

FLIR Systems Limited

**Directors' report and financial
statements**

Registered number 1320288

31 December 2008

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

Principal activities

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

Business review

2008 was a year of strong growth within the UK business of FLIR Systems, with revenues increasing by 40% on the previous year. The Gross Margin was down by 6% due to product mix, although with this higher level of sales it produced an additional £43k contribution to operating expenses. Operating Expenses were down £180k on the previous year, with a £1m increase in foreign exchange gain being partially offset by a increased marketing spend of £600k. Therefore, Operating Profit was broadly in line with 2007.

The prime driver for the revenue growth in 2008 was the deliveries of the StarSAFIRE HD product in the Government systems division. The Company's order backlog remains strong, despite the current global economic turmoil.

During the year the Company acquired the trade and net liabilities of CEDIP Infrared Systems Limited. CEDIP has a range of market leading products in the R&D sector of our Thermography division, which have contributed to significantly increased revenue from this market segment in 2008. The acquisition was part of the acquisition by FLIR Systems Inc. of the CEDIP group of companies and this has now been fully integrated into the FLIR organisation.

Review of the Principal Risks and Uncertainties facing the Business

A comprehensive schedule of the risks facing the business is identified within the 10-K filing of the US Parent FLIR Systems Inc. (NASDAQ: FLIR). Of those identified the following have the potential to have a disproportionate effect on the UK business:

- Foreign exchange fluctuations – a significant proportion of the company's costs and revenues are denominated in foreign currencies (mainly Euros and USD), as such the company is at risk to fluctuations in these currencies against GBP. Where possible the company endeavours to minimise this risk by matching in and out flows of these currencies. During 2008 the company had a gain on foreign currency of £1,067k (2007 £23k).
- The ability to secure export licenses – a large percentage of the revenue generated in the UK business is from product that is subject to the Export License controls of various countries' governments. A significant change in the landscape for granting Export Licenses for these products would have a corresponding impact on the UK business.

Dividends

The directors do not recommend the payment of a dividend.

Directors' report *(continued)*

Directors' interests

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

A Almerfors
A Stensson

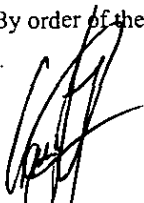
Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



Craig J Cooper
Company Secretary

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

1 May 2009

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 its 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



KPMG LLP

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Independent auditors' report to the members of FLIR Systems Limited

We have audited the financial statements of FLIR Systems Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. 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 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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

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 judgments 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.

Independent auditors' report to the members of FLIR Systems Limited
(continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 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.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

18 June 2009

Profit and loss account
for the year ended 31 December 2008

	<i>Note</i>	2008 £	2007 £
Turnover	2	37,087,948	26,403,910
Cost of sales		(31,391,890)	(20,750,422)
Gross profit		5,696,058	5,653,488
Operating expenses		(3,441,903)	(3,620,026)
Operating profit		2,254,155	2,033,462
Interest receivable	6	662,135	636,544
Profit on ordinary activities before taxation	3	2,916,290	2,670,006
Tax on profit on ordinary activities	7	(726,890)	(664,745)
Profit for the financial year	16, 17	2,189,400	2,005,261

All of the above results are derived from continuing operations.

A note on historical cost 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.

There were no recognised gains or losses during the year other than those reflected in the above profit and loss account.

The notes on pages 8 to 18 form part of these financial statements.

