

Company Registration No. 2691211 (England and Wales)

UAV ENGINES LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

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UAV ENGINES LIMITED

COMPANY INFORMATION

Directors	I Dvir J Gaspar S Sand
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

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 2009

The directors present their report and financial statements for the year ended 31 December 2009

Principal activities and review of the business

The principal activity of the company continued to be that of the design, manufacture and sale of high performance rotary engines for unmanned air vehicles

The results for the year and the financial position at the year end were considered satisfactory by the directors who expect continued growth in the foreseeable future

The market for high performance rotary engines for unmanned air vehicles, is driven by the level of conflict in the world UAV offers a unique product that controls a large percentage of sales within the unmanned air vehicles market If all conflict in the world were to cease, the directors' are of the opinion that the company would still be able to operate profitably, via the sale of spare parts to maintain engines sold previously

Export sales are subject to UK export control regulations This is an area that could provide uncertainty, although no major problems have been encountered in the recent past

Gross profit margin (gross profit as a percentage of turnover) for 2009 is 32.69% (2008 33.93%) This is in line with the levels of gross profit achieved by the company in recent years The margin is expected to remain stable in the coming year Source data is taken from the audited financial statements

Annualised sales growth (the annual increase in revenue as a percentage of revenue from the prior year) for 2009 is 27.93% (2008 0.44%) Sales have continued to grow due to the continuing conflicts in the Middle East and around the World 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 £Nil (2008 £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

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 They also seek to minimise the company's exposure to any foreign exchange movements by carefully managing the timing of remitting funds to the United Kingdom

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

UAV ENGINES LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

Directors

The following directors have held office since 1 January 2009

I Dvir
J Gaspar
S Sand

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

I Dvir


Director

22 February 2010

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 2009 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 sections 495 and 496 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 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 2009 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

22 February 2010

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 2009

	Notes	2009 £	2008 £
Turnover	2	16,230,012	12,686,663
Cost of sales		(10,923,656)	(8,382,642)
Gross profit		5,306,356	4,304,021
Administrative expenses		(1,222,883)	(1,343,904)
Operating profit	3	4,083,473	2,960,117
Other interest receivable and similar income	4	32,428	251,247
Interest payable and similar charges	5	(4,239)	(16,132)
Profit on ordinary activities before taxation		4,111,662	3,195,232
Tax on profit on ordinary activities	6	(1,039,609)	(952,673)
Profit for the year	15	3,072,053	2,242,559

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 2009

	Notes	2009 £	£	2008 £	£
Fixed assets					
Tangible assets	8	610,375		553,712	
Current assets					
Stocks	9	2,627,488		1,945,434	
Debtors	10	5,961,083		3,774,478	
Cash at bank and in hand		310,683		587,269	
		<u>8,899,254</u>		<u>6,307,181</u>	
Creditors: amounts falling due within one year	11	<u>(1,636,998)</u>		<u>(2,060,315)</u>	
Net current assets		<u>7,262,256</u>		<u>4,246,866</u>	
Total assets less current liabilities		<u>7,872,631</u>		<u>4,800,578</u>	
		<u>7,872,631</u>		<u>4,800,578</u>	
Capital and reserves					
Called up share capital	14	312,500		312,500	
Profit and loss account	15	7,560,131		4,488,078	
Shareholders' funds	16	<u>7,872,631</u>		<u>4,800,578</u>	

Approved by the Board and authorised for issue on 22 February 2010

I Dvir
Director



S Sand
Director



Company Registration No 2691211

UAV ENGINES LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	£	2009 £	£	2008 £
Net cash inflow from operating activities		1,200,528		5,459,910
Returns on investments and servicing of finance				
Interest received	32,428		251,247	
Interest paid	(4,239)		(16,132)	
Net cash inflow for returns on investments and servicing of finance		28,189		235,115
Taxation		(1,121,795)		(1,091,356)
Capital expenditure				
Payments to acquire tangible assets	(383,508)		(357,390)	
Receipts from sales of tangible assets	-		30	
Net cash outflow for capital expenditure		(383,508)		(357,360)
Equity dividends paid		-		(4,500,000)
Net cash outflow before management of liquid resources and financing		(276,586)		(253,691)
Decrease in cash in the year		(276,586)		(253,691)

