

Company Registration No. 2691211 (England and Wales)

UAV ENGINES LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005



UAV ENGINES LIMITED

COMPANY INFORMATION

Directors	I Dvir J Gaspar S Sarid	(Appointed 1 September 2005)
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 2005

The directors present their report and financial statements for the year ended 31 December 2005.

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.

Results and dividends

The results for the year are set out on page 4.

The directors do not recommend payment of an ordinary dividend.

Future developments

The company shall continue in its policy of investing in the development of new engines.

Directors

The following directors have held office since 1 January 2005:

I Dvir	
J Gaspar	
S Sarid	(Appointed 1 September 2005)
A Dagan	(Resigned 27 July 2005)

Directors' Interests

There are no directors' interests requiring disclosure under the Companies Act 1985.

	Ordinary shares of £ 1 each	
	31 December 2005	1 January 2005
I Dvir	-	-
J Gaspar	-	-
S Sarid	-	-

Auditors

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

UAV ENGINES LIMITED

DIRECTORS' REPORT (CONTINUED) **FOR THE YEAR ENDED 31 DECEMBER 2005**

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 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



I Dvir

Director

6 March 2006

UAV ENGINES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UAV ENGINES LIMITED

We have audited the financial statements of UAV Engines Limited on pages 4 to 15 for the year ended 31 December 2005. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditor's 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 the directors and auditors

As described in the statement of directors' responsibilities on page 2 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

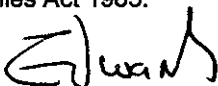
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates 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 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Edwards



6 March 2006

Chartered Accountants
Registered Auditor

Harmony House
Aldridge
West Midlands
WS9 8LZ

UAV ENGINES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 £	2004 £
Turnover	2	6,514,491	4,895,135
Cost of sales		(4,406,246)	(3,208,087)
Gross profit		2,108,245	1,687,048
Administrative expenses		(785,964)	(696,556)
Operating profit	3	1,322,281	990,492
Other interest receivable and similar income	4	74,437	44,720
Interest payable and similar charges	5	(2,730)	(845)
Profit on ordinary activities before taxation		1,393,988	1,034,367
Tax on profit on ordinary activities	6	(444,774)	(309,068)
Profit on ordinary activities after taxation	14	949,214	725,299

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.

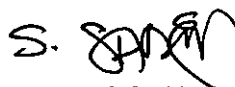
UAV ENGINES LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2005

	Notes	2005 £	£	2004 £	£
Fixed assets					
Tangible assets	7		276,383		149,959
Current assets					
Stocks	8	1,236,235		576,956	
Debtors	9	2,524,590		1,891,391	
Cash at bank and in hand		426,514		808,666	
		4,187,339		3,277,013	
Creditors: amounts falling due within one year	10	(1,132,355)		(1,044,819)	
Net current assets			3,054,984		2,232,194
Total assets less current liabilities			3,331,367		2,382,153
			<u>3,331,367</u>		<u>2,382,153</u>
Capital and reserves					
Called up share capital	13		312,500		312,500
Profit and loss account	14		3,018,867		2,069,653
Shareholders' funds - equity interests	15		<u>3,331,367</u>		<u>2,382,153</u>

The financial statements were approved by the Board on 6 March 2006


I Dvir
Director


S Sarid
Director

UAV ENGINES LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	£	2005 £	£	2004 £
Net cash inflow/(outflow) from operating activities		117,749		(177,732)
Returns on Investments and servicing of finance				
Interest received	74,437		44,720	
Interest paid	(2,730)		(845)	
Net cash inflow for returns on investments and servicing of finance		71,707		43,875
Taxation		(375,753)		(273,041)
Capital expenditure				
Payments to acquire tangible assets	(195,855)		(26,080)	
Net cash outflow for capital expenditure		(195,855)		(26,080)
Net cash outflow before management of liquid resources and financing		(382,152)		(432,978)
Decrease in cash in the year		(382,152)		(432,978)

UAV ENGINES LIMITED

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

1	Reconciliation of operating profit to net cash inflow/(outflow) from operating activities	2005 £	2004 £
	Operating profit	1,322,281	990,492
	Depreciation of tangible assets	69,431	48,061
	Increase in stocks	(659,279)	(9,803)
	Increase in debtors	(642,290)	(1,073,303)
	Increase/(decrease) in creditors within one year	27,606	(133,179)
	Net cash inflow/(outflow) from operating activities	117,749	(177,732)

2	Analysis of net funds	1 January 2005 £	Cash flow £	Other non-cash changes £	31 December 2005 £
	Net cash:				
	Cash at bank and in hand	808,666	(382,152)	-	426,514
	Bank deposits	-	-	-	-
	Net funds	808,666	(382,152)	-	426,514

3	Reconciliation of net cash flow to movement in net funds	2005 £	2004 £
	Decrease in cash in the year	(382,152)	(432,978)
	Movement in net funds in the year	(382,152)	(432,978)
	Opening net funds	808,666	1,241,644
	Closing net funds	426,514	808,666

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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 accounting standards, 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	10-15% 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

Stock is valued at the lower of cost and net realisable value.

1.8 Long term contracts

Amounts recoverable on long term contracts, which are included in debtors, are stated at the net sales value of the work done after provision for contingencies and anticipated future losses on contracts, less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account.

1.9 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.

1.10 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.

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

1 Accounting policies

(continued)

1.11 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.

