FLIR Systems Limited

Annual report and financial statements

Registered number 1320288

31 December 2013

Contents

Strategic Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2013.

Principal activities

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

Business review

2013 revenue decreased £3m on 2012 levels, mainly due to constriction in Government spending throughout our main markets in Europe. Careful operating expenses management brought some savings, together with lower marketing spend. Improvements in gross margin meant that despite the reduction in revenue operating profit from continuing operations increased by £1,159k.

During the year the business acquired the entire share capital of Marine and Remote Sensing Solutions Limited (MARSS) and then subsequently hived up the Net Assets and trade of this business. This transaction negatively impacted profits in the year by £828,364. MARSS provides Command and Control software for Maritime applications and it is hoped they will ultimately contribute positively to operating results.

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 2013 the company had a gain on foreign currency of £94k (2012: loss of £155k).
- 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

30 June 2014

Directors' report

Dividends

There were no dividends paid in respect of the year ended 31 December 2013 (2012: £nil).

Directors' interests

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

UBR Dahlberg (resigned 7 November 2013)
WA Sundermeier (resigned 30 January 2014)
CJ Cooper (appointed 8 November 2013)
TA Surran (appointed 30 January 2014)

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

30 June 2014

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).

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
8 Salisbury Square
London
EC4Y 8BB
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 2013 set out on pages 6 to 18. 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 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 2013 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 for which the financial statements are prepared is consistent with the financial statements.

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
8 Salisbury Square
London
EC4Y 8BB

3rd July 2014

Profit and loss account
for the year ended 31 December 2013

	Note		2013 £		2012 £
Turnover	2				
Continuing Operations		**27,573,637**		30,598,048	
Acquisition		**-**		-	
			27,573,637		30,598,048
Cost of sales			**(19,219,732)**		(21,577,720)
Gross profit			**8,353,905**		9,020,328
Administrative expenses			**(3,609,515)**		(4,606,704)
Operating profit/ (Loss)					
Continuing Operations		**5,572,754**		4,413,624	
Acquisition		**(828,364)**		-	
			4,744,390		4,413,624
Interest receivable	6		**11,176**		11,119
Profit on ordinary activities before taxation	3		**4,755,566**		4,424,743
Tax on profit on ordinary activities	7		**(1,162,656)**		(1,129,786)
Profit for the financial year	18		**3,592,910**		3,294,957

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 2013

	Note	2013		2012	
		£	£	£	£
Fixed assets					
Tangible assets	*9*		**779,206**		466,854
Intangible assets and goodwill	*8*		**1,224,548**		-
			2,003,754		466,854
Current assets					
Stocks	*12*	**1,491,689**		1,602,374	
Debtors	*13*	**11,084,971**		9,231,868	
Cash at bank and in hand		**15,245,527**		16,306,693	
		27,822,187		27,140,935	
Creditors: amounts falling due within one year	*14*	**(11,595,540)**		(13,063,276)	
Net current assets		**16,226,647**		14,077,659	
Total assets less current liabilities			**18,230,401**		14,544,513
Creditors: amounts falling due after more than one year	*15*		**(714,294)**		(719,226)
Provisions for liabilities	*16*		**(963,464)**		(1,065,926)
Net assets			**16,552,643**		12,759,361
Capital and reserves					
Called up share capital	*17*		**465,000**		465,000
Capital reserve	*18*		**250,000**		250,000
Profit and loss account	*18*		**15,837,643**		12,044,361
Shareholders' funds	*19*		**16,552,643**		12,759,361

These financial statements were approved by the board of directors on 30 June 2014 and were signed on its behalf by:

CJ Cooper
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.

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present financial information about the Company as an individual undertaking and not about its group. 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 24.

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 24.

Goodwill

Purchased goodwill represents the excess of the fair value of the consideration given over the fair value of the separable net assets acquired. Goodwill is amortised to £nil by equal annual instalments over its estimated useful life of 4 years.

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

Operating lease rentals are charge 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.

