

**FLIR Systems Limited**

**Directors' report and financial  
statements**

**Registered number 1320288**

**31 December 2002**



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## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

### Principal activities

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

### Business review

The result for the year is set out on page 4.

### Dividends

The directors do not recommend the payment of a dividend (2001: nil).

### Directors and directors' interests

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

A Almerfors	
M Rensfeldt	(resigned 30 November 2002)
A Stennson	(appointed 30 November 2002)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

According to the register of directors' interests no rights to subscribe for shares in or debentures of the company were granted to any of the directors or their immediate families, or exercised by them during the financial year.

### Auditors

KPMG LLP was appointed as auditor in October 2002. In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



**Craig J Cooper**  
Company Secretary

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

7 October 2003

## Statement of 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 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records 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 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

### Report of the independent auditors to the members of FLIR Systems Limited

We have audited the financial statements on pages 4 to 14.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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.

#### Basis of audit opinion

We conducted our audit in accordance with 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 company's circumstances, consistently applied and adequately disclosed.

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

#### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG LLP*

KPMG LLP  
Chartered Accountants  
Registered Auditor

*13 October,* 2003

**Profit and loss account**  
*for the year ended 31 December 2002*

	<i>Note</i>	<b>2002</b> £	<b>2001</b> £
<b>Turnover</b>	<i>1-2</i>	<b>14,798,575</b>	<b>15,108,872</b>
Cost of sales		<b>(9,111,307)</b>	<b>(9,699,340)</b>
<b>Gross profit</b>		<b>5,687,268</b>	<b>5,509,532</b>
Operating expenses		<b>(3,128,049)</b>	<b>(3,454,993)</b>
<b>Operating profit</b>		<b>2,559,219</b>	<b>1,954,539</b>
Interest receivable	<i>3</i>	<b>109,810</b>	<b>50,436</b>
<b>Profit on ordinary activities before taxation</b>	<i>4</i>	<b>2,669,029</b>	<b>2,004,975</b>
Tax on profit on ordinary activities	<i>7</i>	<b>(557,624)</b>	<b>(393,261)</b>
<b>Profit for the financial year</b>	<i>14</i>	<b>2,111,405</b>	<b>1,611,714</b>

All of the above results are derived from continuing operations.

A statement of total recognised gains and losses has not been included as part of these financial statements as the company made no gains or losses in the period other than disclosed above in the profit and loss account.

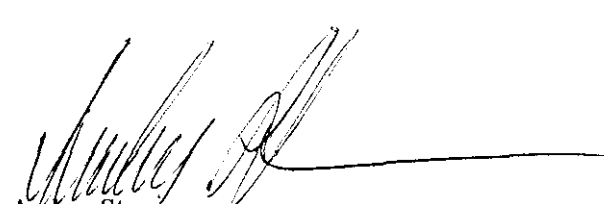
A note on historical gains and losses has not been included as part of the financial statements as the results as disclosed in the profit and loss account are prepared on an unmodified historical cost basis.

**Balance sheet**  
*at 31 December 2002*

	Note	2002	2001
		£	£
<b>Fixed assets</b>			
Tangible assets	8	272,003	287,816
<b>Current assets</b>			
Stocks	9	1,006,731	730,844
Debtors	10	9,048,433	5,580,307
Cash at bank and in hand		1,682,804	923,417
		<u>11,797,968</u>	<u>7,234,568</u>
<b>Creditors: amounts falling due within one year</b>	11	<u>(8,200,399)</u>	<u>(5,824,217)</u>
<b>Net current assets</b>		<u>3,537,569</u>	<u>1,410,351</u>
<b>Net assets</b>		<u>3,809,572</u>	<u>1,698,167</u>
<b>Capital and reserves</b>			
Called up share capital	12	465,000	465,000
Capital reserve	13	250,000	250,000
Profit and loss	13	3,094,572	983,167
<b>Equity shareholders' funds</b>	14	<u>3,809,572</u>	<u>1,698,167</u>

These financial statements were approved by the board of directors on  
on its behalf by:

7 October 2003 and were signed

  
Anders Stennison  
Director

## 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 except as noted below. The company has adopted FRS 18 'Accounting policies' and FRS 19 'Deferred tax' in these financial statements. There was no material impact on the comparative figures.

