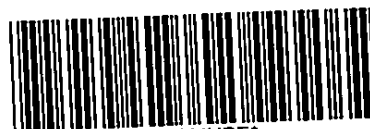


Company Registration No 2691211 (England and Wales)

UAV ENGINES LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

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UAV ENGINES LIMITED

COMPANY INFORMATION

Directors	J Gaspar E Aharonson S Sarid	(Appointed 1 February 2011)
Secretary	C J Biddulph	
Company number	2691211	
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	HSBC plc 49 Market Street Lichfield Staffordshire WS13 6LB	

UAV ENGINES LIMITED

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UAV ENGINES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2010

The directors present their report and financial statements for the year ended 31 December 2010

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. During the year the company experienced customer-driven delays on some major programs which reduced turnover during the year but the directors feel that sales will recover from 2011 onwards and the general market will show some measured growth in the next few years at least. The company moves into 2011 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 2010 is 36.4% (2009 32.7%). 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 £2,000,000 (2009 £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 2010

I Dvir (Resigned 1 February 2011)

J Gaspar

E Aharonson (Appointed 1 February 2011)

S Sand

UAV ENGINES LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

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

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

3 March 2011

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 2010 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.

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 2010 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



D C P Webb FCA (Senior Statutory Auditor)
for and on behalf of Edwards

3 March 2011

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 2010

	Notes	2010 £	2009 £
Turnover	2	13,082,104	16,230,012
Cost of sales		(8,319,470)	(10,896,251)
Gross profit		4,762,634	5,333,761
Administrative expenses		(1,395,301)	(1,250,288)
Operating profit	3	3,367,333	4,083,473
Other interest receivable and similar income	4	47,734	32,428
Interest payable and similar charges	5	-	(4,239)
Profit on ordinary activities before taxation		3,415,067	4,111,662
Tax on profit on ordinary activities	6	(788,770)	(1,039,609)
Profit for the year	15	2,626,297	3,072,053

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

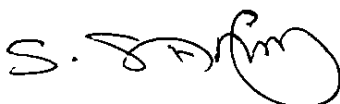
UAV ENGINES LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2010

	Notes	2010 £	£	2009 £	£
Fixed assets					
Tangible assets	8		707,669		610,375
Current assets					
Stocks	9	2,822,857		2,627,488	
Debtors	10	8,124,921		5,961,083	
Cash at bank and in hand		498,124		310,683	
		11,445,902		8,899,254	
Creditors: amounts falling due within one year	11	(3,654,643)		(1,636,998)	
Net current assets			7,791,259		7,262,256
Total assets less current liabilities			8,498,928		7,872,631
			<u>8,498,928</u>		<u>7,872,631</u>
Capital and reserves					
Called up share capital	14		312,500		312,500
Profit and loss account	15		8,186,428		7,560,131
Shareholders' funds	16		8,498,928		7,872,631

Approved by the Board and authorised for issue on 3 March 2011



S Sarid
Director

E Aharonson
Director



Company Registration No 2691211

UAV ENGINES LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010	2009
	£	£
Net cash inflow from operating activities	3,169,318	1,200,528
Returns on investments and servicing of finance		
Interest received	47,734	32,428
Interest paid	-	(4,239)
Net cash inflow for returns on investments and servicing of finance	47,734	28,189
Taxation	(753,209)	(1,121,795)
Capital expenditure		
Payments to acquire tangible assets	(276,402)	(383,508)
Net cash outflow for capital expenditure	(276,402)	(383,508)
Equity dividends paid	(2,000,000)	-
Net cash inflow/(outflow) before management of liquid resources and financing	187,441	(276,586)
Increase/(decrease) in cash in the year	187,441	(276,586)

UAV ENGINES LIMITED

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

1	Reconciliation of operating profit to net cash inflow from operating activities	2010	2009
		£	£
	Operating profit	3,367,333	4,083,473
	Depreciation of tangible assets	179,108	326,845
	Increase in stocks	(195,369)	(682,054)
	Increase in debtors	(2,209,838)	(2,181,605)
	Increase/(decrease) in creditors within one year	2,028,084	(346,131)
	Net cash inflow from operating activities	3,169,318	1,200,528

2	Analysis of net funds	1 January 2010	Cash flow	Other non-cash changes	31 December 2010
		£	£	£	£
	Net cash				
	Cash at bank and in hand	310,683	187,441	-	498,124
	Bank deposits	-	-	-	-
	Net funds	310,683	187,441	-	498,124

3	Reconciliation of net cash flow to movement in net funds	2010	2009
		£	£
	Increase/(decrease) in cash in the year	187,441	(276,586)
	Movement in net funds in the year	187,441	(276,586)
	Opening net funds	310,683	587,269
	Closing net funds	498,124	310,683

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 and work in progress

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 2010

2 Turnover

Turnover is attributable to the principal activity of the company

Geographical market

	Turnover 2010 £	2009 £
United Kingdom	1,227,191	681,098
United States of America	9,076,067	14,146,338
Europe	1,514,398	306,533
Rest of the World	1,264,448	1,096,043
	<u>13,082,104</u>	<u>16,230,012</u>

3 Operating profit

	2010 £	2009 £
Operating profit is stated after charging		
Depreciation of tangible assets	179,108	326,845
Loss on foreign exchange transactions	1,397	-
Research and development	245,337	231,906
Operating lease rentals	72,214	89,956
Auditors' remuneration (including expenses and benefits in kind)	10,000	14,650
and after crediting		
Profit on foreign exchange transactions	<u>-</u>	<u>(1,102)</u>

4 Investment income

	2010 £	2009 £
Bank interest	3,470	1,957
Other interest	44,264	30,471
	<u>47,734</u>	<u>32,428</u>

