

FLIR Systems Limited

**Directors' report and financial
statements**

Registered number 1320288

31 December 2009



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2009

Principal activities

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

Business review

2009 was a year of modest growth within the UK business of FLIR Systems Limited, with revenues increasing by 3% on the previous year. The Gross Profit Margin was up by 8% due to product mix reversing the downturn in 2008. These two factors combined to produce an additional £3,372k contribution to operating profit. Operating Expenses were up £1,520k on the previous year, almost entirely due to a £1,445k swing in foreign exchange losses. Therefore, Operating Profit was £1.9m up on 2008.

Constriction of Government spending is likely to have more effect on our Government Systems division into 2010 and beyond, whilst the newly formed Commercial Systems division should benefit from the improving economic conditions.

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 2009 the company had a loss on foreign currency of £379k (2008 £1,067k gain).
- 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

Dividends paid during the year comprise an interim dividend of £32.26 per share in respect of the year ended 31 December 2009.

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

15 March 2010

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).

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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

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 2009 set out on pages 5 to 16. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 Part 16 of the Companies Act 2006. 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 directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

AE Burman (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

31 March 2010

Profit and loss account
for the year ended 31 December 2009

	<i>Note</i>	2009 £	2008 £
Turnover	2	38,170,378	37,087,948
Cost of sales		(29,101,972)	(31,391,890)
Gross profit		9,068,406	5,696,058
Operating expenses		(4,962,365)	(3,441,903)
Operating profit		4,106,041	2,254,155
Interest receivable	6	45,559	662,135
Profit on ordinary activities before taxation	3	4,151,600	2,916,290
Tax on profit on ordinary activities	7	(1,066,859)	(726,890)
Profit for the financial year	16, 17	3,084,741	2,189,400

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 7 to 16 form part of these financial statements

Balance sheet
at 31 December 2009

	Note	2009	2008
		£	£
Fixed assets			
Tangible assets	9	963,313	920,616
Current assets			
Stocks	10	1,377,424	1,534,437
Debtors	11	12,352,628	13,918,769
Cash at bank and in hand		5,357,437	17,722,990
Liquid resources		185,111	184,443
		<u>19,272,600</u>	<u>33,360,639</u>
Creditors amounts falling due within one year	12	(16,500,932)	(18,999,927)
Net current assets		<u>2,771,668</u>	<u>14,360,712</u>
Total assets less current liabilities		<u>3,734,981</u>	<u>15,281,328</u>
Creditors: amounts falling due after more than one year	13	(561,921)	(417,449)
Provisions for liabilities	14	(132,713)	(130,092)
Net assets		<u>3,040,347</u>	<u>14,733,787</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	2,325,347	14,018,787
Shareholders' funds	17	<u>3,040,347</u>	<u>14,733,787</u>

These financial statements were approved by the board of directors on 15th March 2010 and were signed on its behalf by



A Stensson
Director

The notes on pages 7 to 16 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

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

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

Notes (continued)

1 Accounting policies (continued)

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

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

	2009	2008
<i>By geographical market</i>	£	£
Europe	37,214,123	36,790,789
United States of America	13,112	2,400
Rest of world	943,143	294,759
	<u>38,170,378</u>	<u>37,087,948</u>

Notes (continued)

3 Profit on ordinary activities before taxation

	2009 £	2008 £
<i>Profit on ordinary activities before taxation is stated after charging/(crediting)</i>		
Depreciation	350,828	394,107
Operating lease rentals		
- plant and machinery	169,642	172,057
- other	270,706	267,521
Impairment of goodwill	-	142,048
Exchange losses/(gains)	378,567	(1,066,679)
	<u>2009</u> £	<u>2008</u> £
Auditors' remuneration		
- Audit of these financial statements	37,000	36,250
Amounts receivable by the auditors and their associates in respect of		
- All other services	3,000	36,100
	<u>3,000</u>	<u>36,100</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 2009	2008
Administrative and selling	51	51

