

Company Registration No. 2691211 (England and Wales)

**UAV ENGINES LIMITED**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2000**



KERSHEN-FAIRFAX  
CHARTERED ACCOUNTANTS

# UAV ENGINES LIMITED

## COMPANY INFORMATION

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<b>Directors</b>	S Shapira I Dvir J Gaspar
<b>Secretary</b>	C J Biddulph
<b>Company number</b>	2691211
<b>Registered office</b>	Lynn Lane Shenstone Lichfield Staffordshire WS14 0EA
<b>Auditors</b>	Kershen Fairfax 11 Kingsway London WC2B 6XE
<b>Business address</b>	Lynn Lane Shenstone Lichfield Staffordshire WS14 0EA
<b>Bankers</b>	Lloyds TSB Bank plc 30 High Street Coventry CV1 5RA

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# UAV ENGINES LIMITED

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# UAV ENGINES LIMITED

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2000

The directors present their report and financial statements for the year ended 31 December 2000.

### Principal activities and review of the business

The Company's principal activity continues to be the design, manufacture and sale of high performance rotary engines for unmanned air vehicles.

The directors consider the results to be satisfactory and anticipate another profitable year in 2001.

### Results and dividends

The results for the year are set out on page 3.

### Directors

The following directors have held office since 1 January 2000:

S Shapira  
I Dvir  
J Gaspar

### Directors' interests

None of the directors who held office during the year held beneficial interests in the shares of the company.

### Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Kershen Fairfax be reappointed as auditors of the company will be put to the Annual General Meeting.

### Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

On behalf of the board

Dvir ..... 5.6.01  
Joseph Gaspar

# UAV ENGINES LIMITED

## AUDITORS' REPORT TO THE SHAREHOLDERS OF UAV ENGINES LIMITED

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We have audited the financial statements on pages 3 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

### Respective responsibilities of directors and auditors

As described on page 1 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Kershen Fairfax*

Kershen Fairfax

Chartered Accountants  
Registered Auditor

*6th June 2001*  
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11 Kingsway  
London  
WC2B 6XE

# UAV ENGINES LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2000

	Notes	2000 £	1999 £
Turnover	2	2,117,895	3,001,356
Cost of sales		(1,538,045)	(2,112,634)
<b>Gross profit</b>		<u>579,850</u>	<u>888,722</u>
Administrative expenses		(332,804)	(366,818)
<b>Operating profit</b>	3	<u>247,046</u>	<u>521,904</u>
Interest receivable		10,326	5,674
Interest payable	4	(1,120)	(19,273)
<b>Profit on ordinary activities before taxation</b>		<u>256,252</u>	<u>508,305</u>
Tax on profit on ordinary activities	5	(83,219)	(33,500)
<b>Profit on ordinary activities after taxation</b>	12	<u><u>173,033</u></u>	<u><u>474,805</u></u>

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

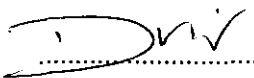
## BALANCE SHEET AS AT 31 DECEMBER 2000

	Notes	2000 £	£	1999 £	£
<b>Fixed assets</b>					
Tangible assets	6		207,143		152,517
<b>Current assets</b>					
Stocks	7	506,353		640,233	
Debtors	8	296,878		366,941	
Cash at bank and in hand		488,083		211,878	
		1,291,314		1,219,052	
<b>Creditors: amounts falling due within one year</b>	9	(847,806)		(922,392)	
<b>Net current assets</b>			443,508		296,660
<b>Total assets less current liabilities</b>			650,651		449,177
<b>Provisions for liabilities and charges</b>	10		(61,400)		(32,961)
			589,251		416,216
<b>Capital and reserves</b>					
Called up share capital	11	312,500		312,500	
Profit and loss account	12	276,751		103,716	
<b>Shareholders' funds - equity interests</b>	13	589,251		416,216	