Notes *(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

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
Motor Vehicles	-	20% per annum

Investments

Investments in subsidiary undertakings are stated at cost less amounts written off.

True and Fair Override

On 16 September 2013 the company acquired the entire share capital of Marine and Remote Sensing Solutions Limited. On the same day the trade and net assets of the subsidiary undertaking were transferred to the company at their book value. The cost of the company's investment in this subsidiary undertaking reflected the underlying fair value of their net assets and goodwill at the time of acquisition. As a result of this transfer, the value of the company's investment in the subsidiary undertaking fell below the amount at which it was stated in the company's accounting records. Schedule 1 to the Companies Act 2006 (SI 2008 No. 410) require that the investment be written down accordingly and that the amount be charged as a loss in the company's profit and loss account. However, the directors consider that, as there has been no overall loss to the company, it would fail to give a true and fair view to charge that diminution to the company's profit and loss account for the year and it should instead be re-allocated to goodwill and the identifiable net assets transferred, so as to recognise in the company's individual balance sheet the effective cost to the company of those net assets and goodwill. The effect of this departure is to reclassify 1,335,871 of the investment held to goodwill in the balance sheet.

Notes *(continued)*

2 Analysis of turnover

By geographical market	2013 £	2012 £
Europe	**27,476,344**	29,723,294
United States of America	**14,839**	19,012
Rest of world	**82,454**	855,742
	27,573,637	30,598,048

All turnover arose from the principle activity of the company.

3 Profit on ordinary activities before taxation

	2013 £	2012 £
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation	**299,472**	262,495
Operating lease rentals:		
- plant and machinery	**155,741**	157,195
- other	**220,073**	247,968
Amortisation	**111,323**	-
Exchange losses/(gain)	**(94,369)**	155,166

	2013 £	2012 £
Auditor's remuneration:		
- Audit of these financial statements	**25,600**	25,500
Amounts receivable by the auditors and their associates in respect of:		
- All other services	**4,400**	4,400

4 Remuneration of directors

	2013 £	2012 £
Directors' emoluments	**11,158**	-
Company contributions to pension scheme	**872**	-
	12,030	-

During the year two of the directors were remunerated through FLIR Systems Inc., the ultimate parent company and its other subsidiaries.

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	
	2013	2012
Administrative and selling	**48**	49

The aggregate payroll costs of these persons were as follows:

	2013	2012
	£	£
Wages and salaries	**2,504,858**	2,255,880
Social security costs	**304,528**	300,265
Share based payments (See note 23)	**200,372**	166,548
Other pension costs	**145,086**	145,483
	3,154,844	2,868,176

6 Interest receivable

	2013	2012
	£	£
On bank balances and liquid resources	**11,176**	11,119

Notes *(continued)*

7 Taxation

Analysis of charge in period

	2013 £	2012 £
UK corporation tax		
Current tax on income for the period	**1,160,290**	1,130,102
Adjustments in respect of prior periods	**(16,241)**	(10,759)
Total current tax	**1,144,049**	1,119,343
Deferred tax (see below)	**18,607**	10,443
Tax on profit on ordinary activities	**1,162,656**	1,129,786

Factors affecting the tax charge for the current period

The current tax charge for the period is higher *(2012: higher)* than the standard rate of corporation tax in the UK 23.25% (*2012: 24.5%*). The differences are explained below.

	2013 £	2012 £
Current tax reconciliation		
Profit on ordinary activities before tax	**4,755,566**	4,424,743
Effective tax rate 23.25% (2012: 24.5%)	**1,105,669**	1,084,062
Effects of:		
Expenses not deductible for tax purposes	**56,342**	59,694
Depreciation for period in excess of capital allowances	**34,813**	16,372
Corporation tax relief for employee share acquisition	**(36,534)**	(30,026)
Adjustments to tax charge in respect of previous periods	**(16,241)**	(10,759)
Total current tax charge (see above)	**1,144,049**	1,119,343

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 December 2013 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

Deferred tax asset

A deferred tax asset of £129,230 (*2012: 147,837*) has been recognised (see note 13).