Balance sheet
at 31 December 2008

	Note	2008	2007
		£	£
Fixed assets			
Intangible assets	8,9	-	-
Tangible assets	10	920,616	582,259
		<u>920,616</u>	<u>582,259</u>
Current assets			
Stocks	11	1,534,437	1,699,130
Debtors	12	13,918,769	12,512,627
Cash at bank and in hand		17,722,990	1,367,368
Liquid resources		184,443	11,997,362
		<u>33,360,639</u>	<u>27,576,487</u>
Creditors: amounts falling due within one year	13	(18,999,927)	(15,161,793)
Net current assets		<u>14,360,712</u>	<u>12,414,694</u>
Total assets less current liabilities		<u>15,281,328</u>	<u>12,996,953</u>
Creditors: amounts falling due after more than one year	14	(547,541)	(659,221)
Net assets		<u>14,733,787</u>	<u>12,337,732</u>
Capital and reserves			
Called up share capital	15	465,000	465,000
Capital reserve	16	250,000	250,000
Profit and loss account	16	14,018,787	11,622,732
Shareholders' funds	17	<u>14,733,787</u>	<u>12,337,732</u>

These financial statements were approved by the board of directors on 1 May 2009 and were signed on its behalf by:



A Stensson
Director

The notes on pages 8 to 18 form part of these financial statements.

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.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and 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 22.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life, subject to impairment tests.

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.

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 company provides no other post retirement benefits to its employees.

Notes (continued)

1 Accounting policies (continued)

Share based payments

The share option programmes allow employees to acquire shares of the Parent Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

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

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.

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 completed.

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% - 33% per annum
Computer hardware/software	-	33% per annum

Notes (continued)

1 Accounting policies (continued)

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.

2 Analysis of turnover

	2008 £	2007 £
<i>By geographical market</i>		
Europe	36,790,789	26,349,527
United States of America	2,400	-
Rest of world	294,759	54,383
	<u>37,087,948</u>	<u>26,403,910</u>

3 Profit on ordinary activities before taxation

	2008 £	2007 £
<i>Profit on ordinary activities before taxation is stated after charging/(crediting):</i>		
Depreciation	394,107	379,141
Operating lease rentals:		
- land and buildings	267,521	270,061
- vehicles	155,146	153,501
Impairment of goodwill	142,048	-
Exchange gains	(1,066,679)	(22,658)
	<u> </u>	<u> </u>

	2008 £	2007 £
Auditors' remuneration:		
- Audit of these financial statements	36,250	33,100
Amounts receivable by the auditors and their associates in respect of:		
- All other services	36,100	34,250
	<u> </u>	<u> </u>

4 Remuneration of directors

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

No director is a member of the money purchase pension scheme.

Notes *(continued)*

5 Staff numbers and costs

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

	Number of employees	
	2008	2007
Administrative and selling	<u>51</u>	<u>51</u>

The aggregate payroll costs of these persons were as follows:

	2008	2007
	£	£
Wages and salaries	2,263,180	1,991,763
Social security costs	324,499	261,103
Share based payments (See note 21)	206,655	180,082
Other pension costs	155,605	142,877
	<u>2,949,939</u>	<u>2,575,825</u>

6 Interest receivable

	2008	2007
	£	£
On bank balances and liquid resources	<u>662,135</u>	<u>636,544</u>

Notes (continued)

7 Taxation

Analysis of charge in period

	2008 £	2007 £
<i>UK corporation tax</i>		
Current tax on income for the period	779,689	792,270
Adjustments in respect of prior periods	1,314	28,445
Total current tax	781,003	820,715
Deferred tax (see note 12)	(54,113)	(155,970)
Tax on profit on ordinary activities	726,890	664,745

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2007: higher) than the standard rate of corporation tax in the UK (28.5%, 2007: 30%). The differences are explained below.

	2008 £	2007 £
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	2,916,290	2,670,006
Current tax at 28.5% (2007: 30%)	831,143	801,002
<i>Effects of:</i>		
Expenses not deductible for tax purposes	82,194	79,524
Depreciation for period in excess of capital allowances	48,993	29,871
Corporation tax relief for employee share acquisition	(182,641)	(118,127)
Adjustments to tax charge in respect of previous periods	1,314	28,445
Total current tax charge (see above)	781,003	820,715

Deferred tax asset

A deferred tax asset of £290,024 (2007: £235,911) has been recognised (See note 12).

