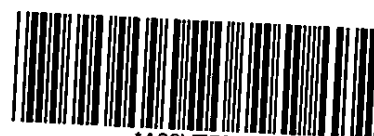


Company Registration No 02691211 (England and Wales)

UAV ENGINES LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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UAV ENGINES LIMITED

COMPANY INFORMATION

Directors	J Gaspar E Aharonson S Sarid
Secretary	C J Biddulph
Company number	02691211
Registered office	Lynn Lane Shenstone Lichfield Staffordshire WS14 0DT
Auditors	Edwards Harmony House 34 High Street Aldridge West Midlands WS9 8LZ
Business address	Lynn Lane Shenstone Lichfield Staffordshire WS14 0DT
Bankers	Natwest Bank plc 47 Market Street Lichfield Stafforshire 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 2012

The directors present their report and financial statements for the year ended 31 December 2012

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 2012 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 2012 is 29.4% (2011 30.0%). 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 £4,500,000 (2011 £Nil). 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

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 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 2012

J Gaspar
E Aharonson
S Sarid

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

UAV ENGINES LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

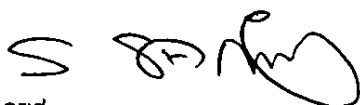
- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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



S Sand

Director

5 February 2013

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 2012 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 Part 3 of Chapter 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 2012 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 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

5 February 2013

Chartered Accountants
Statutory Auditor

Harmony House
34 High Street
Aldridge
West Midlands
WS9 8LZ

UAV ENGINES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £	2011 £
Turnover	2	14,956,193	13,310,874
Cost of sales		(10,559,399)	(9,318,276)
Gross profit		4,396,794	3,992,598
Administrative expenses		(1,453,503)	(1,411,592)
Operating profit	3	2,943,291	2,581,006
Other interest receivable and similar income	4	103,938	159,506
Profit on ordinary activities before taxation		3,047,229	2,740,512
Tax on profit on ordinary activities	5	(592,250)	(792,485)
Profit for the year	14	2,454,979	1,948,027

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 2012

	Notes	2012 £	£	2011 £	£
Fixed assets					
Tangible assets	7		606,967		619,456
Current assets					
Stocks	8	2,950,790		2,833,670	
Debtors	9	6,557,124		8,422,420	
Cash at bank and in hand		1,810,032		643,099	
		11,317,946		11,899,189	
Creditors amounts falling due within one year	10	(3,512,979)		(2,071,690)	
Net current assets			7,804,967		9,827,499
Total assets less current liabilities			8,411,934		10,446,955
Provisions for liabilities	11		(10,000)		-
			8,401,934		10,446,955
Capital and reserves					
Called up share capital	13	312,500		312,500	
Profit and loss account	14	8,089,434		10,134,455	
Shareholders' funds	15	8,401,934		10,446,955	

Approved by the Board and authorised for issue on 5 February 2013


S Sarid
Director


E Aharonson
Director

Company Registration No. 02691211

UAV ENGINES LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	£	2012 £	£	2011 £
Net cash inflow from operating activities		6,243,888		1,115,378
Returns on investments and servicing of finance				
Interest received	103,938		159,506	
	<u> </u>		<u> </u>	
Net cash inflow for returns on investments and servicing of finance		103,938		159,506
Taxation		(492,203)		(1,018,882)
Capital expenditure				
Payments to acquire tangible assets	(188,690)		(111,027)	
	<u> </u>		<u> </u>	
Net cash outflow for capital expenditure		(188,690)		(111,027)
Equity dividends paid		(4,500,000)		-
		<u> </u>		<u> </u>
Net cash inflow before management of liquid resources and financing		1,166,933		144,975
		<u> </u>		<u> </u>
Increase in cash in the year		<u>1,166,933</u>		<u>144,975</u>