The elements of deferred tax are as follows:

	2013 £	Charge for year £	2012 £
Differences between accumulated depreciation and capital allowances	**94,111**	17,486	111,957
Deferred tax on share based payments	**35,119**	761	35,880
Total deferred tax asset	**129,230**	18,607	147,837

Notes *(continued)*

8 Intangible Assets

	Goodwill £
Cost	
Additions	1,335,871
At 31 December 2013	**1,335,871**
Amortisation	
Charged in year	111,323
At 31 December 2013	**111,323**
Net book value	
At 31 December 2013	**1,224,548**

Goodwill arising on the hive up of Marine and Remote Sensing Solutions Limited is amortised over 4 years, which the directors feel reflects the useful economic life of the existing trade and assets of the company.

9 Tangible fixed assets

	Short leasehold land and buildings £	Fixtures, fittings, tools and equipment £	Computer hardware/ software £	Motor Vehicles £	Total £
Cost					
At 1 January 2013	317,935	2,526,484	143,508	-	2,987,927
Additions	-	564,820	4,123	33,690	602,633
Acquisition	-	9,191	-	-	9,191
At 31 December 2013	**317,935**	**3,100,495**	**147,631**	**33,690**	**3,599,751**
Depreciation					
At 1 January 2013	170,680	2,210,069	140,324	-	2,521,073
Charged in year	34,780	260,161	3,970	561	299,472
At 31 December 2013	**205,460**	**2,470,230**	**144,294**	**561**	**2,820,545**
Net book value					
At 31 December 2013	**112,475**	**630,265**	**3,337**	**33,129**	**779,206**
At 1 January 2013	147,255	316,415	3,184	-	466,854

Notes *(continued)*

10 Investments

The subsidiary undertaking at 31 December 2013 was SAM Marine and Remote Sensing Solutions this had a nil net book value and fair value at acquisition on 16 September 2013 and at 31 December 2013.

MARSS SAM

Country of incorporation:	Monaco
Holding:	€150,000
Nature of Business:	Command and Control software for Marine applications
Proportion of shares held:	100%
Capital and Reserves	Negative €1,309,084
Loss for the year	€11,441

11 Acquisition

On 16 September 2013 the company acquired the entire share capital of Marine and Remote Sensing Solutions Limited. On the same day the trade and net assets of the subsidiary undertaking were transferred to the company at their net book value. As described in note 1 the company has applied the True and Fair override. On this basis the company has not recognised an investment on acquisition of the shares in Marine and Remote Sensing Solutions Limited but recognising the net assets transferred in the individual company's balance sheet and goodwill as set out below.

	Book and Fair Value
	£
Tangible fixed assets	**9,191**
Accrued Income	**287,837**
Prepayments	**1,328**
Debtors	**19,183**
Intercompany debtors	**830,436**
Cash at bank and in hand	**40,392**
Creditors amounts falling due within one year	**(445,482)**
Creditors amounts falling due after one year	-
	742,885
Consideration – cash	**1,915,753**
Consideration – satisfied by intercompany debt	**163,003**
Goodwill arising on acquisition	**1,335,871**

The directors consider that there is no material difference between the fair value and the net book value of the assets acquired.

12 Stocks

	2013	2012
	£	£
Finished goods for resale	**1,491,689**	1,602,374

Notes *(continued)*

13 Debtors

	2013 £	2012 £
Trade debtors	**8,253,052**	7,983,102
Amounts owed by group undertakings	**1,291,256**	204,889
Deferred tax asset (see note 7)	**129,230**	147,837
Prepayments and accrued income	**696,751**	531,401
Other debtors	**714,682**	364,639
	11,084,971	9,231,868