The aggregate payroll costs of these persons were as follows

	2009 £	2008 £
Wages and salaries	2,345,290	2,559,651
Social security costs	314,692	324,499
Share based payments (See note 21)	221,819	206,655
Other pension costs	149,879	155,605
	<u>3,031,680</u>	<u>3,246,410</u>

6 Interest receivable

	2009 £	2008 £
On bank balances and liquid resources	<u>45,559</u>	<u>662,135</u>

7 Taxation

Analysis of charge in period

	2009 £	2008 £
<i>UK corporation tax</i>		
Current tax on income for the period	1,140,892	779,689
Adjustments in respect of prior periods	(74,923)	1,314
	<u>1,065,969</u>	<u>781,003</u>
Total current tax		
Deferred tax (see note 11)	890	(54,113)
	<u>1,066,859</u>	<u>726,890</u>
Tax on profit on ordinary activities		

Notes (continued)

7 Taxation (continued)

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2008 lower) than the standard rate of corporation tax in the UK 28% (2008 28.5%). The differences are explained below

	2009 £	2008 £
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	4,151,600	2,916,290
	<hr/>	<hr/>
Current tax at 28% (2008 28.5%)	1,162,448	831,143
	<hr/>	<hr/>
<i>Effects of</i>		
Expenses not deductible for tax purposes	27,142	82,194
Depreciation for period in excess of capital allowances	12,813	48,993
Corporation tax relief for employee share acquisition	(61,511)	(182,641)
Adjustments to tax charge in respect of previous periods	(74,923)	1,314
	<hr/>	<hr/>
Total current tax charge (see above)	1,065,969	781,003
	<hr/>	<hr/>

Deferred tax asset

A deferred tax asset of £289,134 (2008 £290,024) has been recognised (See note 11)

The elements of deferred tax are as follows

	2009 £	Movement in year £	2008 £
Differences between accumulated depreciation and capital allowances	136,027	11,279	124,748
Deferred tax on share based payments	153,107	(12,169)	165,276
	<hr/>	<hr/>	<hr/>
Total deferred tax asset	289,134	(890)	290,024
	<hr/>	<hr/>	<hr/>

8 Dividends

The aggregate amount of dividends comprises

	2009 £	2008 £
Interim dividends paid in respect of the current year	15,000,000	-
	<hr/>	<hr/>
Aggregate amount of dividends paid in the financial year	15,000,000	-
	<hr/>	<hr/>

Notes (continued)

9 Tangible fixed assets

	Short leasehold land and buildings £	Fixtures, fittings, tools and equipment £	Computer hardware/ software £	Total £
<i>Cost</i>				
At 1 January 2009	794,016	2,175,737	269,659	3,239,412
Additions	-	380,302	13,223	393,525
Disposals	(501,596)	(254,139)	(151,995)	(907,730)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	292,420	2,301,900	130,887	2,725,207
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At 1 January 2009	538,826	1,585,075	194,895	2,318,796
Charged in year	31,000	288,321	31,507	350,828
Disposals	(501,596)	(254,139)	(151,995)	(907,730)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	68,230	1,619,257	74,407	1,761,894
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 December 2009	224,190	682,643	56,480	963,313
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2008	255,190	590,662	74,764	920,616
	<hr/>	<hr/>	<hr/>	<hr/>

10 Stocks

	2009 £	2008 £
Finished goods for resale	1,377,424	1,534,437
	<hr/>	<hr/>

11 Debtors

	2009 £	2008 £
Trade debtors	10,915,157	12,902,898
Amounts owed by group undertakings	85,530	115,051
Deferred tax asset (see note 7)	289,134	290,024
Prepayments and accrued income	697,455	332,060
Other debtors	365,352	278,736
	<hr/>	<hr/>
	12,352,628	13,918,769
	<hr/>	<hr/>

Notes (continued)