UAV ENGINES LIMITED

NOTES TO THE CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

1	Reconciliation of operating profit to net cash inflow from operating activities	2009		2008	
		£		£	
	Operating profit	4,083,473		2,960,117	
	Depreciation of tangible assets	326,845		310,691	
	Profit on disposal of tangible assets	-		(30)	
	Increase in stocks	(682,054)		(859,353)	
	(Increase)/decrease in debtors	(2,181,605)		3,052,010	
	Decrease in creditors within one year	(346,131)		(3,525)	
	Net cash inflow from operating activities	1,200,528		5,459,910	
2	Analysis of net funds	1 January 2009	Cash flow	Other non-cash changes	31 December 2009
		£	£	£	£
	Net cash				
	Cash at bank and in hand	587,269	(276,586)	-	310,683
	Net funds	587,269	(276,586)	-	310,683
3	Reconciliation of net cash flow to movement in net funds	2009		2008	
		£		£	
	Decrease in cash in the year	(276,586)		(253,691)	
	Movement in net funds in the year	(276,586)		(253,691)	
	Opening net funds	587,269		840,960	
	Closing net funds	310,683		587,269	

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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
Motor vehicles	20% Straight line

1.6 Leasing

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

1.7 Stock and work in progress

Stock and work in progress are valued at the lower of cost and net realisable value.

1.8 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.

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2009

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 attributable to the principal activity of the company

Geographical market

	Turnover 2009 £	2008 £
United Kingdom	681,098	205,929
United States of America	14,146,338	11,083,919
Europe	306,533	1,102,441
Rest of the World	1,096,043	294,374
	<u>16,230,012</u>	<u>12,686,663</u>

3 Operating profit

	2009 £	2008 £
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Operating profit is stated after charging

Depreciation of tangible assets	326,845	310,691
Research and development	231,906	231,229
Operating lease rentals	89,956	77,087
Auditors' remuneration (including expenses and benefits in kind)	14,650	8,450

and after crediting

Profit on disposal of tangible assets	-	(30)
Profit on foreign exchange transactions	(1,102)	(11,343)

4 Investment income

	2009 £	2008 £
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Bank interest	1,957	46,893
Other interest	30,471	204,354
	<u>32,428</u>	<u>251,247</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2009

5	Interest payable	2009	2008
		£	£
	On overdue tax	4,239	16,132
		<u> </u>	<u> </u>
6	Taxation	2009	2008
		£	£
	Domestic current year tax		
	U K corporation tax	1,160,831	976,673
	Adjustment for prior years	(116,222)	-
		<u> </u>	<u> </u>
	Current tax charge	1,044,609	976,673
	Deferred tax		
	Deferred tax charge/credit current year	(5,000)	(24,000)
		<u> </u>	<u> </u>
		1,039,609	952,673
		<u> </u>	<u> </u>
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	4,111,662	3,195,232
		<u> </u>	<u> </u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28.00% (2008 - 28.50%)	1,151,265	910,641
		<u> </u>	<u> </u>
	Effects of		
	Non deductible expenses	1,891	26,569
	Depreciation add back	91,517	88,547
	Capital allowances	(69,166)	(59,049)
	Movement in warranty provision	(14,676)	10,059
	Adjustments to previous periods	(116,222)	-
	Other tax adjustments	-	(94)
		<u> </u>	<u> </u>
		(106,656)	66,032
		<u> </u>	<u> </u>
	Current tax charge	1,044,609	976,673
		<u> </u>	<u> </u>
7	Dividends	2009	2008
		£	£
	Ordinary interim paid	-	4,500,000
		<u> </u>	<u> </u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2009

