ANDERSEN

FLIR Systems Limited

Directors' report and financial statements
for the year ended 31 December 2001

Registered number: 1320288

Contents

Directors and advisers

Directors

Arne Almerfors

Maria Rensfeldt

Secretary

Craig J Cooper

Auditors

Arthur Andersen
180 Strand
London
WC2R 1BL

Registered office

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

Directors' report

For the year ended 31 December 2001

The directors present their report and the audited financial statements of the company for the year ended 31 December 2001.

Principal activity

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

Business review

The profit and loss account for the year is set out on page 6.

Dividends

The directors do not recommend the payment of a dividend for the year (2000: £nil).

Directors and their interests

The directors of the company at 31 December 2001, all of whom have been directors for the whole of the year ended on that date are listed below:

Arne Almerfors
Maria Rensfeldt

The directors had no interests in the shares of the company or in any significant contract to which the company was a party during the year. The directors interests in the shares of group companies are shown in the financial statements of those companies.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Directors' report (continued)

Directors' responsibilities (continued)

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

Craig J Cooper
Company Secretary

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To the Shareholders of FLIR Systems Limited

We have audited the financial statements of FLIR Systems Limited for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheet, and the related notes numbered 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 2001 and of the company's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

180 Strand
London
WC2R 1BL

1 July 2002

Profit and loss account

For the year ended 31 December 2001

	Notes	2001 £	2000 £
Turnover	2	15,108,872	10,675,914
Cost of sales		(9,599,340)	(5,906,945)
Gross profit		5,509,532	4,768,969
Operating expenses	3	(3,554,993)	(4,570,017)
Operating profit		1,954,539	198,952
Interest receivable	4	50,436	27,430
Interest payable	5	-	(17,917)
Profit on ordinary activities before taxation	7	2,004,975	208,465
Tax on profit on ordinary activities	8	(393,261)	-
Profit for the financial year	15	1,611,714	208,465

All of the above results are derived from continuing operations.

There are no recognised gains and losses other than the profit for the year.

The accompanying notes are an integral part of the profit and loss account.

Balance sheet

As at 31 December 2001

	Notes	2001 £	2000 £
Fixed assets			
Tangible assets	9	287,816	372,325
Current assets			
Stocks	10	344,668	748,145
Debtors	11	5,966,483	4,598,130
Cash at bank and in hand		923,417	771,615
		7,234,568	6,117,890
Creditors: amounts falling due within one year	12	(5,824,217)	(6,403,762)
Net current assets/(liabilities)		1,410,351	(285,872)
Net assets		1,698,167	86,453
Capital and reserves			
Called up share capital	13	465,000	465,000
Capital contribution	14	250,000	250,000
Profit and loss account	14	983,167	(628,547)
Equity shareholders' funds	15	1,698,167	86,453

The financial statements on pages 6 to 14 were approved by the board of directors on 1/7/02 and were signed on its behalf by:

MRensfeldt

Maria Rensfeldt

Director

The accompanying notes are an integral part of this balance sheet.

Notes to the financial statements

For the year ended 31 December 2001

1 Accounting policies

a) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

b) Turnover

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

c) 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.

The following rates of depreciation are used:

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

d) 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 stocks.

e) Taxation

Corporation tax payable is provided on taxable profits at the current rate. Provision is made for deferred tax, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

f) Foreign currency

Assets and liabilities in foreign currencies have been translated into sterling at the rates of exchange ruling at the year end. Transactions during the year are translated at the rate ruling at the date of the transaction. All exchange differences arising are dealt with in the profit and loss account during the year.

g) Operating leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

h) Cash flow statement

The directors have adopted the provisions of FRS 1 (Revised 1997) and have taken advantage of the exemption allowing them to dispense with the preparation of a cash flow statement as they are a 100% subsidiary whose parent company accounts are available to the public.

Notes to the financial statements (continued)

1 Accounting policies (continued)

i) Pension scheme arrangements

The company operates both a defined benefit and a defined contribution pension scheme.

The defined benefit scheme is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services.

The assets of the defined benefit contribution scheme are held in a separate trustee administered fund and the pension cost charge for the year represents contributions payable by the company to the fund.

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

2 Turnover

No geographical analysis of turnover is disclosed as the directors consider that this information would be prejudicial to the company's interests.