1.12 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

During the year sales to Silver Arrow Partnership Limited, the immediate holding company, were £156,999 (2004 - £152,329).

Geographical market

	Turnover	
	2005 £	2004 £
United Kingdom	58,761	204,789
United States of America	5,075,569	2,682,596
Europe	276,769	40,595
Rest of the World	1,103,392	1,967,155
	<u>6,514,491</u>	<u>4,895,135</u>

3 Operating profit

	2005 £	2004 £
Operating profit is stated after charging:		
Depreciation of tangible assets	69,431	48,061
Loss on foreign exchange transactions	5,681	3,604
Research and development	73,770	75,375
Operating lease rentals		
- Plant and machinery	553	985
- Land and buildings	56,029	41,840
Auditors' remuneration	7,200	4,200
Exceptional items	-	(50,000)
	<u></u>	<u></u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

4	Investment income	2005	2004
		£	£
	Bank interest	21,242	29,014
	Other interest	53,195	15,706
		<u>74,437</u>	<u>44,720</u>
5	Interest payable	2005	2004
		£	£
	On overdue tax	<u>2,730</u>	<u>845</u>
6	Taxation	2005	2004
		£	£
	Domestic current year tax		
	U.K. corporation tax	435,683	325,754
	Current tax charge	<u>435,683</u>	<u>325,754</u>
	Deferred tax		
	Deferred tax charge/credit current year	9,091	(16,686)
		<u>444,774</u>	<u>309,068</u>
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	<u>1,393,988</u>	<u>1,034,367</u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2004: 30.00%)	<u>418,196</u>	<u>310,310</u>
	Effects of:		
	Non deductible expenses	18,099	19,564
	Depreciation add back	20,829	14,418
	Capital allowances	(21,441)	(18,538)
		<u>17,487</u>	<u>15,444</u>
	Current tax charge	<u>435,683</u>	<u>325,754</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

7 Tangible fixed assets

	Computer equipment	Plant and machinery	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£	£
Cost					
At 1 January 2005	76,411	398,017	96,964	45,749	617,141
Additions	37,505	26,347	132,003	-	195,855
Disposals	-	-	-	(12,500)	(12,500)
At 31 December 2005	113,916	424,364	228,967	33,249	800,496
Depreciation					
At 1 January 2005	76,411	326,781	32,140	31,850	467,182
On disposals	-	-	-	(12,500)	(12,500)
Charge for the year	-	27,197	35,574	6,660	69,431
At 31 December 2005	76,411	353,978	67,714	26,010	524,113
Net book value					
At 31 December 2005	37,505	70,386	161,253	7,239	276,383
At 31 December 2004	-	71,236	64,824	13,899	149,959

8 Stocks

	2005 £	2004 £
Raw materials and consumables	903,235	576,956
Finished goods and goods for resale	333,000	-
	<u>1,236,235</u>	<u>576,956</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

9 Debtors	2005	2004
	£	£
Trade debtors	926,136	1,111,198
Amounts owed by parent and fellow subsidiary undertakings	1,361,987	615,357
Other debtors	106,951	54,999
Prepayments and accrued income	69,790	41,020
Deferred tax asset (see note 11)	59,726	68,817
	<u>2,524,590</u>	<u>1,891,391</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	2005	2004
	£	£
Payments received on account	16,322	98,463
Trade creditors	569,219	448,913
Corporation tax	255,684	195,754
Other creditors	1,212	784
Accruals and deferred income	289,918	300,905
	<u>1,132,355</u>	<u>1,044,819</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

11 Provisions for liabilities and charges

The deferred tax asset (included in the debtors, note 9) is made up as follows:

	2005 £	
Balance at 1 January 2005	(68,817)	
Profit and loss account	9,091	
	<u>(59,726)</u>	
Balance at 31 December 2005	<u>(59,726)</u>	
	2005 £	2004 £
Decelerated capital allowances	(49,230)	(64,183)
Other timing differences	(10,496)	(4,634)
	<u>(59,726)</u>	<u>(68,817)</u>

12 Pension costs

Defined contribution

	2005 £	2004 £
Contributions payable by the company for the year	<u>16,838</u>	<u>12,155</u>

13 Share capital

	2005 £	2004 £
Authorised		
312,500 Ordinary shares of £1 each	<u>312,500</u>	<u>312,500</u>
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 2005

14 Statement of movements on profit and loss account

	Profit and loss account £
Balance at 1 January 2005	2,069,653
Retained profit for the year	949,214
	<u> </u>
Balance at 31 December 2005	<u>3,018,867</u>

15 Reconciliation of movements in shareholders' funds

	2005 £	2004 £
Profit for the financial year	949,214	725,299
Opening shareholders' funds	2,382,153	1,656,854
	<u> </u>	<u> </u>
Closing shareholders' funds	<u>3,331,367</u>	<u>2,382,153</u>

16 Financial commitments

At 31 December 2005 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2006:

	Land and buildings 2005 £	2004 £
Operating leases which expire: In over five years	<u>47,816</u>	<u>45,000</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

17 Employees

Number of employees

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

	2005 Number	2004 Number
Administration	10	7
Manufacturing	21	21
	<u>31</u>	<u>28</u>

Employment costs

	2005 £	2004 £
Wages and salaries	864,769	724,551
Social security costs	91,966	75,593
Other pension costs	16,838	12,155
	<u>973,573</u>	<u>812,299</u>

18 Control

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