FLIR Systems Limited

Annual report and financial statements

Registered number 1320288

31 December 2016

Contents

Strategic Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2016.

Principal activities

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

Business review

2016 revenue decreased by £7m on 2015 levels, partly driven by devaluation of USD denominated revenues. Slower bookings from our major European customers also impacted overall revenues. As mentioned in last years review Service revenues were supressed following the cessation of our multi-year support contract for the UK MoD SAR fleet. Gross margins have increased (35.6% up from 28.3%) in proportion to revenue due in part to large foreign exchange gains. Administative expenses were broadly in line with the previous year, taking into account the effect of the MARSS Disposal in 2015. This resulted in Operating Profit from continued operations being up £672k at £7,321k.

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 2016 the company had a gain on foreign currency of £3,895k (2015: gain of £1,071k).
- The ability to secure export licences – a large percentage of the revenue generated in the UK business is from products that are 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.

By order of the board

Craig J Cooper
Company Secretary

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

16 June 2017

Directors' Report

Dividends

There were no dividends paid in respect of the year ended 31 December 2016 (2015: £nil).

Directors' interests

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

CJ Cooper
TA Surran

Political contributions

The Company made no political donations or incurred any political expenditure during the year.

Disclosure of information to auditor

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 auditor is 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 auditor is aware of that information.

Auditor

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
Director

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

16 June 2017

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

The directors are responsible for preparing the Strategic Report, 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) including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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 judgements 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
15 Canada Square
London
E14 5GL
United Kingdom

Independent auditor's report to the members of FLIR Systems Limited

We have audited the financial statements of FLIR Systems Limited for the year ended 31 December 2016 set out on pages 6 to 20. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of 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 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 auditor

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, and express an opinion on, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2016 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 Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and.
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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

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.

W. Smith

William Smith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

16 June 2017

Profit and loss account
for the year ended 31 December 2016

	Note	2016 £000	2015 £000
Turnover	2	**28,255**	35,454
Cost of sales		**(18,183)**	(25,411)
Gross profit		**10,072**	10,043
Administrative expenses		**(2,751)**	(3,394)
Operating profit		**7,321**	6,649
Loss on disposal of operations	8	**-**	(1,322)
Other income		**136**	-
Other interest receivable and similar income	6	**2,837**	1,190
Profit before taxation	3	**10,294**	6,517
Tax on profit	7	**(2,060)**	(1,132)
Profit for the financial year			
- Profit from continuing operations		**8,234**	6,850
- Loss from discontinued operations		**(-)**	(1,465)
Total profit for the financial year	16	**8,234**	5,385

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 9 to 20 form part of these financial statements.

Balance sheet
at 31 December 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Fixed assets					
Tangible assets	9		860		921
Intangible assets and goodwill	8		-		-
			860		921
Current assets					
Stocks	10	694		619	
Debtors including £20,497,229 *(2015: £17,732,000)* due after more than one year	11	36,221		33,036	
Cash at bank and in hand		13,157		5,324	
		50,072		38,979	
Creditors: amounts falling due within one year	12	(15,195)		(12,451)	
Net current assets			34,877		26,528
Total assets less current liabilities			35,737		27,449
Creditors: amounts falling due after more than one year	13		(804)		(928)
Provisions for liabilities	14		(933)		(1,023)
Net assets			34,000		25,498
Capital and reserves					
Called up share capital	15		465		465
Capital reserve	16		250		250
Profit and loss account	16		33,285		24,783
Shareholders' funds			34,000		25,498

These financial statements were approved by the board of directors on 16 June 2017 and were signed on its behalf by:

Craig J Cooper
Director

The notes on pages 9 to 20 form part of these financial statements.

Statement of Income and Retained Earnings

	Called up Share capital £000	Capital Contributions £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2015	465	250	19,182	19,897
Share based payment transactions	-	-	216	216
Profit for the period	-	-	5,385	5,385
Total contributions by and distributions to owners	-	-	5,601	5,601
Balance at 31 December 2015	**465**	**250**	**24,783**	**25,498**

	Called up Share capital £000	Capital Contributions £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2016	465	250	24,783	25,498
Share based payment transactions	-	-	268	268
Profit for the period	-	-	8,234	8,234
Total contributions by and distributions to owners	-	-	8,502	8,502
Balance at 31 December 2016	**465**	**250**	**33,285**	**34,000**

Notes

(forming part of the financial statements)

1 Accounting policies

FLIR Systems Ltd (the "Company") is a company limited by shares and incorporated and domiciled in England in the UK.

