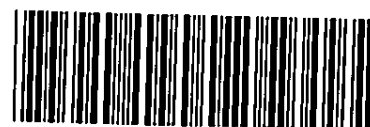


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Company Registration No. 2691211 (England and Wales)

UAV ENGINES LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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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

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UAV ENGINES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2007

The directors present their report and financial statements for the year ended 31 December 2007

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 regulation from the Department of Trade and Industry, 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 2007 is 39.84% (2006 34.27%) 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 2007 is 75.01% (2006 10.79%) 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

The directors do not recommend payment of an ordinary 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 2007

Directors

The following directors have held office since 1 January 2007

I Dvir
J Gaspar
S Sand

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

Directors' responsibilities

The directors are responsible for preparing 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). The financial statements are required by law to 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 that 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.

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

28th February 2008

UAV ENGINES LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF UAV ENGINES LIMITED

We have audited the financial statements of UAV Engines Limited for the year ended 31 December 2007 set out on pages 5 to 16. These financial statements have been prepared under 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 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 the directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, 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 other transactions 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 International Standards on Auditing (UK and Ireland) 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.

UAV ENGINES LIMITED

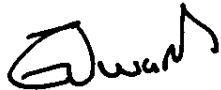
INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE SHAREHOLDERS OF UAV ENGINES LIMITED

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements



Edwards

28th Feb 2008

Chartered Accountants
Registered Auditor

Harmony House
34 High Street
Aldridge
West Midlands
WS9 8LZ

UAV ENGINES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 £	2006 £
Turnover	2	12,631,157	7,217,407
Cost of sales		(7,624,417)	(4,743,748)
Gross profit		5,006,740	2,473,659
Administrative expenses		(1,223,109)	(1,195,860)
Operating profit	3	3,783,631	1,277,799
Other interest receivable and similar income	4	211,079	103,580
Interest payable and similar charges	5	-	(1,653)
Profit on ordinary activities before taxation		3,994,710	1,379,726
Tax on profit on ordinary activities	6	(1,223,175)	(424,610)
Profit for the year	14	2,771,535	955,116

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 2007

	Notes	2007 £	£	2006 £	£
Fixed assets					
Tangible assets	7		507,013		303,874
Current assets					
Stocks	8	1,086,081		1,361,396	
Debtors	9	6,802,488		3,323,400	
Cash at bank and in hand		840,960		467,951	
		<u>8,729,529</u>		<u>5,152,747</u>	
Creditors amounts falling due within one year	10	<u>(2,178,523)</u>		<u>(1,170,137)</u>	
Net current assets			<u>6,551,006</u>		<u>3,982,610</u>
Total assets less current liabilities			<u>7,058,019</u>		<u>4,286,484</u>
			<u>7,058,019</u>		<u>4,286,484</u>
Capital and reserves					
Called up share capital	13		312,500		312,500
Profit and loss account	14		<u>6,745,519</u>		<u>3,973,984</u>
Shareholders' funds	15		<u>7,058,019</u>		<u>4,286,484</u>

Approved by the Board and authorised for issue on 28th February 2008

Dvir

I Dvir
Director

S. Sand

S Sand
Director

UAV ENGINES LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	£	2007 £	£	2006 £
Net cash inflow from operating activities		1,299,054		555,568
Returns on investments and servicing of finance				
Interest received	211,079		103,580	
Interest paid	-		(1,653)	
Net cash inflow for returns on investments and servicing of finance		211,079		101,927
Taxation		(782,704)		(495,682)
Capital expenditure				
Payments to acquire tangible assets	(354,420)		(121,876)	
Receipts from sales of tangible assets	-		1,500	
Net cash outflow for capital expenditure		(354,420)		(120,376)
Net cash inflow before management of liquid resources and financing		373,009		41,437
Increase in cash in the year		373,009		41,437

UAV ENGINES LIMITED

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

1	Reconciliation of operating profit to net cash inflow from operating activities	2007	2006
		£	£
	Operating profit	3,783,631	1,277,799
	Depreciation of tangible assets	151,281	94,385
	Profit on disposal of tangible assets	-	(1,500)
	Decrease/(increase) in stocks	275,315	(125,161)
	Increase in debtors	(3,470,907)	(800,717)
	Increase in creditors within one year	559,734	110,762
	Net cash inflow from operating activities	1,299,054	555,568

2	Analysis of net funds	1 January 2007	Cash flow	Other non-cash changes	31 December 2007
		£	£	£	£
	Net cash				
	Cash at bank and in hand	467,951	373,009	-	840,960
	Bank deposits	-	-	-	-
	Net funds	467,951	373,009	-	840,960

3	Reconciliation of net cash flow to movement in net funds	2007	2006
		£	£
	Increase in cash in the year	373,009	41,437
	Movement in net funds in the year	373,009	41,437
	Opening net funds	467,951	426,514
	Closing net funds	840,960	467,951

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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 2007

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	
	2007	2006
	£	£
United Kingdom	270,355	439,065
United States of America	11,190,569	6,140,445
Europe	776,522	225,882
Rest of the World	393,711	412,015
	<u>12,631,157</u>	<u>7,217,407</u>

