	281,785
Trade creditors	642,025	264,766
Amounts owed to parent and fellow subsidiary undertakings	-	100,604
Corporation tax	191,500	83,500
Other taxes and social security costs	12,911	11,385
Other creditors	2,024	2,024
Accruals and deferred income	186,493	165,142
	<u>1,248,442</u>	<u>909,206</u>
10 Pension costs		
<p>The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £8,708 (2000 - £16,375). Contributions totalling £0 (2000 - £0) were payable to the fund at the year end and are included in creditors.</p>		
11 Share capital	2001	2000
	£	£
Authorised		
312,500 Ordinary shares of £ 1 each	<u>312,500</u>	<u>312,500</u>
Allotted, called up and fully paid		
312,500 Ordinary shares of £ 1 each	<u>312,500</u>	<u>312,500</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2001

12 Statement of movements on profit and loss account

	Profit and loss account £
Balance at 1 January 2001	276,751
Retained profit for the year	179,689
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Balance at 31 December 2001	456,440
	<hr/>

13 Reconciliation of movements in shareholders' funds

	2001 £	2000 £
Profit for the financial year	179,689	173,033
Opening shareholders' funds	589,251	416,218
	<hr/>	<hr/>
Closing shareholders' funds	768,940	589,251
	<hr/>	<hr/>

14 Financial commitments

At 31 December 2001 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2001 £	2000 £
Expiry date:		
Within one year	35,820	29,250
	<hr/>	<hr/>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2001

15 Employees

Number of employees

The average monthly number of employees during the year was:

	2001 Number	2000 Number
Administration	14	13
Manufacturing	7	6
	<u>21</u>	<u>19</u>

Employment costs

	£	£
Wages and salaries	415,715	348,353
Social security costs	40,442	34,103
Other pension costs	8,708	16,375
	<u>464,865</u>	<u>398,831</u>

16 Control

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