3 Operating expenses

	2001	2000
	£	£
Administrative expenses	3,554,993	4,570,017

4 Interest receivable

	2001	2000
	£	£
Interest receivable on bank balances	20,225	20,652
Interest receivable from group companies	30,211	6,778
	50,436	27,430

5 Interest payable

	2001	2000
	£	£
Interest payable on bank loans and overdrafts	-	17,917

6 Employee and directors' information

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

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

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

	2001 Number	2000 Number
Administrative and selling	44	47

The staff costs for the above persons were:

	2001 £	2000 £
Wages and salaries	1,481,174	1,618,530
Social security costs	190,389	193,859
Other pension costs	131,542	133,059
	1,803,105	1,945,448

7 Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after charging/(crediting):

	2001 £	2000 £
Auditors' remuneration:		
- audit	25,000	25,000
- other services	7,500	10,000
Depreciation	99,770	144,378
Loss on disposal of fixed assets	-	19,166
Operating lease rentals:		
- land and buildings	204,473	173,496
- vehicles	168,481	186,284
Exchange gains	(182,433)	(149,142)

Notes to the financial statements (continued)

8 Tax on profit on ordinary activities

	2001 £	2000 £
UK Corporation tax at 30% (2000: 30%)		
- current year	387,775	-
- under provision in prior year	5,486	-
	393,261	-

9 Tangible fixed assets

	Short leasehold land and buildings £	Fixtures, fittings, tools and equipment £	Computer hardware/ software £	Total £
Cost				
1 January 2001	493,197	316,009	31,731	840,937
Additions	-	1,798	13,463	15,261
31 December 2001	493,197	317,807	45,194	856,198
Depreciation				
1 January 2001	191,779	261,598	15,235	468,612
Charge for the year	49,754	37,866	12,150	99,770
31 December 2001	241,533	299,464	27,385	568,382
Net book value				
31 December 2001	251,664	18,343	17,809	287,816
31 December 2000	301,418	54,411	16,496	372,325

10 Stocks

	2001 £	2000 £
Finished goods for resale	344,668	748,145

11 Debtors

	2001 £	2000 £
Trade debtors	3,881,433	3,411,794
Amounts owed by group undertakings	1,643,489	1,059,981
Other debtors	44,774	33,799
Prepayments and accrued income	396,787	92,556
	5,966,483	4,598,130

12 Creditors: amounts falling due within one year

	2001 £	2000 £
Trade creditors	937,654	1,187,116
Amounts owed to group undertakings	1,422,215	2,462,369
Corporation tax	393,261	-
Other taxation and social security	58,698	95,197
Payments received on account	951,763	1,295,692
Other creditors	372,105	247,129
Accruals and deferred income	1,688,521	1,116,259
	5,824,217	6,403,762

13 Called up share capital

	2001 £	2000 £
Authorised, allotted, called up and fully paid		
465,000 ordinary shares of £1 each	465,000	465,000

14 Reserves

	Capital contribution £	Profit and loss account £
1 January 2001	250,000	(628,547)
Profit for the year	-	1,611,714
31 December 2001	250,000	983,167

15 Reconciliation of movements in equity shareholders' funds

	2001 £	2000 £
Opening equity shareholders' funds	86,453	(122,012)
Profit for the financial year	1,611,714	208,465
Closing equity shareholders' funds	1,698,167	86,453

16 Contingent liabilities

The company has a contingent liability under tender and performance guarantees at 31 December 2001 to the extent of £22,557 (2000: £443,938).

17 Commitments under operating leases

At 31 December 2001 the company had annual commitments under non-cancellable operating leases as follows:

	2001		2000	
	Land and buildings £	Other £	Land and buildings £	Other £
Date of lease termination:				
- within one year	-	81,284	-	102,811
- two to five years	224,750	46,072	152,664	78,283
	224,750	127,356	152,664	181,094

18 Pension obligations

In June 1999, the company established a new defined contribution pension scheme for its employees. The assets of the scheme are held in a separate trustee administered fund. The company contributes 4% of pensionable pay to the scheme and matches employee contributions up to a further 4%. These contributions are charged to the profit and loss account as incurred.

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

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

The company intends to wind up this scheme in due course and an actuarial review is planned to establish whether the company is liable for any further contributions in order to meet the accrued benefits of members of the scheme.

18 Pension obligations (continued)

The market value of the pool of investments at 1 April 2000 was £1,639,000 and the level of funding of the scheme was 94% at that date. On winding up of the scheme the company will be liable for any shortfall against the minimum funding requirement. Provision has been made at 31 December 2001 for the expected shortfall.

The actuarial method used was the projected unit method with a five year control period. The major assumptions were that the difference between investment yield and the rate of increase earnings yield will be 2% and that the mortality of members and dependants will be in accordance with that experienced under occupational pension schemes generally.

The directors intend to wind up the pension scheme prior to the full introduction of FRS 17 Retirement Benefits in respect of the year ended 31 December 2003. Accordingly the directors do not consider it appropriate to provide the transitional disclosures required by the standard.

19 Related party transactions

The company has taken advantage of the exemption available to wholly owned subsidiaries under Financial Reporting Standard No. 8 ("Related Party Disclosures") not to provide details of transactions with other group undertakings of FLIR Systems Inc. or investees of that group.

20 Ultimate parent undertaking

The company is a wholly owned subsidiary of FLIR Systems Inc., a company incorporated in the United States of America and the only group company to prepare consolidated financial statements.

A copy of the consolidated financial statements may be obtained from FLIR Systems Inc., 16505 SW, 72nd Avenue, Portland, Oregon, United States of America.