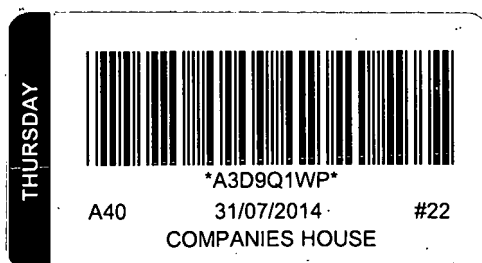


Company Registration No. 02691211 (England and Wales)

UAV ENGINES LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013



UAV ENGINES LIMITED

COMPANY INFORMATION

Directors	Mr E Aharonson Mr S Sarid Mr Y Baron (Appointed 25 June 2013)
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

CONTENTS

	Page
Directors' report	1 - 2
Independent auditors' report	3 - 4
Profit and loss account	5
Balance sheet	6
Cash flow statement	7
Notes to the cash flow statement	8
Notes to the financial statements	9 - 16

UAV ENGINES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

The directors present their report and financial statements for the year ended 31 December 2013.

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 given the competitive pressures which currently exist with many governments reigning in defence spend in all the company's market sectors. The company moves into 2014 with a healthy order-book and more than adequate assets.

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 and, 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.

Gross profit margin (gross profit as a percentage of turnover) for 2013 is 33.57% (2012: 29.4%). This is in line with the levels of gross profit achieved by the company in recent years. The margin is expected to remain at least at this level for the coming year. Source data is taken from the audited financial statements.

Results and dividends

The results for the year are set out on page 5.

Interim ordinary dividends were paid during the year amounting to £5,000,000 (2012: £4,500,000). The directors do not recommend payment of a final dividend.

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.

Post balance sheet events

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 in short term deposit 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.

Directors

The following directors have held office since 1 January 2013:

Mr E Aharonson

Mr S Sarid

Mr J Gaspar

Mr Y Baron

(Resigned 24 June 2013)

(Appointed 25 June 2013)

Auditors

In accordance with the company's articles, a resolution proposing that Edwardsbe reappointed as auditors of the company will be put at a General Meeting.

UAV ENGINES LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

Statement of directors' responsibilities

The directors are responsible for preparing the 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:

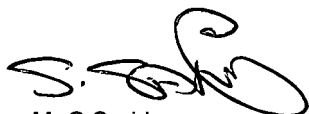
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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.

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 S Sarid

Director

17 February 2014

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 2013 set out on pages 5 to 16. 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 1 - 2, 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 Directors' Report to identify material inconsistencies with the audited financial statements. 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 2013 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.

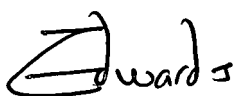
UAV ENGINES LIMITED

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.



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

17 February 2014

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 2013

	Notes	2013 £	2012 £
Turnover	2	12,950,029	14,956,193
Cost of sales		(8,602,079)	(10,559,399)
Gross profit		4,347,950	4,396,794
Administrative expenses		(1,467,476)	(1,453,503)
Operating profit	3	2,880,474	2,943,291
Other interest receivable and similar income	4	171,396	103,938
Profit on ordinary activities before taxation		3,051,870	3,047,229
Tax on profit on ordinary activities	5	(638,038)	(592,250)
Profit for the year	14	2,413,832	2,454,979

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 2013

	Notes	2013 £	£	2012 £	£
Fixed assets					
Tangible assets	7		587,620		606,967
Current assets					
Stocks	8	3,056,477		2,950,790	
Debtors	9	1,730,756		6,557,124	
Cash at bank and in hand		3,143,000		1,810,032	
		<u>7,930,233</u>		<u>11,317,946</u>	
Creditors: amounts falling due within one year	10	<u>(2,655,087)</u>		<u>(3,512,979)</u>	
Net current assets			5,275,146		7,804,967
Total assets less current liabilities			5,862,766		8,411,934
Provisions for liabilities	11		(47,000)		(10,000)
			<u>5,815,766</u>		<u>8,401,934</u>
Capital and reserves					
Called up share capital	13	312,500		312,500	
Profit and loss account	14	5,503,266		8,089,434	
Shareholders' funds	15	<u>5,815,766</u>		<u>8,401,934</u>	

