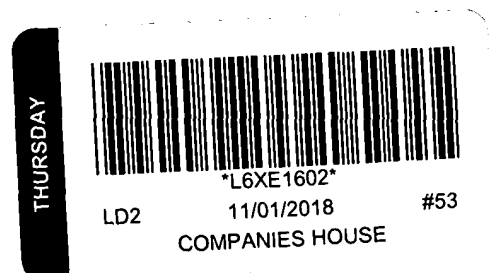


**I P G PHOTONICS (UK) LIMITED**  
**AMENDED**

**STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**



---

**I P G PHOTONICS (UK) LIMITED**

---

**COMPANY INFORMATION**

---

<b>DIRECTORS</b>	T Mammen A Thompson
<b>COMPANY SECRETARY</b>	A Lopresti
<b>REGISTERED NUMBER</b>	04132272
<b>REGISTERED OFFICE</b>	1 Vincent Square London SW1P 2PN
<b>INDEPENDENT AUDITORS</b>	Wellers Accountants & Statutory Auditors 1 Vincent Square London SW1P 2PN
<b>BANKERS</b>	Barclays Bank plc 1 Churchill Place London E14 5HP

---

**I P G PHOTONICS (UK) LIMITED**

---

**CONTENTS**

---

	Page
<b>Strategic report</b>	1 - 2
<b>Directors' report</b>	3 - 5
<b>Independent auditors' report</b>	6 - 7
<b>Statement of comprehensive income</b>	8
<b>Balance sheet</b>	9
<b>Statement of changes in equity</b>	10
<b>Notes to the financial statements</b>	11 - 22
The following pages do not form part of the statutory financial statements:	
<b>Detailed profit and loss account and summaries</b>	23 - 25

---

## IPG PHOTONICS (UK) LIMITED

---

### STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

---

#### INTRODUCTION

IPG Photonics (U.K.) Limited ("IPGUK" or "the Company") is a 100% subsidiary of IPG Photonics Corporation ("IPGP") a company incorporated in the United States of America and listed on The NASDAQ Stock Market. IPGUK sells and distributes fiber lasers in the United Kingdom and Ireland manufactured by its affiliates in the United States, Germany and Italy. Fiber lasers are a relatively new generation of lasers comprised of semiconductor laser diodes which convert an electrical input into an optical output and which use fiber optic components and glass fibers to create the laser source. Each of these components is spliced together to create a monolithic device with no moving parts. Fiber lasers are more electrically efficient, productive, reliable, robust and smaller than traditional lasers. In addition, they deliver a less divergent beam with higher power density than other laser technologies. These attributes enable users to process materials faster with improved quality. Fiber lasers continue to gain market share from legacy laser technologies that use gas and crystals to convert electrical energy into photons because of their lower cost of ownership and ease of use.

#### BUSINESS REVIEW

During 2016 fiber laser technology continued to gain market share worldwide from legacy laser technologies. As the cost of fiber technology has come down and the processing benefits of the technology have become more widely recognized the displacement of traditional laser technologies in applications such as metal cutting, welding, brazing, marking, engraving and fine processing has accelerated. In addition newer laser processing technologies including cladding, laser sintering and ablation are starting to grow in volume. We estimate that the total market for industrial fiber lasers increased by more than 300% from \$366 million in 2010 to over \$1.3 billion in 2016. Including other applications in micro-processing, medical, defence, sensors, instruments and research and development the total market is estimated to be \$1.6 billion. IPGP is developing lasers to address some of these other applications but through the end of 2016 continued to be focused primarily on selling industrial fiber lasers. In 2016, fiber lasers share of the worldwide \$5.9 billion laser source market was over 32% as compared to 30% in 2015.

Sales growth of fiber lasers is expected to continue in the future with fiber laser sales for industrial and non-industrial markets and applications. Based upon research by various 3rd party entities and IPG's own internal estimates, we estimate that the fiber laser market will increase at an average growth rate of approximately 10% through 2020 and that the total value of the market for all applications will be approximately \$2.4 billion by then. The growth will be driven primarily by further penetration of the core industrial applications such as cutting, welding and marking as fiber technology displaces legacy laser technologies such as CO<sub>2</sub> and other solid state lasers, as well as from growth in the newer and more advanced laser applications which include deposition processes such as cladding and laser sintering and ablative processes such as paint stripping and cleaning. There are also emerging applications in heavy industry and oil and gas exploration which could drive fiber laser sales in the longer term. These include deep penetration welding and thick metal cutting in the construction, nuclear and oil and gas industries. In addition, IPGP is developing lasers for applications in medical, defence, projection, display and research and development. While some of these applications are more speculative and only under development, if successfully qualified, they could represent significant future revenue opportunities in the longer term. Brexit excepted, global macro-economic concerns have somewhat abated in the second half of 2016 and continued to strengthen through the date of this report in 2017. European economic have strengthened moderately and concerns about a deeper and longer China slowdown that had started in the middle of 2015 have proved unfounded.