14 Creditors: amounts falling due within one year

	2013 £	2012 £
Payments received on account	**702,940**	1,382,974
Trade creditors	**234,219**	305,331
Amounts owed to group undertakings	**5,693,952**	6,857,312
Corporation tax	**474,151**	337,869
Other taxation and social security costs	**557,998**	314,276
Accruals	**2,523,433**	2,262,261
Deferred income	**1,408,847**	1,603,253
	11,595,540	13,063,276

15 Creditors: amounts falling due after more than one year

	2013 £	2012 £
Deferred income	**714,294**	719,226

16 Provisions for liabilities

	Dilapidations provisions £	Contract provisions £	Warranty provisions £	Total £
Cost				
At beginning of year	145,162	449,715	471,049	1,065,926
Charge/ (release) to the profit and loss account for the year	4,404	(36,817)	(471,049)	(503,462)
Additional amounts provided	-	58,602	342,398	401,000
At end of year	**149,566**	**471,500**	**342,398**	**963,464**

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.

Notes *(continued)*

17 Called up share capital

	2013	2012
	£	£
Allotted, called up and fully paid		
465,000 ordinary shares of £1 each	**465,000**	465,000

18 Reserves

	Capital Contributions	Profit and loss account
	£	£
At 1 January 2013	250,000	12,044,361
Profit for the year	-	3,592,910
Credit in relation to share based payments	-	200,372
At 31 December 2013	**250,000**	**15,837,643**

19 Reconciliation of movement in shareholders' funds

	2013	2012
	£	£
Opening shareholders' funds	**12,759,361**	9,297,856
Profit for the year	**3,592,910**	3,294,957
Credit in relation to share based payments	**200,372**	166,548
Closing shareholders' funds	**16,552,643**	12,759,361

20 Contingent liabilities

The company has a contingent liability regarding duty deferment guarantees at 31 December 2013 to the extent of £250,000 *(2012: £250,000).*

21 Commitments under operating leases

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

	2013		2012	
	Land and buildings	buildings	Land and buildings	buildings
	£	£	£	£
Operating leases which expire:				
- within one year	-	22,089	-	5,070
- within two to five years	253,750	76,401	-	89,241
- after more than five years	-	-	253,750	-
	253,750	98,490	253,750	94,311

Notes *(continued)*

22 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 £145,086 (*2012: £145,483)* to the scheme during the year of which £nil (*2012: £nil)* was accrued but not yet paid at year end.

23 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	18,423
Granted during the period	17,028
Exercised during the period	(11,075)
Outstanding at the end of the period	**24,376**

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.

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
	2013	**2013**	2012	2012
	£		£	
Outstanding at the beginning of the period	**8.47**	**20,802**	8.70	20,802
Granted during the period	**-**	**-**	-	-
Forfeited during the period	**-**	**-**	-	-
Exercised during the period	**17.55**	**1,500**	-	-
Outstanding at the end of the period	**8.39**	**19,302**	8.70	20,802
Exercisable at the end of the period	**8.39**	**19,302**	8.70	20,802

The weighted average share price of the share options exercised during the period was £17.55 (2012: £nil). The options outstanding at the year end have an exercise price in the range of £7.6 to £9.49 (2012: £7.81 to £9.75) and a weighted average contractual life of 1.7 years (2012: 2.6 years).

Notes *(continued)*

23 Employee share schemes *(continued)*

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

	2013	2012
	£	£
Restricted stock awards	**194,099**	148,139
Employee stock purchase plan	**6,273**	18,409
	200,372	166,548

The fair value of the stock-based awards granted in the year ended 31 December 2013 reported above was estimated using the Black-Scholes model with the following weighted-average assumptions:

	2013	2012
Market-Based Restricted Stock Award:		
Risk-free interest rate	**0.3%**	0.4%
Expected dividend yield	**0.0%**	0.0%
Expected term	**2.2 years**	3.0 years
Expected volatility	**28.8%**	30.7%
Employee Stock Purchase Plan:		
Risk-free interest rate	**0.1%**	0.2%
Expected dividend yield	**1.4%**	1.3%
Expected term	**6 months**	6 months
Expected volatility	**28.1%**	25.2%

24 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.