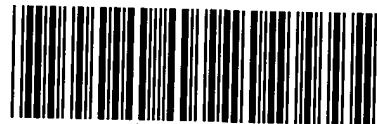


Company Registration No. 02691211 (England and Wales)

UAV ENGINES LIMITED
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

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UAV ENGINES LIMITED

COMPANY INFORMATION

Directors	Mr E Aharonson Mr S Sarid Mr Y Baron
Secretary	Mr C J Biddulph
Company number	02691211
Registered office	Lynn Lane Shenstone Lichfield Staffordshire WS14 0DT
Auditors	Edwards 34 High Street Aldridge Walsall West Midlands WS9 8LZ
Business address	Lynn Lane Shenstone Lichfield Staffordshire WS14 0DT
Bankers	Natwest Bank plc 47 Market Street Lichfield Staffordshire WS13 6YB

UAV ENGINES LIMITED

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UAV ENGINES LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

The directors present the strategic report and financial statements for the year ended 31 December 2014.

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.

As anticipated by the directors, the company reported a decrease in turnover for the year ended 31 December 2014 with a corresponding decrease in gross margin.

Despite the decrease in activity, continued close control over costs and stock reductions enabled the company to again report a healthy operating profit of £376,981. This was in line with the expectations of management and levels of gross profit achieved by the company are likely to return to those of previous years.

The results for the year and the financial position at the year end reflect current market conditions with many governments reigning in defence spend in all the company's market sectors. The company moves into 2015 with a healthy order-book and more than adequate liquidity.

Principal risks and uncertainties

The level of conflict in the world does have a bearing on the company's market activity, however the company has, over the years, developed strong after-sales spares and support business. This, together with its highly respected research and development capability, the company has great confidence in its ability to react positively and profitably to all market conditions.

Research and development

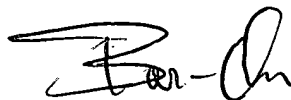
The company continues to commit significant resource and time to the development of new engines and product enhancements that reinforce the competitive edge of the company's range of engines. R&D spend for 2015 will be increased over 2014 levels.

Key performance indicators

Key performance indicators are used to measure and evaluate company performance against targets and monitor various activities throughout the company. The main key performance indicators employed by the company are:

- Turnover levels (by product and market)
- Profit levels (gross and net)
- Staff productivity
- Cash flows

On behalf of the board



Mr Y Baron

Director

25 February 2015

UAV ENGINES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

The directors present their report and financial statements for the year ended 31 December 2014.

Results and dividends

The results for the year are set out on page 6.

Directors

The following directors have held office since 1 January 2014:

Mr E Aharonson
Mr S Sarid
Mr Y Baron

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.

The company's funds are held primarily short term deposits 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.

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.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and 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). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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.

UAV ENGINES LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

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



Mr Y Baron

Director

25 February 2015

UAV ENGINES LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF UAV ENGINES LIMITED

We have audited the financial statements of UAV Engines Limited for the year ended 31 December 2014 set out on pages 6 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 2 - 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

UAV ENGINES LIMITED

INDEPENDENT AUDITORS' REPORT (CONTINUED) TO THE MEMBERS OF UAV ENGINES LIMITED

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



David Webb FCA (Senior Statutory Auditor)
for and on behalf of Edwards

25 February 2015

Chartered Accountants
Statutory Auditor

34 High Street
Aldridge
Walsall
West Midlands
WS9 8LZ

UAV ENGINES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £	2013 £
Turnover	2	8,146,043	12,950,029
Cost of sales		(6,374,968)	(8,602,079)
Gross profit		1,771,075	4,347,950
Administrative expenses		(1,394,094)	(1,467,476)
Operating profit	3	376,981	2,880,474
Other interest receivable and similar income	4	41,214	171,396
Profit on ordinary activities before taxation		418,195	3,051,870
Tax on profit on ordinary activities	5	63,395	(638,038)
Profit for the year	14	481,590	2,413,832