UAV ENGINES LIMITED

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

1	Reconciliation of operating profit to net cash inflow from operating activities	2012		2011	
		£		£	
	Operating profit	2,943,291		2,581,006	
	Depreciation of tangible assets	201,179		199,240	
	Increase in stocks	(117,120)		(10,813)	
	Decrease/(increase) in debtors	1,857,296		(338,499)	
	Increase/(decrease) in creditors within one year	1,359,242		(1,315,556)	
	Net cash inflow from operating activities	6,243,888		1,115,378	
2	Analysis of net funds	1 January 2012	Cash flow	Other non-cash changes	31 December 2012
		£	£	£	£
	Net cash				
	Cash at bank and in hand	643,099	1,166,933	-	1,810,032
	Bank deposits	-	-	-	-
	Net funds	643,099	1,166,933	-	1,810,032
3	Reconciliation of net cash flow to movement in net funds	2012		2011	
		£		£	
	Increase in cash in the year	1,166,933		144,975	
	Movement in net funds in the year	1,166,933		144,975	
	Opening net funds	643,099		498,124	
	Closing net funds	1,810,032		643,099	

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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 1/3% 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 2012

2 Turnover

Turnover is attributable to the principal activity of the company

Geographical market

	Turnover	
	2012	2011
	£	£
United Kingdom	1,537,822	1,718,791
United States of America	11,665,069	9,223,441
Europe	455,586	417,150
Rest of the World	1,297,716	1,951,492
	<u>14,956,193</u>	<u>13,310,874</u>

3 Operating profit

	2012	2011
	£	£
Operating profit is stated after charging		
Depreciation of tangible assets	201,179	199,240
Loss on foreign exchange transactions	949	-
Research and development	324,436	245,359
Operating lease rentals	84,599	86,503
Auditors' remuneration (including expenses and benefits in kind)	12,300	11,000
and after crediting		
Profit on foreign exchange transactions	-	(2,935)
	<u>-</u>	<u>(2,935)</u>

4 Investment income

	2012	2011
	£	£
Bank interest	24,662	8,309
Other interest	79,276	151,197
	<u>103,938</u>	<u>159,506</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

5	Taxation	2012 £	2011 £
	Domestic current year tax		
	U K corporation tax	753,698	751,651
	Adjustment for prior years	(179,448)	(166)
	Total current tax	<u>574,250</u>	<u>751,485</u>
	Deferred tax		
	Deferred tax (credit)/charge current year	(6,000)	(26,000)
	Adjustment for prior years	24,000	67,000
		<u>18,000</u>	<u>41,000</u>
		<u>592,250</u>	<u>792,485</u>
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	<u>3,047,229</u>	<u>2,740,512</u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 24.50% (2011 - 26.50%)	<u>746,571</u>	<u>726,236</u>
	Effects of		
	Non deductible expenses	2,945	649
	Depreciation add back	49,289	52,799
	Capital allowances	(33,281)	(55,594)
	Movement in warranty provision	(11,826)	27,561
	Adjustments to previous periods	(179,448)	(166)
		<u>(172,321)</u>	<u>25,249</u>
	Current tax charge for the year	<u>574,250</u>	<u>751,485</u>
6	Dividends	2012 £	2011 £
	Ordinary interim paid	<u>4,500,000</u>	<u>-</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

7 Tangible fixed assets

	Computer equipment	Plant and machinery	Fixtures, fittings & equipment	Total
	£	£	£	£
Cost				
At 1 January 2012	427,175	991,001	953,694	2,371,870
Additions	136,827	51,863	-	188,690
	<u>564,002</u>	<u>1,042,864</u>	<u>953,694</u>	<u>2,560,560</u>
At 31 December 2012				
Depreciation				
At 1 January 2012	352,110	588,357	811,947	1,752,414
Charge for the year	71,413	82,430	47,336	201,179
	<u>423,523</u>	<u>670,787</u>	<u>859,283</u>	<u>1,953,593</u>
At 31 December 2012				
Net book value				
At 31 December 2012	<u>140,479</u>	<u>372,077</u>	<u>94,411</u>	<u>606,967</u>
At 31 December 2011	<u>75,065</u>	<u>402,644</u>	<u>141,747</u>	<u>619,456</u>

8 Stocks

	2012 £	2011 £
Raw materials and consumables	<u>2,950,790</u>	<u>2,833,670</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

9 Debtors	2012 £	2011 £
Trade debtors	2,531,653	1,184,559
Amounts owed by parent and fellow subsidiary undertakings	3,705,593	6,939,898
Other debtors	178,314	109,401
Prepayments and accrued income	141,564	180,562
Deferred tax asset (see note 11)	-	8,000
	<u>6,557,124</u>	<u>8,422,420</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.