12 Creditors: amounts falling due within one year

	2009 £	2008 £
Payments received on account	881,526	1,086,093
Trade creditors	891,444	1,681,836
Amounts owed to group undertakings	9,485,609	11,773,398
Corporation tax	690,888	38,830
Other taxation and social security costs	128,169	152,714
Other creditors	599,280	581,945
Accruals	2,975,424	2,919,072
Deferred income	848,592	766,039
	<u>16,500,932</u>	<u>18,999,927</u>

13 Creditors: amounts falling due after more than one year

	2009 £	2008 £
Deferred income	561,921	417,449
	<u>561,921</u>	<u>417,449</u>

14 Provisions for liabilities

	Dilapidations provisions £
At beginning of year	130,092
Charge to the profit and loss for the year	2,621
Additional amounts provided	<u>132,713</u>
At end of year	<u>132,713</u>

The dilapidations provision relates to the anticipated costs arising on the vacation of the company's current business premises

15 Called up share capital

	2009 £	2008 £
<i>Allotted, called up and fully paid</i>		
465,000 ordinary shares of £1 each	465,000	465,000
	<u>465,000</u>	<u>465,000</u>

Notes (continued)

16 Reserves

	Capital Contributions £	Profit and loss account £
At 1 January 2009	250,000	14,018,787
Profit for the year	-	3,084,741
Dividends	-	(15,000,000)
Credit in relation to share based payments	-	221,819
	<u>250,000</u>	<u>2,325,347</u>
At 31 December 2009	<u>250,000</u>	<u>2,325,347</u>

17 Reconciliation of movement in shareholders' funds

	2009 £	2008 £
Opening shareholders' funds	14,733,787	12,337,732
Profit for the year	3,084,741	2,189,400
Dividends	(15,000,000)	-
Credit in relation to share based payments	221,819	206,655
	<u>3,040,347</u>	<u>14,733,787</u>
Closing shareholders' funds	<u>3,040,347</u>	<u>14,733,787</u>

18 Contingent liabilities

The company has a contingent liability regarding duty deferment guarantees at 31 December 2009 to the extent of £250,000 (2008 £250,000)

19 Commitments under operating leases

Annual commitments under non-cancellable operating leases are as follows

	2009		2008	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire				
- within one year	-	7,415	-	57,662
- within two to five years	-	150,919	-	101,317
- after more than five years	253,750	-	253,750	-
	<u>253,750</u>	<u>158,334</u>	<u>253,750</u>	<u>158,979</u>

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 £149,879 (2008 £155,605) to the scheme during the year of which £19,848 (2008 £18,775) 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
	2009 £	2009	2008 £	2008
Outstanding at the beginning of the period	10.30	58,434	8.60	93,098
Granted during the period	13.50	4,723	23.60	3,800
Forfeited during the period	-	-	-	-
Exercised during the period	8.58	(24,864)	7.51	(38,464)
Lapsed during the period	-	-	-	-
Outstanding at the end of the period	10.44	38,293	10.30	58,434
Exercisable at the end of the period	9.06	31,036	9.61	40,892

The weighted average share price of the share options exercised during the period was £8.58 (2008 £7.51). The options outstanding at the year end have an exercise price in the range of £2.88 to £21.55 (2008 £3.15 to £10.80) and a weighted average contractual life of 6.3 years (2008 6.5 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

	2009 £	2008 £
Time-based stock options	3,778	7,624
Performance-based stock options	14,078	37,193
Restricted stock awards	176,439	142,586
Employee stock purchase plan	27,524	19,252
	<u>221,819</u>	<u>206,655</u>

The fair value of the stock-based awards granted in the years ended 31 December 2008 and 2009 reported above was estimated using the Black-Scholes model with the following weighted-average assumptions

	2009	2008
Stock Option Awards		
Risk-free interest rate	1.5%	2.75%
Expected dividend yield	0.0%	0.0%
Expected term	4.3 years	4.1 years
Expected volatility	46.9%	40.78%
Employee Stock Purchase Plan		
Risk-free interest rate	0.25%	1.07%
Expected dividend yield	0.0%	0.0%
Expected term	6 months	6 months
Expected volatility	49.5%	62.1%

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 which is also the ultimate controlling party

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.