FLIR Systems Limited

Directors' report and financial statements

Registered number 1320288

31 December 2004

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

Principal activities

The principal activity of the company during the year continued to be the sale of infrared systems and thermographic equipment.

Business review

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

Research and development

In the year to 31 December 2004, expenditure on research and development totalled £nil *(2003: £75,779)*.

Dividends

The directors do not recommend the payment of a dividend *(2003:£nil)*.

Directors and directors' interests

The directors who held office during the year were as follows:

A Almerfors
A Stensson

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

According to the register of directors' interests no rights to subscribe for shares in or debentures of the company were granted to any of the directors or their immediate families, or exercised by them during the financial year.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Craig J Cooper
Company Secretary

2 Kings Hill Avenue
Kings Hill
West Malling
Kent
ME19 4AQ

30/9/2005

Statement of 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 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG LLP
8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Report of the independent auditors to the members of FLIR Systems Limited

We have audited the financial statements on pages 4 to 14.

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 directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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, 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.

Basis of audit 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 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

4 October 2005

Profit and loss account
for the year ended 31 December 2004

	Note	2004 £	2003 £
Turnover	*1-2*	**25,060,104**	24,379,724
Cost of sales		**(18,764,987)**	(18,943,137)
Gross profit		**6,295,117**	5,436,587
Operating expenses		**(3,607,280)**	(3,671,894)
Other operating income		**2,033**	2,812
Operating profit		**2,689,870**	1,767,505
Interest receivable	*6*	**154,196**	148,047
Interest payable	*7*	**(12)**	(11,277)
Profit on ordinary activities before taxation	*3*	**2,844,054**	1,904,275
Tax on profit on ordinary activities	*8*	**(758,583)**	(558,694)
Profit for the financial year	*14*	**2,085,471**	1,345,581

All of the above results are derived from continuing operations.

A statement of total recognised gains and losses has not been included as part of these financial statements as the company made no gains or losses in the period other than disclosed above in the profit and loss account.

A note on historical gains and losses has not been included as part of the financial statements as the results as disclosed in the profit and loss account are prepared on an unmodified historical cost basis.

Balance sheet
at 31 December 2004

	Note	2004		2003	
		£	£	£	£
Fixed assets					
Tangible assets	*9*		**492,756**		214,360
Current assets					
Stocks	*10*	**2,085,110**		2,728,005	
Debtors	*11*	**5,469,656**		10,438,355	
Cash at bank and in hand		**136,578**		3,336,747	
Liquid resources		**7,904,570**		-	
		15,595,914		16,503,107	
Creditors: amounts falling due within one year	*12*	**(8,848,046)**		(11,562,314)	
Net current assets			**6,747,868**		4,940,793
Net assets			**7,240,624**		5,155,153
Capital and reserves					
Called up share capital	*13*		**465,000**		465,000
Capital reserve	*14*		**250,000**		250,000
Profit and loss	*14*		**6,525,624**		4,440,153
Equity shareholders' funds	*15*		**7,240,624**		5,155,153

These financial statements were approved by the board of directors on 30/9/ 2005 and were signed on its behalf by:

A Stensson
Director

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements except as noted below.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost accounting rules.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of FLIR Systems Inc. the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group or investees of the group qualifying as related parties. The consolidated financial statements of FLIR Systems Inc., within which this company is included, can be obtained from the address given in note 19.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Post-retirement benefits

The company operates a defined contribution pension scheme but operated a defined benefit scheme prior to June 1999.

The assets of the defined contribution scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The defined benefit scheme commenced winding-up on 1 July 1999 and this was formally completed on 6 June 2005. No further regular company contributions will be made to this scheme, as company contributions to eligible employees are now paid into the new defined contribution scheme as describe above. (See note 18).

The company provides no other post retirement benefits to its employees.

Employee share schemes

The cost of awards to employees that take the form of shares or rights to shares are recognised over the period of the employee's related performance. Where there are no performance criteria, the cost is recognised when the employee becomes unconditionally entitled to the shares. No cost is recognised in respect of SAYE schemes that are offered on similar terms to all or substantially all employees.

Notes *(continued)*

1 Accounting policies *(continued)*

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Stocks and long term contracts

Stocks are stated at the lower of cost and net realisable value. Cost is determined on a first in first out basis. Where necessary, provision is made for obsolete and slow moving stock.