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

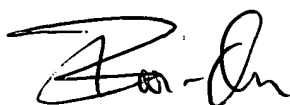
BALANCE SHEET

AS AT 31 DECEMBER 2014

	Notes	2014 £	£	2013 £	£
Fixed assets					
Tangible assets	7		481,559		587,620
Current assets					
Stocks	8	2,028,152		3,056,477	
Debtors	9	3,589,687		1,730,756	
Cash at bank and in hand		1,985,825		3,143,000	
		<u>7,603,664</u>		<u>7,930,233</u>	
Creditors: amounts falling due within one year	10	<u>(1,783,267)</u>		<u>(2,655,087)</u>	
Net current assets			5,820,397		5,275,146
Total assets less current liabilities			<u>6,301,956</u>		<u>5,862,766</u>
Provisions for liabilities	11		(4,600)		(47,000)
			<u>6,297,356</u>		<u>5,815,766</u>
Capital and reserves					
Called up share capital	13		312,500		312,500
Profit and loss account	14		5,984,856		5,503,266
Shareholders' funds	15		<u>6,297,356</u>		<u>5,815,766</u>

Approved by the Board and authorised for issue on 25 February 2015

Mr Y Baron
Director



Company Registration No. 02691211

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

1.2 Compliance with and departure from 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).

The company has taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from the requirement to produce a cash flow statement on the grounds that it is a subsidiary undertaking where 90 percent or more of the voting rights are controlled within the group.

1.3 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts. Sales are recognised at the point at which the company has fulfilled its contractual obligations to the customer.

1.4 Research and development

Research expenditure is written off to the profit and loss account in the year in which it is incurred.

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

1.6 Leasing

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

1.7 Stock

Stock is valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Net realisable value is based on selling price less anticipated costs to completion and selling costs.

1.8 Pensions

The company operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the year they are payable.

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 2014

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 wholly attributable to the company's principal activity. Segmental analysis of turnover has not been given because the directors consider that such disclosure would be seriously prejudicial to the commercial interests of the company.

3 Operating profit	2014 £	2013 £
Operating profit is stated after charging:		
Depreciation of tangible assets	229,595	218,305
Loss on foreign exchange transactions	22,372	469
Research and development	260,470	287,981
Operating lease rentals	100,989	95,258
Auditors' remuneration (including expenses and benefits in kind)	13,500	13,100
	<u> </u>	<u> </u>

4 Investment income	2014 £	2013 £
Bank interest	9,330	23,711
Other interest	31,884	147,685
	<u> </u>	<u> </u>
	<u>41,214</u>	<u>171,396</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

5	Taxation	2014 £	2013 £
	Domestic current year tax		
	U.K. corporation tax	107,021	674,418
	Adjustment for prior years	(128,016)	(73,380)
	Total current tax	<u>(20,995)</u>	<u>601,038</u>
	Deferred tax		
	Deferred tax (credit)/charge current year	(17,100)	35,000
	Adjustment for prior years	(25,300)	2,000
		<u>(42,400)</u>	<u>37,000</u>
		<u>(63,395)</u>	<u>638,038</u>
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	<u>418,195</u>	<u>3,051,870</u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 21.50% (2013 - 23.25%)	<u>89,912</u>	<u>709,560</u>
	Effects of:		
	Non deductible expenses	2,120	294
	Depreciation add back	49,347	50,756
	Capital allowances	(21,685)	(62,944)
	Movement in warranty provision	(12,673)	(23,248)
	Adjustments for prior years	(128,016)	(73,380)
		<u>(110,907)</u>	<u>(108,522)</u>
	Current tax charge for the year	<u>(20,995)</u>	<u>601,038</u>
6	Dividends	2014 £	2013 £
	Ordinary interim paid	<u>-</u>	<u>5,000,000</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

7 Tangible fixed assets

	Computer equipment	Plant and machinery	Fixtures, fittings & equipment	Total
	£	£	£	£
Cost				
At 1 January 2014	671,718	1,131,126	956,674	2,759,518
Additions	86,141	7,391	30,002	123,534
At 31 December 2014	757,859	1,138,517	986,676	2,883,052
Depreciation				
At 1 January 2014	500,098	765,654	906,146	2,171,898
Charge for the year	92,559	94,746	42,290	229,595
At 31 December 2014	592,657	860,400	948,436	2,401,493
Net book value				
At 31 December 2014	165,202	278,117	38,240	481,559
At 31 December 2013	171,620	365,472	50,528	587,620

8 Stocks

	2014 £	2013 £
Raw materials and consumables	2,028,152	3,056,477

9 Debtors

	2014 £	2013 £
Trade debtors	1,621,577	651,650
Amounts owed by parent and fellow subsidiary undertakings	1,778,004	825,000
Corporation tax	39,998	-
Other debtors	30,428	45,602
Prepayments and accrued income	119,680	208,504
	3,589,687	1,730,756