The company is a wholly owned subsidiary, and is included in the consolidated financial statements of FLIR Systems Inc. which are publicly available, see note 21.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102"*) as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company's ultimate parent undertaking, FLIR Systems Inc., includes the Company in its consolidated financial statements. The consolidated financial statements of FLIR Systems Inc. are available to the public and may be obtained from FLIR Systems Inc., 27700A SW Parkway Avenue, Wilsonville, OR 97070, United States of America. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of FLIR Systems Inc. include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 *Share Based Payments;* and,
- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements

Measurement convention

The financial statements are prepared on the historical cost basis.

Going concern

At the year end the company's balance sheet showed net assets of £35,737,000 (2015: £27,449,000). On this basis, the directors consider it appropriate to prepare the financial statements on a going concern basis.

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Notes *(continued)*

Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Post-retirement benefits

The company operates a defined contribution pension scheme.

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees

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 on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities may be capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve design for, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Notes *(continued)*

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

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

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

The company assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

Short leasehold land and buildings	-	Over the term of the lease
Fixtures, fittings, tools and equipment	-	15% - 33% per annum
Motor Vehicles	-	20% per annum

Notes *(continued)*

Tangible fixed assets (continued)

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Notes *(continued)*

2 Analysis of turnover

By geographical market	**2016** **£000**	2015 £000
Europe	**28,082**	35,338
United States of America	**78**	5
Rest of world	**95**	111
	28,255	35,454

All turnover arose from the principle activity of the company.

3 Profit on ordinary activities before taxation

	2016 **£000**	2015 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation	**336**	290
Operating lease rentals:		
- plant and machinery	**122**	136
- other	**223**	212
Amortisation	**-**	186
Exchange gain	**(3,895)**	(1,071)

	2016 **£**	2015 £
Auditor's remuneration:		
- Audit of these financial statements	**30**	26
Amounts receivable by the auditors and their associates in respect of:		
- All other services	**-**	6

4 Remuneration of directors

	2016 **£**	2015 £
Directors' emoluments	**166**	173
Company contributions to pension scheme	**8**	8
	174	181

Retirement benefits are accruing for 1 (*2015: 1*) Director under money purchase pension schemes.

Notes *(continued)*

5 Staff numbers and costs

The average monthly number of persons employed by the company (including directors) during the year was:

	Number of employees	
	2016	2015
Administrative and selling	**49**	50

The aggregate payroll costs of these persons were as follows:

	2016	2015
	£000	£000
Wages and salaries	**2,880**	2,898
Social security costs	**365**	404
Share based payments (See note 20)	**268**	216
Other pension costs	**192**	183
	3,705	3,701

6 Other interest receivable and similar income

	2016	2015
	£000	£000
On bank balances and liquid resources	**684**	152
Unrealised foreign exchange gain	**2,153**	1,038
	2,837	1,190

Notes *(continued)*

7 Taxation

Analysis of charge in period

	2016 £000	2015 £000
Current tax		
Current tax on income for the period	**2,086**	1,208
Adjustments in respect of prior periods	**7**	(181)
Total current tax	**2,093**	1,027
Deferred tax (see below)	**(33)**	105
Total tax	**2,060**	1,132

Factors affecting the tax charge for the current period

The current tax charge for the period is higher *(2015: lower)* than the standard rate of corporation tax in the UK 20% (*2015: 20.25%*). The differences are explained below.

	2016 £000	2015 £000
Reconciliation of effective tax rate		
Profit on ordinary activities before tax	**10,294**	6,517
Tax using the UK corporation tax of 20% (2015: 20.25%)	**2,059**	1,320
Effects of:		
Expenses not deductible for tax purposes	**58**	70
Corporation tax relief for employee share acquisition	**(56)**	(77)
Adjustments to tax charge in respect of previous periods	**7**	(181)
Reduction in tax rate on deferred tax balances	**(8)**	
Tax expense included in profit and loss	**2,060**	1,132

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2016 has been calculated based on these rates.

Deferred tax asset

A deferred tax asset of £70,000 (*2015:£37,000*) has been recognised.