The elements of deferred tax are as follows:

	2008 £	Movement in year £	2007 £
Differences between accumulated depreciation and capital allowances	124,748	3,870	120,878
Deferred tax on share based payments	165,276	50,243	115,033
Total deferred tax asset	290,024	54,113	235,911

Notes *(continued)*

8 Acquisition of trade and assets – CEDIP Infrared Systems Limited

On 30 September 2008, the company acquired the trade and net liabilities of CEDIP Infrared Systems Limited.

	Book value and fair value £
Net liabilities acquired	
Tangible fixed assets	1,416
Stock	70,000
Debtors	14,398
Cash at bank and in hand	45,504
Creditors	(248,366)
	<hr/>
	(117,048)
 Goodwill	 142,048
	<hr/>
	25,000
	<hr/>
Satisfied by	
Cash	25,000
	<hr/>

9 Intangible fixed assets

	Goodwill on Acquisition £
<i>Cost</i>	
At beginning of year	-
Additions	142,048
	<hr/>
At end of year	142,048
	<hr/>
<i>Amortisation</i>	
At beginning of year	-
Charged in year	142,048
	<hr/>
At end of year	142,048
	<hr/>
<i>Net book value</i>	
At 31 December 2008	-
	<hr/>
At 31 December 2007	-
	<hr/>

The directors consider the goodwill arising on the acquisition of CEDIP Infrared Systems Limited to have no value at the year end.

10 Tangible fixed assets

	Short leasehold land and buildings £	Fixtures, fittings, tools and equipment £	Computer hardware/ Software £	Total £
<i>Cost</i>				
At 1 January 2008	668,382	1,638,556	200,010	2,506,948
Additions	125,634	537,181	69,649	732,464
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2008	794,016	2,175,737	269,659	3,239,412
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At 1 January 2008	523,054	1,221,385	180,250	1,924,689
Charged in year	15,772	363,690	14,645	394,107
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2008	538,826	1,585,075	194,895	2,318,796
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 December 2008	<u>255,190</u>	<u>590,662</u>	<u>74,764</u>	<u>920,616</u>
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007	<u>145,328</u>	<u>417,171</u>	<u>19,760</u>	<u>582,259</u>
	<hr/>	<hr/>	<hr/>	<hr/>

11 Stocks

	2008 £	2007 £
Finished goods for resale	<u>1,534,437</u>	<u>1,699,130</u>

Notes (continued)

12 Debtors

	2008 £	2007 £
Trade debtors	12,902,898	11,477,111
Amounts owed by group undertakings	115,051	279,488
Deferred tax asset (see note 7)	290,024	235,911
Prepayments and accrued income	332,060	520,117
Other debtors	278,736	-
	<u>13,918,769</u>	<u>12,512,627</u>

13 Creditors: amounts falling due within one year

	2008 £	2007 £
Payments received on account	1,086,093	1,916,996
Trade creditors	1,681,836	1,268,161
Amounts owed to group undertakings	11,773,398	8,178,182
Corporation tax	38,830	36,927
Other taxation and social security costs	10,542	160,459
Other creditors	581,945	780,622
Accruals	3,061,244	2,387,340
Deferred income	766,039	433,106
	<u>18,999,927</u>	<u>15,161,793</u>

14 Creditors: amounts falling due after more than one year

	2008 £	2007 £
Other creditors	547,541	659,221
	<u>547,541</u>	<u>659,221</u>

15 Called up share capital

	2008 £	2007 £
<i>Authorised</i>		
465,000 ordinary shares of £1 each	465,000	465,000
<i>Allotted, called up and fully paid</i>		
465,000 ordinary shares of £1 each	465,000	465,000

Notes (continued)

16 Reserves

	Capital Contributions £	Profit and loss account £
At 1 January 2008	250,000	11,622,732
Profit for the year	-	2,189,400
Credit in relation to share based payments	-	206,655
At 31 December 2008	250,000	14,018,787

17 Reconciliation of movement in shareholders' funds

	2008 £	2007 £
Opening shareholders' funds	12,337,732	10,152,389
Profit for the year	2,189,400	2,005,261
Credit in relation to share based payments	206,655	180,082
Closing shareholders' funds	14,733,787	12,337,732

18 Contingent liabilities

The company has a contingent liability regarding duty deferment guarantees at 31 December 2008 to the extent of £250,000 (2007: £250,000).