Approved by the Board and authorised for issue on 17 February 2014

Mr E Aharonson
Director

Mr S Sarid
Director

Company Registration No. 02691211

UAV ENGINES LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

	2013	2012
	£	£
Net cash inflow from operating activities	7,108,816	6,243,888
Returns on investments and servicing of finance		
Interest received	171,396	103,938
Net cash inflow for returns on investments and servicing of finance	171,396	103,938
Taxation	(748,286)	(492,203)
Capital expenditure		
Payments to acquire tangible assets	(198,958)	(188,690)
Net cash outflow for capital expenditure	(198,958)	(188,690)
Equity dividends paid	(5,000,000)	(4,500,000)
Net cash inflow before management of liquid resources and financing	1,332,968	1,166,933
Increase in cash in the year	1,332,968	1,166,933

UAV ENGINES LIMITED

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

1	Reconciliation of operating profit to net cash outflow from operating activities	2013	2012		
		£	£		
	Operating profit	2,880,474	2,943,291		
	Depreciation of tangible assets	218,305	201,179		
	Increase in stocks	(105,687)	(117,120)		
	Decrease in debtors	4,826,368	1,857,296		
	(Decrease)/Increase in creditors within one year	(710,644)	1,359,242		
	Net cash inflow from operating activities	7,108,816	6,243,888		
2	Analysis of net funds	1 January 2013	Cash flow	Other non-cash changes	31 December 2013
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	1,810,032	1,332,968	-	3,143,000
	Bank deposits	-	-	-	-
	Net funds	1,810,032	1,332,968	-	3,143,000
3	Reconciliation of net cash flow to movement in net funds	2013	2012		
		£	£		
	Increase in cash in the year	1,332,968	1,166,933		
	Movement in net funds in the year	1,332,968	1,166,933		
	Opening net funds	1,810,032	643,099		
	Closing net funds	3,143,000	1,810,032		

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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 United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated).

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	10-20% 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.

1.8 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.

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.

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.

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

1 Accounting policies (Continued)

2 Turnover

Turnover is attributable to the principal activity of the company.

Geographical market

	Turnover	
	2013	2012
	£	£
United Kingdom	367,570	1,537,822
United States of America	11,103,443	11,665,069
Europe	650,331	455,586
Rest of the World	828,685	1,297,716
	<u>12,950,029</u>	<u>14,956,193</u>

3 Operating profit	2013	2012
	£	£
Operating profit is stated after charging:		
Depreciation of tangible assets	218,305	201,179
Loss on foreign exchange transactions	469	949
Research and development	287,981	324,436
Operating lease rentals	95,258	84,599
Auditors' remuneration (including expenses and benefits in kind)	13,100	12,300
	<u>218,305</u>	<u>201,179</u>

4 Investment income	2013	2012
	£	£
Bank interest	23,711	24,662
Other interest	147,685	79,276
	<u>171,396</u>	<u>103,938</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

5	Taxation	2013 £	2012 £
	Domestic current year tax		
	U.K. corporation tax	674,418	753,698
	Adjustment for prior years	(73,380)	(179,448)
	Total current tax	<u>601,038</u>	<u>574,250</u>
	Deferred tax		
	Deferred tax (credit)/charge current year	35,000	(6,000)
	Adjustment for prior years	2,000	24,000
		<u>37,000</u>	<u>18,000</u>
		<u>638,038</u>	<u>592,250</u>
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	<u>3,051,870</u>	<u>3,047,229</u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 23.25% (2012 - 24.50%)	<u>709,560</u>	<u>746,571</u>
	Effects of:		
	Non deductible expenses	294	2,945
	Depreciation add back	50,756	49,289
	Capital allowances	(62,944)	(33,281)
	Movement in warranty provision	(23,248)	(11,826)
	Adjustments to previous periods	(73,380)	(179,448)
		<u>(108,522)</u>	<u>(172,321)</u>
	Current tax charge for the year	<u>601,038</u>	<u>574,250</u>
6	Dividends	2013 £	2012 £
	Ordinary interim paid	<u>5,000,000</u>	<u>4,500,000</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