8 Tangible fixed assets

	Computer equipment	Plant and machinery	Fixtures, fittings & equipment	Total
	£	£	£	£
Cost				
At 1 January 2009	228,319	625,508	747,106	1,600,933
Additions	110,489	113,457	159,562	383,508
	<u>338,808</u>	<u>738,965</u>	<u>906,668</u>	<u>1,984,441</u>
At 31 December 2009				
Depreciation				
At 1 January 2009	166,420	423,154	457,647	1,047,221
Charge for the year	46,679	32,074	248,092	326,845
	<u>213,099</u>	<u>455,228</u>	<u>705,739</u>	<u>1,374,066</u>
At 31 December 2009				
Net book value				
At 31 December 2009	<u>125,709</u>	<u>283,737</u>	<u>200,929</u>	<u>610,375</u>
At 31 December 2008	<u>61,899</u>	<u>202,354</u>	<u>289,459</u>	<u>553,712</u>

9 Stocks and work in progress

	2009 £	2008 £
Raw materials and consumables	2,560,888	1,650,444
Work in progress	66,600	294,990
	<u>2,627,488</u>	<u>1,945,434</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2009

10 Debtors	2009 £	2008 £
Trade debtors	1,989,045	2,389,121
Amounts owed by parent and fellow subsidiary undertakings	3,647,839	837,946
Other debtors	61,453	301,442
Prepayments and accrued income	167,746	155,969
Deferred tax asset (see note 12)	95,000	90,000
	<u>5,961,083</u>	<u>3,774,478</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	2009 £	2008 £
Trade creditors	713,655	979,864
Corporation tax	439,487	516,673
Other taxes and social security costs	-	39,615
Other creditors	50,217	50,533
Accruals and deferred income	433,639	473,630
	<u>1,636,998</u>	<u>2,060,315</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2009

12 Provisions for liabilities and charges

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

	2009 £
Balance at 1 January 2009	(90,000)
Profit and loss account	(5,000)
	<hr/>
Balance at 31 December 2009	(95,000)
	<hr/>

	2009 £	2008 £
Decelerated capital allowances	(50,000)	(30,000)
Other timing differences	(45,000)	(60,000)
	<hr/>	<hr/>
	(95,000)	(90,000)
	<hr/>	<hr/>

13 Pension and other post-retirement benefit commitments Defined contribution

	2009 £	2008 £
Contributions payable by the company for the year	24,648	19,922
	<hr/>	<hr/>

14 Share capital

	2009 £	2008 £
Authorised		
312,500 Ordinary shares of £1 each	312,500	312,500
	<hr/>	<hr/>
Allotted, called up and fully paid		
312,500 Ordinary shares of £1 each	312,500	312,500
	<hr/>	<hr/>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2009

15 Statement of movements on profit and loss account

	Profit and loss account £
Balance at 1 January 2009	4,488,078
Profit for the year	3,072,053
	<u> </u>
Balance at 31 December 2009	<u>7,560,131</u>

16 Reconciliation of movements in shareholders' funds

	2009 £	2008 £
Profit for the financial year	3,072,053	2,242,559
Dividends	-	(4,500,000)
	<u> </u>	<u> </u>
Net addition to/(depletion in) shareholders' funds	3,072,053	(2,257,441)
Opening shareholders' funds	4,800,578	7,058,019
	<u> </u>	<u> </u>
Closing shareholders' funds	<u>7,872,631</u>	<u>4,800,578</u>

17 Financial commitments

At 31 December 2009 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2010

	Land and buildings	
	2009 £	2008 £
Operating leases which expire		
Between two and five years	-	70,116
In over five years	73,645	-
	<u> </u>	<u> </u>
	<u>73,645</u>	<u>70,116</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2009

18 Employees

Number of employees

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

	2009 Number	2008 Number
Administration	7	6
Manufacturing	35	35
	<u>42</u>	<u>41</u>

Employment costs

	2009 £	2008 £
Wages and salaries	1,254,923	1,208,898
Social security costs	133,776	126,080
Other pension costs	24,648	19,922
	<u>1,413,347</u>	<u>1,354,900</u>

19 Control

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

20 Related party transactions

During the year UAV Engines Limited made sales of £176,468 (2008 £346,921) to and purchases of £550,120 (2008 £485,247) from Silver Arrow Partnership Limited, the immediate parent company. There was also interest received of £13,692 (2008 £204,354) from Silver Arrow Partnership Limited, in relation to a loan advanced to them.

At the year end there was a balance of £3,647,839 (2008 £837,946) due from Silver Arrow Partnership Limited.