The elements of deferred tax are as follows:

	2016 £000	Credit for year £000	2015 £000
Differences between accumulated depreciation and capital allowances	**31**	28	3
Deferred tax on share based payments	**39**	5	34
Total deferred tax asset	**70**	33	37

Notes *(continued)*

8 Intangible Assets

	Goodwill £000
Cost	
At start and end of year	-
Amortisation	
At start and end of year	-
Net book value	
At 31 December 2015 and 2016	-

On 11 June 2015 the company disposed the entire share capital of Marine and Remote Sensing Solutions SAM for a consideration of £841,000. Consideration is receivable based on future revenue streams generated from the disposed operations. Due to the uncertainty over the recoverability of this contingent consideration management have considered the fair value of this consideration to be £226,000, leading to a total loss on disposal of £1,322,000.

9 Tangible fixed assets

	Short leasehold land and buildings £000	Fixtures, fittings, tools and equipment £000	Motor Vehicles £000	Total £000
Cost				
At 1 January 2016	318	3,763	-	4,081
Additions	-	252	23	275
Disposals	-	-	-	-
At 31 December 2016	**318**	**4,015**	**23**	**4,356**
Depreciation				
At 1 January 2016	275	2,885	-	3,160
Charged in year	35	300	1	336
Disposals	-	-	-	-
At 31 December 2016	**310**	**3,185**	**1**	**3,496**
Net book value				
At 31 December 2016	**8**	**830**	**22**	**860**
At 1 January 2016	43	878	-	921

Notes *(continued)*

10 Stocks

	2016 £000	2015 £000
Finished goods for resale	**694**	619

11 Debtors

	2016 £000	2015 £000
Trade debtors	**14,162**	14,371
Amounts owed by group undertakings	**20,860**	17,996
Deferred tax asset (see note 7)	**70**	37
Prepayments and accrued income	**437**	317
Other debtors	**692**	315
	36,221	33,036

Debtors include amounts owed by group undertakings of £20,497,229 (2015: £17,732,000) due after more than one year on which interest is charged at Euro LIBOR plus 3%.

12 Creditors: amounts falling due within one year

	2016 £000	2015 £000
Payments received on account	**1,002**	1,435
Trade creditors	**604**	514
Amounts owed to group undertakings	**7,544**	5,430
Corporation tax	**1,296**	328
Other taxation and social security costs	**580**	329
Accruals	**2,282**	2,830
Deferred income	**1,887**	1,585
	15,195	12,451

Amounts owed to group undertakings are interest free, unsecured and repayable on demand.

Notes *(continued)*

13 Creditors: amounts falling due after more than one year

	2016 £000	2015 £000
Deferred income	**804**	928

14 Provisions for liabilities

	Dilapidations provisions £000	Contract provisions £000	Warranty provisions £000	Total £000
Cost				
At beginning of year	159	426	438	1,023
Charge/ (release) to the profit and loss account for the year	-	-	(428)	(428)
Additional amounts provided	4	-	334	338
At end of year	**163**	**426**	**344**	**933**

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

Contract provisions relate to costs the company is likely to incur in order to fulfil its obligations on certain identifiable contracts.

The warranty provision relates to amounts the company anticipates it will have to incur to fulfil its constructive and legal obligations under warranty agreements.

15 Called up share capital

	2016 £000	2015 £000
Allotted, called up and fully paid		
465,000 ordinary shares of £1 each	**465**	465

Notes *(continued)*

16 Reserves

	Capital Contributions £000	Profit and loss account £000
At 1 January 2016	250	24,783
Profit for the year	-	8,234
Credit in relation to share based payments	-	268
At 31 December 2016	250	33,285

17 Contingent liabilities

The company has a contingent liability regarding duty deferment guarantees at 31 December 2016 to the extent of £250,000 *(2015: £250,000).*

18 Commitments under operating leases

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

	2016		2015	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Operating leases which expire:				
- within one year	63	79	254	79
- within two to five years	-	145	63	224
- after more than five years	-	-	-	-
	63	224	317	303

The amount of non-cancellable operating lease payments recognised as an expense during the period was £223,000 (2015: £212,000).

Notes *(continued)*

19 Pension obligations

The company operates a 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 £191,652 *(2015: £182,696)* to the scheme during the year of which £14,961 *(2015: £nil)* was accrued but not yet paid at year end.

20 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 and the 2004 plan, but previously granted options under those plans remain outstanding until their expiration.

The Company has also granted 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.

Information with respect to restricted stock awards is as follows:

	Number of stock awards
Outstanding at the beginning of the period	23,901
Granted during the period	12,280
Forfeited in the period	(567)
Exercised during the period	(11,464)
Outstanding at the end of the period	24,150

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 the lower of 85% of the fair market price on either the date of enrolment or the purchase date.

21 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, OR 97070, United States of America. No other group accounts include the results of the company.