7 Tangible fixed assets

	Computer equipment	Plant and machinery	Fixtures, fittings & equipment	Total
	£	£	£	£
Cost				
At 1 January 2013	564,002	1,042,864	953,694	2,560,560
Additions	107,716	88,262	2,980	198,958
At 31 December 2013	671,718	1,131,126	956,674	2,759,518
Depreciation				
At 1 January 2013	423,523	670,787	859,283	1,953,593
Charge for the year	76,575	94,867	46,863	218,305
At 31 December 2013	500,098	765,654	906,146	2,171,898
Net book value				
At 31 December 2013	171,620	365,472	50,528	587,620
At 31 December 2012	140,479	372,077	94,411	606,967

8 Stocks	2013 £	2012 £
Raw materials and consumables	3,056,477	2,950,790

9 Debtors	2013 £	2012 £
Trade debtors	651,650	2,531,653
Amounts owed by parent and fellow subsidiary undertakings	825,000	3,705,593
Other debtors	45,602	178,314
Prepayments and accrued income	208,504	141,564
	1,730,756	6,557,124

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

10 Creditors: amounts falling due within one year	2013 £	2012 £
Trade creditors	333,366	521,604
Amounts owed to parent and fellow subsidiary undertakings	325,689	-
Corporation tax	96,450	243,698
Other taxes and social security costs	41,164	46,480
Other creditors	1,426,106	2,070,836
Accruals and deferred income	432,312	630,361
	<u>2,655,087</u>	<u>3,512,979</u>

11 Provisions for liabilities

	Deferred tax liability £
Balance at 1 January 2013	10,000
Profit and loss account	37,000
	<u>47,000</u>
Balance at 31 December 2013	<u>47,000</u>

The deferred tax liability is made up as follows:

	2013 £	2012 £
Accelerated capital allowances	60,000	48,000
Other timing differences	(13,000)	(38,000)
	<u>47,000</u>	<u>10,000</u>

12 Pension and other post-retirement benefit commitments Defined contribution

	2013 £	2012 £
Contributions payable by the company for the year	<u>33,410</u>	<u>24,074</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

13	Share capital	2013 £	2012 £
	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 2013	8,089,434
Profit for the year	2,413,832
Dividends paid	(5,000,000)
Balance at 31 December 2013	5,503,266

15	Reconciliation of movements in shareholders' funds	2013 £	2012 £
	Profit for the financial year	2,413,832	2,454,979
	Dividends	(5,000,000)	(4,500,000)
	Net depletion in shareholders' funds	(2,586,168)	(2,045,021)
	Opening shareholders' funds	8,401,934	10,446,955
	Closing shareholders' funds	5,815,766	8,401,934

16 Financial commitments

At 31 December 2013 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2014:

	Land and buildings		Other	
	2013 £	2012 £	2013 £	2012 £
Operating leases which expire:				
Within one year	-	-	-	3,405
Between two and five years	90,968	84,860	16,144	12,381
	90,968	84,860	16,144	15,786

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

17 Capital commitments	2013	2012
	£	£

At 31 December 2013 the company had capital commitments as follows:

Contracted for but not provided in the financial statements	9,060	30,125
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18 Employees

Number of employees

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

	2013	2012
	Number	Number
Administration	5	6
Manufacturing	32	31
	37	37

Employment costs	2013	2012
	£	£
Wages and salaries	1,251,460	1,252,753
Social security costs	141,028	139,432
Other pension costs	33,410	24,074
	1,425,898	1,416,259

19 Control

The immediate and ultimate holding company is Elbit Systems Limited, incorporated in Israel.

20 Related party relationships and transactions

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

20 Related party relationships and transactions

(Continued)

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

During the year, the company made sales amounting to £192,597 (2012: £179,375) to Elbit, made purchases amounting to £422,065 (2012 : £414,571) and was re-charged overhead expenses amounting to £458,000 (2012: £420,000) from Elbit.

In addition, the company received interest of £73,179 (2012: £77,669) from Elbit, in relation to a loan advanced to them.

At 31 December 2013, included in creditors was a balance of £325,689 (2012: debtor balance: £2,524,088) due to Elbit.

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

During the year the company made sales amounting to £367,570 (2012: £1,488,944) to Tactical and made purchases amounting to £34,566 (2012: £133,682) from SC-A.

During the year the company advanced a loan to Elbit UK amounting to £3,000,000 and received interest of £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 2013, included in debtors was a balance of £825,000 (2012: £nil) due from Elbit UK, £nil (2012: £78,126) due from Tactical and £nil (2012: due to SC-A £28,255) due from SC-A.