3 Operating profit	2007	2006
	£	£
Operating profit is stated after charging		
Depreciation of tangible assets	151,281	94,385
Loss on foreign exchange transactions	-	4,121
Research and development	212,043	206,183
Operating lease rentals	54,593	48,716
Auditors' remuneration	11,100	12,770
Remuneration of auditors' for non-audit work	-	1,214
and after crediting		
Profit on disposal of tangible assets	-	(1,500)
Profit on foreign exchange transactions	(245)	-
	<u></u>	<u></u>

4 Investment income	2007	2006
	£	£
Bank interest	52,839	18,085
Other interest	158,240	85,495
	<u>211,079</u>	<u>103,580</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

5	Interest payable	2007	2006
		£	£
	On overdue tax	-	1,653
		<u> </u>	<u> </u>
6	Taxation	2007	2006
		£	£
	Domestic current year tax		
	U K corporation tax	1,231,356	422,703
		<u> </u>	<u> </u>
	Current tax charge	1,231,356	422,703
	Deferred tax		
	Deferred tax charge/credit current year	(8,181)	1,907
		<u> </u>	<u> </u>
		1,223,175	424,610
		<u> </u>	<u> </u>
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	3,994,710	1,379,726
		<u> </u>	<u> </u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2006 - 30.00%)	1,198,413	413,918
		<u> </u>	<u> </u>
	Effects of		
	Non deductible expenses	28,198	4,988
	Depreciation add back	45,384	28,316
	Capital allowances	(40,639)	(24,519)
		<u> </u>	<u> </u>
		32,943	8,785
		<u> </u>	<u> </u>
	Current tax charge	1,231,356	422,703
		<u> </u>	<u> </u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

7 Tangible fixed assets

	Computer equipment	Plant and machinery	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£	£
Cost					
At 1 January 2007	113,916	473,741	301,466	10,499	899,622
Additions	98,439	84,177	171,804	-	354,420
At 31 December 2007	212,355	557,918	473,270	10,499	1,254,042
Depreciation					
At 1 January 2007	88,913	379,632	120,028	7,175	595,748
Charge for the year	28,228	19,750	101,203	2,100	151,281
At 31 December 2007	117,141	399,382	221,231	9,275	747,029
Net book value					
At 31 December 2007	95,214	158,536	252,039	1,224	507,013
At 31 December 2006	25,003	94,109	181,438	3,324	303,874

8 Stocks and work in progress

	2007 £	2006 £
Raw materials and consumables	991,721	1,125,998
Work in progress	94,360	235,398
	1,086,081	1,361,396

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

9 Debtors	2007 £	2006 £
Trade debtors	2,666,855	1,460,199
Amounts owed by parent and fellow subsidiary undertakings	3,765,672	1,685,517
Other debtors	231,766	58,586
Prepayments and accrued income	72,195	61,279
Deferred tax asset (see note 11)	66,000	57,819
	<u>6,802,488</u>	<u>3,323,400</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	2007 £	2006 £
Trade creditors	1,128,375	693,194
Corporation tax	631,356	182,704
Other taxes and social security costs	39,198	40,660
Other creditors	46,829	1,596
Accruals and deferred income	332,765	251,983
	<u>2,178,523</u>	<u>1,170,137</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

11 Provisions for liabilities and charges

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

	2007 £
Balance at 1 January 2007	(57,819)
Profit and loss account	(8,181)
	<u>(66,000)</u>
Balance at 31 December 2007	<u>(66,000)</u>

	2007 £	2006 £
Decelerated capital allowances	(14,000)	(11,979)
Other timing differences	(52,000)	(45,840)
	<u>(66,000)</u>	<u>(57,819)</u>

12 Pension costs

Defined contribution

	2007 £	2006 £
Contributions payable by the company for the year	<u>26,985</u>	<u>11,247</u>

13 Share capital

	2007 £	2006 £
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 2007

14 Statement of movements on profit and loss account

	Profit and loss account £
Balance at 1 January 2007	3,973,984
Profit for the year	2,771,535
	<u> </u>
Balance at 31 December 2007	<u>6,745,519</u>

15 Reconciliation of movements in shareholders' funds

	2007 £	2006 £
Profit for the financial year	2,771,535	955,116
Opening shareholders' funds	4,286,484	3,331,368
	<u> </u>	<u> </u>
Closing shareholders' funds	<u>7,058,019</u>	<u>4,286,484</u>

16 Financial commitments

At 31 December 2007 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2008

	Land and buildings 2007 £	2006 £
Operating leases which expire Between two and five years	<u>70,116</u>	<u>47,816</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

17 Employees

Number of employees

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

	2007 Number	2006 Number
Administration	6	9
Manufacturing	30	25
	<u>36</u>	<u>34</u>

Employment costs

	2007 £	2006 £
Wages and salaries	1,055,211	936,607
Social security costs	111,824	100,587
Other pension costs	26,985	11,247
	<u>1,194,020</u>	<u>1,048,441</u>

18 Control

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

19 Related party transactions

During the year UAV Engines Limited made sales of £273,471 (2006 £203,514) to and purchases of £835,716 (2006 £330,714) from Silver Arrow Partnership Limited, the immediate parent company. There was also interest received of £143,839 (2006 £85,495) from Silver Arrow Partnership Limited, in relation to a loan advanced to them.

At the year end there was a balance of £3,765,672 (2006 £1,685,517) due from Silver Arrow Partnership Limited.