The financial statements were approved by the Board on 5.6.01



Director



Director

# UAV ENGINES LIMITED

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2000

	2000 £	1999 £
<b>Net cash (outflow)/inflow from operating activities</b>	425,115	551,063
<b>Returns on investments and servicing of finance</b>		
Interest received	10,326	5,674
Interest paid	(1,120)	(19,273)
<b>Net cash inflow/(outflow) for returns on investments and servicing of finance</b>	9,206	(13,599)
<b>Taxation</b>	(33,219)	(2,700)
<b>Capital expenditure</b>		
Payments to acquire tangible assets	(124,897)	(46,085)
Receipts from sales of tangible assets	-	10,945
<b>Net cash outflow for capital expenditure</b>	(124,897)	(35,140)
<b>Net cash inflow before management of liquid resources and financing</b>	276,205	499,624
<b>Increase in cash in the year</b>	276,205	499,624

# UAV ENGINES LIMITED

## NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2000

1	Reconciliation of operating profit to net cash inflow from operating activities				2000	1999
					£	£
	Operating profit				247,046	521,904
	Depreciation of tangible assets				70,271	37,536
	Decrease in stocks				133,880	163,498
	Decrease/(increase) in debtors				70,063	(43,417)
	Decrease in creditors within one year				(96,145)	(128,458)
	Net cash inflow from operating activities				425,115	551,063

2	Analysis of net funds	1 January 2000	Cash flow	Other non-cash changes	31 December 2000
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	211,878	276,205	-	488,083
	Net funds	211,878	276,205	-	488,083

3	Reconciliation of net cash flow to movement in net funds	2000	1999
		£	£
	Increase in cash in the year	276,205	499,624
	Movement in net funds in the year	276,205	499,624
	Opening net funds/(debt)	211,878	(287,746)
	Closing net funds	488,083	211,878

# UAV ENGINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2000

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### 1 Accounting policies

#### 1.1 Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

#### 1.2 Turnover

Turnover represents amounts receivable for goods and services invoiced net of VAT.

#### 1.3 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.

#### 1.4 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% Straight line
Fixtures, fittings & equipment	10-15% Straight line
Motor vehicles	20% Straight line

Test cell equipment was previously included with other fixtures, fittings and equipment and depreciated at 10%. Following a review of its estimated useful economic life, test cell equipment is now depreciated at 15%.

#### 1.5 Leasing

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

#### 1.6 Stock and work in progress

Stock and work in progress are valued at the lower of cost and net realisable value. Work in progress includes an appropriate proportion of labour and related overhead costs.

#### 1.7 Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the year to money purchase pension schemes.

#### 1.8 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.

#### 1.9 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.

#### 1.10 Warranty costs

Provision is made for the estimated future cost of carrying out warranty work on engines previously sold

# UAV ENGINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2000

and still under warranty.

### 2 Turnover

During the year sales to Silver Arrow Partnership Limited, the immediate holding company were £246,000 (1999 - £501,000).

#### Geographical market

	Turnover 2000 £	1999 £
United Kingdom	163,000	151,000
United States of America	294,000	322,000
Europe	43,000	203,000
Rest of the World	1,618,000	2,325,000
	<u>2,118,000</u>	<u>3,001,000</u>

### 3 Operating profit

	2000 £	1999 £
Operating profit is stated after charging and after crediting:		
Exceptional items	(263,262)	(309,000)
Depreciation of tangible assets	70,271	37,536
Research and development	21,689	-
Operating lease rentals	36,509	32,282
Directors' remuneration	-	-
Auditors' remuneration	8,500	8,500
	<u></u>	<u></u>

A fire in the company's factory in December 1999 disrupted the company's activities in 2000, resulting in lower sales, and higher labour and indirect cost. These costs were met by a loss of profits claim and the exceptional credit to cost of sales of £263,262 represents the contribution to these additional costs from insurance monies received.

Included in 1999 sales is exceptional income of £685,000, and included in 1999 cost of sales exceptional costs of £376,000, relating to the sale of technical knowhow.