#### ***Basis of preparation***

The financial statements have been prepared in accordance with applicable accounting standards 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 18.

#### ***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 both a defined benefit and 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 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. This scheme commenced winding-up on 1 July 1999. No further regular company contributions will be made to this scheme, as company contributions to eligible employees are now paid into the new defined contribution scheme as describe above. (See note 17).

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



## Notes (continued)

### 1 Accounting policies (continued)

#### *Employee share schemes*

The cost of awards to employees that take the form of shares or rights to shares are recognised over the period of the employee's related performance. Where there are no performance criteria, the cost is recognised when the employee becomes unconditionally entitled to the shares. No cost is recognised in respect of SAYE schemes that are offered on similar terms to all or substantially all employees.

#### *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 met.

#### *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
Fixture, fittings, tools and equipment	-	15% per annum
Computer hardware/software	-	33% per annum

## Notes (continued)

### 1 Accounting policies (continued)

#### Payments on account

Advance payments received from customers are shown separately from the sales ledger and are classified as payments on account in creditors.

#### Operating leases

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

### 2 Analysis of turnover

	2002 £	2001 £
<i>By geographical market</i>		
Europe	14,383,364	14,942,682
United States of America	383,958	110,926
Rest of world	31,251	55,264
	<hr/>	<hr/>
	14,798,573	15,108,872
	<hr/>	<hr/>

### 3 Interest receivable

	2002 £	2001 £
Interest receivable from group companies	101,739	30,211
Other	8,071	20,225
	<hr/>	<hr/>
	109,810	50,436
	<hr/>	<hr/>

## Notes (continued)

### 4 Profit on ordinary activities before taxation

	2002 £	2001 £
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration:		
- audit	35,000	25,000
- other services	8,000	7,500
Depreciation	79,020	99,770
Operating lease rentals:		
- land and buildings	225,345	204,473
- vehicles	171,207	168,481
Exchange gains/(losses)	265,990	(182,433)
Research and development	61,650	204,210
	<u>          </u>	<u>          </u>

### 5 Remuneration of directors

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.

### 6 Staff numbers and costs

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

	Number of employees 2002	2001
Administrative and selling	48	44
	<u>          </u>	<u>          </u>

The aggregate payroll costs of these persons were as follows:

	2002 £	2001 £
Wages and salaries	1,700,729	1,481,174
Social security costs	212,961	190,389
Other pension costs	115,061	131,542
	<u>          </u>	<u>          </u>
	2,028,751	1,803,105
	<u>          </u>	<u>          </u>

## Notes (continued)

### 7 Tax on profit on ordinary activities

#### Analysis of charge in period

	2002 £	2001 £
<i>UK corporation tax</i>		
Current tax on income for the period	790,943	341,315
Adjustments in respect of prior periods	(86,743)	51,946
	<hr/>	<hr/>
Total current tax	704,200	393,261
Deferred tax (see note 10)	(146,576)	-
	<hr/>	<hr/>
Tax on profit on ordinary activities	557,624	393,261
	<hr/>	<hr/>

#### Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2001: lower) than the standard rate of corporation tax in the UK (30%, 2001: 30%). The differences are explained below.

	2002 £	2001 £
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	2,669,029	2,004,975
	<hr/>	<hr/>
Current tax at 30% (2001: 30%)	800,709	601,493
<i>Effects of:</i>		
Expenses not deductible for tax purposes	14,843	31,020
Capital allowances for period in excess of depreciation	(24,609)	(27,079)
Utilisation of tax losses	-	(264,119)
Adjustments to tax charge in respect of previous periods	(86,743)	51,946
	<hr/>	<hr/>
Total current tax charge (see above)	704,200	393,261
	<hr/>	<hr/>

#### Deferred tax asset

A deferred tax asset of £146,576 (2001: £nil) has been recognised due to differences between accumulated depreciation and capital allowances (see note 10).