5 Interest payable

	2010 £	2009 £
On overdue tax	<u>-</u>	<u>4,239</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2010

6	Taxation	2010 £	2009 £
	Domestic current year tax		
	U K corporation tax	914,048	1,160,831
	Adjustment for prior years	(171,278)	(116,222)
	Total current tax	<u>742,770</u>	<u>1,044,609</u>
	Deferred tax		
	Deferred tax charge/credit current year	46,000	(5,000)
		<u>788,770</u>	<u>1,039,609</u>
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	<u>3,415,067</u>	<u>4,111,662</u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28.00% (2009 - 28.00%)	<u>956,219</u>	<u>1,151,265</u>
	Effects of		
	Non deductible expenses	2,456	1,891
	Depreciation add back	50,150	91,517
	Capital allowances	(79,594)	(69,166)
	Movement in warranty provision	(15,183)	(14,676)
	Adjustments to previous periods	(171,278)	(116,222)
		<u>(213,449)</u>	<u>(106,656)</u>
	Current tax charge for the year	<u>742,770</u>	<u>1,044,609</u>
7	Dividends	2010 £	2009 £
	Ordinary interim paid	<u>2,000,000</u>	<u>-</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2010

8 Tangible fixed assets

	Computer equipment	Plant and machinery	Fixtures, fittings & equipment	Total
	£	£	£	£
Cost				
At 1 January 2010	338,808	738,965	906,668	1,984,441
Additions	65,733	174,999	35,670	276,402
	<u>404,541</u>	<u>913,964</u>	<u>942,338</u>	<u>2,260,843</u>
At 31 December 2010				
Depreciation				
At 1 January 2010	213,099	455,228	705,739	1,374,066
Charge for the year	73,541	53,169	52,398	179,108
	<u>286,640</u>	<u>508,397</u>	<u>758,137</u>	<u>1,553,174</u>
At 31 December 2010				
Net book value				
At 31 December 2010	<u>117,901</u>	<u>405,567</u>	<u>184,201</u>	<u>707,669</u>
At 31 December 2009	<u>125,709</u>	<u>283,737</u>	<u>200,929</u>	<u>610,375</u>

9 Stocks and work in progress

	2010 £	2009 £
Raw materials and consumables	2,822,857	2,560,888
Work in progress	-	66,600
	<u>2,822,857</u>	<u>2,627,488</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2010

10 Debtors	2010 £	2009 £
Trade debtors	2,306,777	1,989,045
Amounts owed by parent and fellow subsidiary undertakings	5,433,331	3,647,839
Other debtors	89,118	61,453
Prepayments and accrued income	246,695	167,746
Deferred tax asset (see note 12)	49,000	95,000
	<u>8,124,921</u>	<u>5,961,083</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.

11 Creditors: amounts falling due within one year	2010 £	2009 £
Trade creditors	434,274	713,655
Corporation tax	429,048	439,487
Other taxes and social security costs	44,367	-
Other creditors	2,424,595	50,217
Accruals and deferred income	322,359	433,639
	<u>3,654,643</u>	<u>1,636,998</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2010

12 Provisions for liabilities and charges

The deferred tax asset (included in debtors, note 10) is made up as follows:

	2010 £
Balance at 1 January 2010	(95,000)
Profit and loss account	46,000
	<u>(49,000)</u>
Balance at 31 December 2010	<u>(49,000)</u>

	2010 £	2009 £
Decelerated capital allowances	(21,000)	(50,000)
Other timing differences	(28,000)	(45,000)
	<u>(49,000)</u>	<u>(95,000)</u>

13 Pension and other post-retirement benefit commitments Defined contribution

	2010 £	2009 £
Contributions payable by the company for the year	15,368	24,648
	<u>15,368</u>	<u>24,648</u>

14 Share capital

	2010 £	2009 £
Allotted, called up and fully paid		
312,500 Ordinary shares of £1 each	312,500	312,500
	<u>312,500</u>	<u>312,500</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2010

15 Statement of movements on profit and loss account

	Profit and loss account £
Balance at 1 January 2010	7,560,131
Profit for the year	2,626,297
Dividends paid	(2,000,000)
Balance at 31 December 2010	<u>8,186,428</u>

16 Reconciliation of movements in shareholders' funds

	2010 £	2009 £
Profit for the financial year	2,626,297	3,072,053
Dividends	(2,000,000)	-
Net addition to shareholders' funds	<u>626,297</u>	<u>3,072,053</u>
Opening shareholders' funds	7,872,631	4,800,578
Closing shareholders' funds	<u>8,498,928</u>	<u>7,872,631</u>

17 Financial commitments

At 31 December 2010 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2011

	Land and buildings		Other	
	2010 £	2009 £	2010 £	2009 £
Operating leases which expire				
Between two and five years	84,860	-	17,410	12,303
In over five years	-	73,645	-	-
	<u>84,860</u>	<u>73,645</u>	<u>17,410</u>	<u>12,303</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2010

18 Employees

Number of employees

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

	2010 Number	2009 Number
Administration	7	7
Manufacturing	34	35
	<u>41</u>	<u>42</u>

Employment costs

	2010 £	2009 £
Wages and salaries	1,271,513	1,254,923
Social security costs	135,679	133,776
Other pension costs	15,368	24,648
	<u>1,422,560</u>	<u>1,413,347</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 £525,078 (2009 £176,468) to Elbit, made purchases amounting to £Nil (2009 £550,120) and was re-charged overhead expenses amounting to £307,000 (2009 £241,000) from Elbit. In addition, the company received interest of £43,670 (2009 £13,692) from Elbit, in relation to a loan advanced to them

At 31 December 2010, included in debtors was a balance of £5,433,331 (2009 £3,647,839) due from Elbit