Contracts in progress are accounted for in accordance with the requirements of the Statement of Standard Accounting Practice no.9 (Revised). Once the outcome of a contract can be assessed with reasonable certainty, an amount of profit appropriate to the value of work completed is recognised. Provision is made for foreseeable losses immediately the contract is assessed as being unprofitable and is disclosed in the accounts under creditors. Where appropriate, payments received and receivable are disclosed in the accounts under debtors.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the total net sales to customers excluding value added tax. Sales are recognised upon delivery of the goods, unless the terms of the sale specify acceptance or other procedures in which case the sale is recognised once those procedures have been met.

Tangible fixed assets and depreciation

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values on a straight-line basis over the expected economic lives of the assets concerned as follows:

Short leasehold land and buildings	-	Over the term of the lease
Fixtures, fittings, tools and equipment	-	15% - 20% per annum
Computer hardware/software	-	33% per annum

Payments on account

Advance payments received from customers are shown separately from the sales ledger and are classified as payments on account in creditors.

Liquid resources

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise government securities and investments in money market managed funds.

Notes *(continued)*

2 Analysis of turnover

By geographical market	2004 £	2003 £
Europe	**25,034,918**	24,052,651
United States of America	**6,023**	57,957
Rest of world	**19,163**	269,116
	25,060,104	24,379,724

3 Profit on ordinary activities before taxation

	2004 £	2003 £
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
- audit	**39,000**	35,025
- other services	**8,200**	8,000
Depreciation	**158,114**	87,463
Operating lease rentals:		
- land and buildings	**236,341**	234,398
- vehicles	**157,072**	164,955
Exchange losses	**408,913**	614,984
Research and development	**-**	75,779

4 Remuneration of directors

The directors receive no remuneration in respect of their services to the company.

No director is a member of either the defined benefit or the money purchase pension schemes.

Notes *(continued)*

5 Staff numbers and costs

The average monthly number of persons employed by the company during the year was:

	Number of employees	
	2004	2003
Administrative and selling	**52**	51

The aggregate payroll costs of these persons were as follows:

	2004	2003
	£	£
Wages and salaries	**2,000,343**	1,842,610
Social security costs	**278,709**	305,963
Other pension costs	**31,178**	130,371
	2,310,230	2,278,944

6 Interest receivable

	2004	2003
	£	£
Interest receivable from group companies	**8,182**	93,612
Other	**146,014**	54,435
	154,196	148,047

7 Interest payable

	2004	2003
	£	£
Other interest	**12**	11,277

Notes *(continued)*

8 Tax on profit on ordinary activities

Analysis of charge in period

	2004 £	2003 £
UK corporation tax		
Current tax on income for the period	**800,000**	578,501
Adjustments in respect of prior periods	**(89,404)**	-
Total current tax	**710,596**	578,501
Deferred tax (see note 11)	**47,987**	(19,807)
Tax on profit on ordinary activities	**758,583**	558,694

Factors affecting the tax charge for the current period

The current tax charge for the period is lower *(2003: higher)* than the standard rate of corporation tax in the UK (30%, *2003: 30%*). The differences are explained below.

	2004 £	2003 £
Current tax reconciliation		
Profit on ordinary activities before tax	**2,844,054**	1,904,275
Current tax at 30% *(2003: 30%)*	**853,216**	571,282
Effects of:		
Expenses not deductible for tax purposes	**(8,601)**	20,712
Capital allowances for period in excess of depreciation	**(16,921)**	(13,493)
Corporation tax relief for employee share acquistion	**(27,694)**	-
Adjustments to tax charge in respect of previous periods	**(89,404)**	-
Total current tax charge (see above)	**710,596**	578,501

Deferred tax asset

A deferred tax asset of £118,396 (*2003: £166,383*) has been recognised due to differences between accumulated depreciation and capital allowances and for timing differences on pension payments (see note 11).

Notes *(continued)*

9 Tangible fixed assets

	Short leasehold land and buildings £	Fixtures, fittings, tools and equipment £	Computer hardware/ software £	Total £
Cost				
At 1 January 2004	501,596	262,060	82,171	845,827
Additions	-	370,787	65,723	436,510
At 31 December 2004	501,596	632,847	147,894	1,282,337
Depreciation				
At 1 January 2004	343,419	236,552	51,496	631,467
Charged in year	51,942	75,138	31,034	158,114
At 31 December 2004	395,361	311,690	82,530	789,581
Net book value				
At 31 December 2004	**106,235**	**321,157**	**65,364**	**492,756**
At 31 December 2003	158,177	25,508	30,675	214,360

10 Stocks

	2004 £	2003 £
Work In Progress	**139,109**	341,603
Finished goods and goods for resale	**1,946,001**	2,386,402
	2,085,110	2,728,005