**Notes (continued)**

**8 Tangible fixed assets**

	Short leasehold land and buildings £	Fixtures, fittings, tools and equipment £	Computer hardware/ software £	Total £
<i>Cost</i>				
1 January 2002	493,197	317,807	45,194	856,198
Additions	5,926	22,082	35,199	63,207
Disposals	-	(87,809)	(15,589)	(103,398)
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2002	499,123	252,080	64,804	816,007
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
1 January 2002	241,533	299,464	27,385	568,382
Charged in year	50,001	13,356	15,663	79,020
Disposals	-	(87,809)	(15,589)	(103,398)
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2002	291,534	225,011	27,459	544,004
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 December 2002	<u>207,589</u>	<u>27,069</u>	<u>37,345</u>	<u>272,003</u>
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	<u>251,664</u>	<u>18,343</u>	<u>17,809</u>	<u>287,816</u>
	<hr/>	<hr/>	<hr/>	<hr/>

**9 Stocks**

	2002 £	2001 £
Finished goods and goods for resale	<u>1,006,731</u>	<u>730,844</u>

**10 Debtors**

	2002 £	2001 £
Trade debtors	3,433,331	3,495,257
Amounts owed by group undertakings	4,766,629	1,643,489
Other debtors	479,833	396,787
Deferred tax asset	146,576	-
Prepayment and accrued income	222,064	44,774
	<hr/>	<hr/>
	<u>9,048,433</u>	<u>5,580,307</u>
	<hr/>	<hr/>

**Notes (continued)**

**11 Creditors: amounts falling due within one year**

	2002 £	2001 £
Trade creditors	801,954	937,654
Amounts owed to group undertakings	1,372,508	1,422,215
Corporation tax	332,270	393,261
Other taxation and social security costs	83,367	58,698
Payments received on account	3,564,923	951,763
Other creditors	596,225	372,105
Accruals and deferred income	1,449,152	1,688,521
	<u>8,200,399</u>	<u>5,824,217</u>

Included in accruals and deferred income is £111,000 regarding the defined benefit pension scheme (see note 17).

**12 Called up share capital**

	2002 £	2001 £
<i>Authorised</i>		
465,000 ordinary shares of £1 each	465,000	465,000
	<u>465,000</u>	<u>465,000</u>
<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>

**13 Reserves**

	Capital contributions £	Profit and loss account £
At 1 January 2002	250,000	983,167
Profit for the year	-	2,111,405
	<u>250,000</u>	<u>3,094,572</u>
<b>At 31 December 2002</b>	<u>250,000</u>	<u>3,094,572</u>

**14 Reconciliation of movement in equity shareholders' funds**

	2002 £	2001 £
Opening equity shareholders' funds	1,698,167	86,453
Profit for the year	2,111,405	1,611,714
	<u>3,809,572</u>	<u>1,698,167</u>
<b>At 31 December 2002</b>	<u>3,809,572</u>	<u>1,698,167</u>

## Notes (continued)

### 15 Contingent liabilities

The company has a contingent liability regarding tender and performance guarantees and duty deferment at 31 December 2002 to the extent of £611,480 (2001: £22,557).

### 16 Commitments under operating leases

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

	2002		2001	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
- within one year	-	-	-	81,284
- two to five years	224,750	171,207	224,750	46,072
	<u>224,750</u>	<u>482,312</u>	<u>224,750</u>	<u>127,356</u>

### 17 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 regular company contributions will be made to this scheme, as company contributions to eligible employees are now paid into the new defined contribution scheme as describe above.

This scheme commenced winding-up on 1 July 1999 and this wind-up is currently progressing. As part of this process, 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.

The last actuarial valuation of the scheme was carried out as at 1 April 2000 by an independent actuary. At that date, the market value of the scheme's investments was £1,639,000 and the level of funding of the scheme was 94% on the basis prescribed by the Government for calculating the company's liability for the final contribution to the scheme. The actuarial method used was the projected unit method. The major assumptions were that investment returns would be 9% per annum and inflation would be 4% per annum. Hence, as at 1 April 2000, the company's liability for the final contribution to the scheme was £111,000.

Provision has been made at 31 December 2002 for the expected shortfall (see note 11).

**Notes** *(continued)*

**18 Ultimate parent undertaking and parent undertaking of larger group of which the company is a member**

The company is a subsidiary undertaking of FLIR Systems Inc., a company incorporated in the United States of America.

The largest group in which the results of the company are consolidated is that headed by FLIR Systems Inc., incorporated in the United States of America. The consolidated accounts of this company are available to the public and may be obtained from FLIR Systems Inc., 16505 SW, 72<sup>nd</sup> Avenue, Portland, Oregon, United States of America. No other group accounts include the results of the company.