19 Commitments under operating leases

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

	2008		2007	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
- within one year	-	57,662	-	48,302
- within two to five years	-	101,317	-	74,971
- after more than five years	253,750	-	253,750	-
	253,750	158,979	253,750	123,273

Notes (continued)

20 Pension obligations

In June 2000, 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 £155,605 (2007: £142,877) to the scheme during the year of which £18,775 (2007: £17,528) was accrued but not yet paid at year end.

21 Employee share schemes

The Company has a stock-based compensation program that provides equity based incentives for employees in its ultimate parent's stock. This program includes incentive and non-statutory stock options and non-vested stock awards (referred to as restricted stock awards) granted under two plans, the FLIR Systems, Inc. 1992 Stock Incentive Plan (the "1992 Plan") and the FLIR Systems, Inc. 2004 Stock Incentive Plan (the "2004 Plan"). Prior to 1st January 2007, all stock options were time-based with vesting schedules ranging from immediate vesting to vesting over three years and generally expiring ten years from the grant date. The Company has discontinued issuing option awards out of the 1992 Plan, but previously granted options under those plans remain outstanding until their expiration.

During 2006, the Company also began granting performance-based options and restricted stock awards. The vesting of performance-based options is contingent upon meeting certain diluted earnings per share growth targets in three independent tranches over a three year period and the options expire ten years from the grant date. The vesting of each tranche is not dependent on the other tranches. Restricted stock awards are time-based and generally vest over a three year period.

Additionally, the Company has an Employee Stock Purchase Plan (the "ESPP") which allows employees to purchase shares of the Company's ultimate parent's common stock at 85% of the fair market value at the lower of either the date of enrolment or the purchase date.

The number and weighted average exercise price of the share options activity in the year are as follows:

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2008 £	2008	2007 £	2007
Outstanding at the beginning of the period	8.60	93,098	6.28	180,000
Granted during the period	23.60	3,800	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	7.51	(38,464)	6.32	(86,902)
Lapsed during the period	-	-	-	-
Outstanding at the end of the period	10.30	58,434	6.24	93,098
Exercisable at the end of the period	9.61	40,892	4.89	35,868

The weighted average share price of the share options exercised during the period was £7.51 (2007: £6.32). The options outstanding at the year end have an exercise price in the range of £3.15 to £10.80 (2007: £0.38 to £7.83) and a weighted average contractual life of 6.5 years (2007: 6.1 years)

Notes continued)

21 Employee share schemes (continued)

The amount recognised as an expense in relation to each of the above incentive plans is shown below:

	2008	2007
	£	£
Time-based stock options	7,624	77,484
Performance-based stock options	37,193	21,815
Restricted stock awards	142,586	66,258
Employee stock purchase plan	19,252	14,525
	<u>206,655</u>	<u>180,082</u>

The fair value of the stock-based awards granted in the years ended 31 December 2007 and 2008 reported above was estimated using the Black-Scholes model with the following weighted-average assumptions:

	2008	2007
Stock Option Awards:		
Risk-free interest rate	2.75%	4.6%
Expected dividend yield	0.0%	0.0%
Expected term	4.1 years	3.6 years
Expected volatility	40.78%	39.0%
Employee Stock Purchase Plan:		
Risk-free interest rate	1.07%	4.6%
Expected dividend yield	0.0%	0.0%
Expected term	6 months	6 months
Expected volatility	62.1%	36.2%

22 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., 27700A SW Parkway Avenue, Wilsonville, OR97070, United States of America. No other group accounts include the results of the company.