11 Debtors

	2004 £	2003 £
Trade debtors	**4,314,172**	6,772,347
Amounts owed by group undertakings	**187,749**	1,713,511
Other debtors	**14,516**	12,350
Deferred tax asset	**118,396**	166,383
Prepayments and accrued income	**697,701**	1,773,764
Corporation tax	**137,122**	-
	5,469,656	10,438,355

Notes *(continued)*

12 Creditors: amounts falling due within one year

	2004	2003
	£	£
Trade creditors	**953,155**	916,516
Amounts owed to group undertakings	**2,971,140**	2,208,043
Corporation tax	-	198,533
Other taxation and social security costs	**122,935**	117,420
Payments received on account	**1,097,152**	5,119,590
Other creditors	**754,252**	450,879
Accruals and deferred income	**2,949,412**	2,551,333
	8,848,046	11,562,314

Included in accruals and deferred income is £nil *(2003: £111,000)* regarding the defined benefit pension scheme (see note 18).

13 Called up share capital

	2004	2003
	£	£
Authorised		
465,000 ordinary shares of £1 each	**465,000**	465,000
Allotted, called up and fully paid		
465,000 ordinary shares of £1 each	**465,000**	465,000

14 Reserves

	Capital contributions	**Profit and loss account**
	£	**£**
At 1 January 2004	250,000	4,440,153
Profit for the year	-	2,085,471
At 31 December 2004	**250,000**	**6,525,624**

Notes *(continued)*

15 Reconciliation of movement in equity shareholders' funds

	2004	2003
	£	£
Opening equity shareholders' funds	**5,155,153**	3,809,572
Profit for the year	**2,085,471**	1,345,581
At 31 December 2004	**7,240,624**	5,155,153

16 Contingent liabilities

The company has a contingent liability regarding tender and performance guarantees and duty deferment at 31 December 2004 to the extent of £1,042,018 *(2003: £571,026)*.

17 Commitments under operating leases

Annual commitments under non-cancellable operating leases are as follows:

	2004		2003	
	Land and buildings	**Other**	Land and buildings	Other
	£	£	£	£
Operating leases which expire:				
- within one year	-	110,768	-	30,638
- within two to five years	264,964	88,367	224,570	200,417
	264,964	199,135	224,570	231,055

18 Pension obligations

In June 1999, the company established a new defined contribution pension scheme for its employees. The assets of the scheme are held in a separate trustee administered fund. The company contributes 4% of pensionable pay to the scheme and matches employee contributions up to a further 4%. These contributions are charged to the profit and loss account as incurred. The company contributed £142,178 *(2003:£130,371)* to the scheme during the year of which £15,794 *(2003:£16,439)* was accrued but not yet paid at year end.

Prior to June 1999 the company operated a defined benefit pension scheme, the Agema Infrared Systems Limited Pension and Life Assurance Scheme.

No further regular company contributions will be made to this scheme, as company contributions to eligible employees are now paid into the new defined contribution scheme as described above.

This scheme commenced winding-up on 1 July 1999 and this wind-up was formally completed on 6 June 2005. There were no outstanding contributions at 31 December 2004.

Notes *(continued)*

18 Pension obligations *(continued)*

The last actuarial valuation of the scheme was carried out as at 1 April 2000 by an independent actuary. At that date, the market value of the scheme's investments was £1,639,000 and the level of funding of the scheme was 94% on the basis prescribed by the Government for calculating the company's liability for the final contribution to the scheme. The actuarial method used was the projected unit method. The major assumptions were that investment returns would be 9% per annum and inflation would be 4% per annum. Hence, as at 1 April 2000, the company's liability for the final contribution to the scheme was £111,000.

These figures have been updated by an independent actuary to 8 January 2004. As at 8 January 2004, the company's liability for a final contribution had reduced to zero.

As the pension scheme trustees did not request any contributions from the Company to the defined benefit scheme for the year ended 31 December 2004 and the subsequent period 1 January 2005 to 6 June 2005, and with the wind-up formally completed, no provision is required as at 31 December 2004 (see note 12).

19 Ultimate parent undertaking and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of FLIR Systems Inc., a company incorporated in the United States of America.

The largest group in which the results of the company are consolidated is that headed by FLIR Systems Inc., incorporated in the United States of America. The consolidated accounts of this company are available to the public and may be obtained from FLIR Systems Inc., 16505 SW, 72nd Avenue, Portland, Oregon, United States of America. No other group accounts include the results of the company.