10 Creditors' amounts falling due within one year	2012 £	2011 £
Trade creditors	521,604	276,185
Corporation tax	243,698	161,651
Other taxes and social security costs	46,480	44,513
Other creditors	2,070,836	1,027,337
Accruals and deferred income	630,361	562,004
	<u>3,512,979</u>	<u>2,071,690</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

11 Provisions for liabilities and charges

	Deferred tax liability £
Balance at 1 January 2012	(8,000)
Profit and loss account	18,000
	<u>10,000</u>
Balance at 31 December 2012	<u>10,000</u>

The deferred tax liability is made up as follows

	2012 £	2011 £
Accelerated capital allowances	48,000	47,000
Other timing differences	(38,000)	(55,000)
	<u>10,000</u>	<u>(8,000)</u>

12 Pension and other post-retirement benefit commitments Defined contribution

	2012 £	2011 £
Contributions payable by the company for the year	<u>24,074</u>	<u>28,580</u>

13 Share capital

	2012 £	2011 £
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 2012

14 Statement of movements on profit and loss account

	Profit and loss account £
Balance at 1 January 2012	10,134,455
Profit for the year	2,454,979
Dividends paid	(4,500,000)
Balance at 31 December 2012	<u>8,089,434</u>

15 Reconciliation of movements in shareholders' funds

	2012 £	2011 £
Profit for the financial year	2,454,979	1,948,027
Dividends	(4,500,000)	-
Net (depletion in)/addition to shareholders' funds	(2,045,021)	1,948,027
Opening shareholders' funds	10,446,955	8,498,928
Closing shareholders' funds	<u>8,401,934</u>	<u>10,446,955</u>

16 Financial commitments

At 31 December 2012 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2013

	Land and buildings		Other	
	2012 £	2011 £	2012 £	2011 £
Operating leases which expire				
Within one year	-	-	3,405	10,863
Between two and five years	84,860	84,860	12,381	5,107
	<u>84,860</u>	<u>84,860</u>	<u>15,786</u>	<u>15,970</u>

17 Capital commitments

	2012 £	2011 £
At 31 December 2012 the company had capital commitments as follows		
Contracted for but not provided in the financial statements	<u>30,125</u>	<u>-</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

18 Employees

Number of employees

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

	2012 Number	2011 Number
Administration	6	6
Manufacturing	31	31
	<u>37</u>	<u>37</u>

Employment costs

	2012 £	2011 £
Wages and salaries	1,252,753	1,218,988
Social security costs	139,432	134,624
Other pension costs	24,074	28,580
	<u>1,416,259</u>	<u>1,382,192</u>

19 Control

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

20 Related party transactions

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

During the year the company made sales amounting to £272,385 (2011 £215,283) to Elbit, made purchases amounting to £1,131,634 (2011 £Nil) and was re-charged overhead expenses amounting to £336,000 (2011 £336,000) from Elbit. In addition, the company received interest of £77,669 (2011 £151,197) from Elbit, in relation to a loan advanced to them

At 31 December 2012, included in debtors was a balance of £3,655,722 (2011 £6,220,590) due from Elbit

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

During the year the company made sales amounting to £1,488,944 (2011 £1,175,331) to Tactical and made purchases amounting to £160,333 (2011 £33,645) from SC-A

At 31 December 2012, included in debtors was a balance of £78,126 (2011 £719,692) due from Tactical and a credit balance of £28,255 (2011 £384) due to SC-A