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

10 Creditors: amounts falling due within one year	2014 £	2013 £
Trade creditors	497,537	333,366
Amounts owed to parent and fellow subsidiary undertakings	-	325,689
Corporation tax	-	96,450
Other taxes and social security costs	30,051	41,164
Other creditors	790,644	1,426,106
Accruals and deferred income	465,035	432,312
	<u>1,783,267</u>	<u>2,655,087</u>

11 Provisions for liabilities

	Deferred tax liability £
Balance at 1 January 2014	47,000
Profit and loss account	(42,400)
Balance at 31 December 2014	<u>4,600</u>

The deferred tax liability is made up as follows:

	2014 £	2013 £
Accelerated capital allowances	4,600	60,000
Other timing differences	-	(13,000)
	<u>4,600</u>	<u>47,000</u>

12 Pension and other post-retirement benefit commitments Defined contribution

	2014 £	2013 £
Contributions payable by the company for the year	<u>34,502</u>	<u>33,410</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

13	Share capital	2014 £	2013 £
	Allotted, called up and fully paid		
	312,500 Ordinary shares of £1 each	312,500	312,500

14 Statement of movements on profit and loss account

	Profit and loss account £
Balance at 1 January 2014	5,503,266
Profit for the year	481,590
Balance at 31 December 2014	5,984,856

15	Reconciliation of movements in shareholders' funds	2014 £	2013 £
	Profit for the financial year	481,590	2,413,832
	Dividends	-	(5,000,000)
	Net addition to/(depletion in) shareholders' funds	481,590	(2,586,168)
	Opening shareholders' funds	5,815,766	8,401,934
	Closing shareholders' funds	6,297,356	5,815,766

16 Financial commitments

At 31 December 2014 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2015:

	Land and buildings		Other	
	2014 £	2013 £	2014 £	2013 £
Operating leases which expire:				
Within one year	90,968	-	14,015	-
Between two and five years	-	90,968	-	16,144
	90,968	90,968	14,015	16,144

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

17 Capital commitments	2014	2013
	£	£

At 31 December 2014 the company had capital commitments as follows:

Contracted for but not provided in the financial statements	-	9,060
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18 Employees

Number of employees

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

	2014	2013
	Number	Number
Administration	4	5
Manufacturing	31	32
	<u>35</u>	<u>37</u>

Employment costs

	2014	2013
	£	£
Wages and salaries	1,184,481	1,251,460
Social security costs	126,999	141,028
Other pension costs	34,502	33,410
	<u>1,345,982</u>	<u>1,425,898</u>

19 Control

The company is a subsidiary undertaking of Elbit Systems Limited, a company incorporated in Israel, which is the ultimate parent undertaking and controlling party.

Elbit Systems Limited is the largest and smallest group for which group financial statements are prepared. The group financial statements of this group are available to the public and may be obtained from www.elbitsystems.com.

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) **FOR THE YEAR ENDED 31 DECEMBER 2014**

20 Related party relationships and transactions

Elbit Systems Limited ("Elbit") is the company's ultimate and immediate parent undertaking.

During the year, the company made sales amounting to £48,660 (2013: £192,597) to Elbit, made purchases amounting to £438,940 (2013: £422,065) and was re-charged overhead expenses amounting to £458,000 (2013: £458,000) from Elbit.

In addition, the company received interest of £7,134 (2013: £73,179) from Elbit, in relation to a loan advanced to them.

At 31 December 2014, included in debtors was a balance of £801,206 (2013: creditor balance: £325,689) due from Elbit.

UAV Tactical Systems Limited ("Tactical"), A-E Electronics ("A-E") and Elbit Systems UK Limited ("Elbit UK") are fellow subsidiaries of Elbit.

During the year the company made sales amounting to £1,560,483 (2013: £367,570) to Tactical and made purchases amounting to £75,601 (2013: £34,566) from A-E.

During the year the company advanced a loan to Elbit UK amounting to £nil (2013: £3,000,000) and received interest of £24,750 (2013: £66,538) from Elbit UK, in relation to this loan. The loan carries interest at a commercial rate and there is no set repayment date.

At 31 December 2014, included in debtors was a balance of £850,699 (2013: £825,000) due from Elbit UK, £126,099 (2013: £nil) due from Tactical and £nil (2013: £nil) due from A-E.