### 4 Interest payable

	2000 £	1999 £
On amounts payable to group companies	-	19,202
On bank loans and overdrafts	37	71
On overdue tax	1,083	-
	<u>1,120</u>	<u>19,273</u>

# UAV ENGINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2000

5	Taxation	2000 £	1999 £
	<b>U.K. current year taxation</b>		
	U.K. corporation tax at 30% (1999 - 21%)	83,500	33,500
	<b>Prior years</b>		
	U.K. corporation tax	(281)	-
		<u>83,219</u>	<u>33,500</u>

6	Tangible fixed assets	Computer equipment £	Plant and machinery £	Fixtures, fittings & equipment £	Motor vehicles £	Total £
	<b>Cost</b>					
	At 1 January 2000	41,063	95,248	167,948	24,500	328,759
	Additions	11,983	1,100	111,814	-	124,897
	At 31 December 2000	<u>53,046</u>	<u>96,348</u>	<u>279,762</u>	<u>24,500</u>	<u>453,656</u>
	<b>Depreciation</b>					
	At 1 January 2000	20,888	45,095	102,109	8,150	176,242
	Charge for the year	15,697	9,635	40,039	4,900	70,271
	At 31 December 2000	<u>36,585</u>	<u>54,730</u>	<u>142,148</u>	<u>13,050</u>	<u>246,513</u>
	<b>Net book value</b>					
	At 31 December 2000	<u>16,461</u>	<u>41,618</u>	<u>137,614</u>	<u>11,450</u>	<u>207,143</u>
	At 31 December 1999	<u>20,175</u>	<u>50,153</u>	<u>65,839</u>	<u>16,350</u>	<u>152,517</u>

7	Stocks and work in progress	2000 £	1999 £
	Raw materials and consumables	429,877	437,025
	Work in progress	76,476	203,208
		<u>506,353</u>	<u>640,233</u>

# UAV ENGINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2000

8 Debtors	2000	1999
	£	£
Trade debtors	253,587	281,513
Amounts recoverable on long term contracts	-	9,665
Amounts owed by parent undertaking	-	21,715
Other debtors	27,377	43,420
Prepayments and accrued income	15,914	10,628
	<u>296,878</u>	<u>366,941</u>
9 Creditors: amounts falling due within one year	2000	1999
	£	£
Payments received on account	281,785	377,547
Trade creditors	200,911	316,825
Amounts owed to parent undertaking	100,604	-
Corporation tax	83,500	33,500
Other taxes and social security costs	11,385	9,460
Other creditors	2,024	15,331
Accruals and deferred income	167,597	169,729
	<u>847,806</u>	<u>922,392</u>
10 Provisions for liabilities and charges	Warranty provision	
	£	
Balance at 1 January 2000	32,961	
Additional provision in the year	28,439	
Balance at 31 December 2000	<u>61,400</u>	

A provision of £61,400 has been recognised for expected warranty claims on engines sold during 1999 and 2000. It is expected that most of this expenditure will be incurred during the next financial year. The provision is a best estimate based on engine sales and previous experience.

# UAV ENGINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2000

11 Share capital	2000 £	1999 £
<b>Authorised</b>		
312,500 Ordinary shares of £ 1 each	312,500	312,500
<b>Allotted, called up and fully paid</b>		
312,500 Ordinary shares of £ 1 each	312,500	312,500

## 12 Statement of movements on profit and loss account

	Profit and loss account £
Balance at 1 January 2000	103,718
Retained profit for the year	173,033
Balance at 31 December 2000	276,751

13 Reconciliation of movements in shareholders' funds	2000 £	1999 £
Profit for the financial year	173,033	474,805
Opening shareholders' funds	416,216	(58,589)
Closing shareholders' funds	589,251	416,216

## 14 Financial commitments

At 31 December 2000 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2000 £	1999 £
Expiry date:		
Within one year	29,250	29,250

# UAV ENGINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2000

### 15 Employees

#### Number of employees

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

	2000 Number	1999 Number
Administration	13	14
Manufacturing	6	7
	<u>19</u>	<u>21</u>

#### Employment costs

	£	£
Wages and salaries	348,353	401,040
Social security costs	34,103	39,296
Other pension costs	16,375	12,376
	<u>398,831</u>	<u>452,712</u>

### 16 Control

The immediate parent is Silver Arrow Limited Partnership, registered in Israel. The ultimate holding company is Elbit Systems, incorporated in Israel.