With regard to IPGUK, specifically, revenue declined slightly in 2016 as compared to 2015. Following the 'Brexit shock' to high value manufacturing we experienced a fourth quarter slowdown in the booking rate from September to November. In the November to December period, customers delayed major capital purchasing decisions until foreign exchange stability was in evidence. Subsequently the fourth quarter ended with a sharp increase in orders booked in December 2016. The open order backlog at the year-end was at a record level for the UK business. At the year-end there was evidence of strong future growth and customer commitment to ongoing purchases of our products from established OEMs and integrators supplying systems to exporting manufacturers of automotive, aerospace, energy generation and other high value industrial sectors.

---

**I P G PHOTONICS (UK) LIMITED**

---

**STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

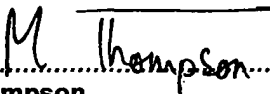
---

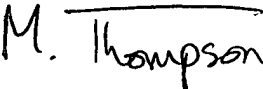
The UK staff headcount had increased to 6 people at the year end. Relocation, recruitment and reorganisation of the UK staff have continued to lead to an improved sales and service relationship, with customers continuing to provide positive feedback during 2017. New sales opportunities were dominated by materials processing applications with modest contributions from other markets. New Tier One customers have set out budgetary commitments to IPG's fiber laser technologies and the number of enquiries-in-process for high value manufacturing projects of national significance has stepped up. Several design wins for high power lasers brought in revenue for 2016 that is expected to mature as future repeat business in the cutting, joining and drilling segments.

**FINANCIAL KEY PERFORMANCE INDICATORS**

In 2016, IPGUK's income from product sales and commissions decreased by 4% to £1,275,000 from £1,338,000 in 2015. Sales resulting in commissionable income have increased, while the resale of goods purchased from other corporate divisions has reduced. The business was increasingly focused on directing business to IPG's main manufacturing sites in 2016. As a result of this organisational streamlining, gross profit increased by 14% to £715,000 in 2016 from £624,000 in 2015. The increase in gross profit was complemented by lower administrative expenses that decreased by 12% in 2016 to £612,000 from £700,000 in 2015. Administrative expenses decreased primarily due to a decrease in share-based compensation expenses and a lower bonus accrual in 2016. However, in terms of number of employees we hired new staff for roles in service, finance & administration to support future business growth. We believe that these investments in personnel will result in substantial sales growth in the UK in the near to medium term. In addition, to the increase in headcount, expenses related to premises increased as the Bristol premises were refurbished throughout the year. Recruitment expenses were also higher in 2016, as a result of agency fees for UK service and finance headcount. Losses related to foreign currency transactions included in operating expenses were £5,600 in 2016 compared to £56,000 in 2015. As a result of the above mentioned charges and activities, operating income increased to £103,000 from a loss of £75,000 in the prior year. The Company incurred expenses related to share based compensation of £26,000 and £184,000 in 2016 and 2015, respectively. Of this amount £16,000 and £184,000 related to the gain realized by employees upon the exercise of stock options and vesting of restricted stock units in 2016 and 2015, respectively. These amounts were invoiced to IPGUK by IPGP in accordance with the Agreement on Stock Option Costs and reported as taxable compensation of the respective employees through PAYE. It is expected that IPGP, the parent company, will continue to support further investment in personnel, equipment, customer service and administration in order to expand UK and Ireland business activities and drive growth of sales in 2017 and beyond.

This report was approved by the board and signed on its behalf.

  
.....  
**A Thompson**  
Director



Date: 29 DEC 2017

---

## I P G PHOTONICS (UK) LIMITED

---

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

---

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

#### DIRECTORS' RESPONSIBILITIES STATEMENT

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 the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 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 for the Company's financial statements and then apply them consistently;
- make judgments and accounting 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;
- 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

#### RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £103,843 (2015 - loss: £75,454).

No dividends has been proposed for the year ended 31 December 2016.

#### DIRECTORS

The directors who served during the year were:

**T Mammen**  
**A Thompson**

---

## IPG PHOTONICS (UK) LIMITED

---

### DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

---

#### ENVIRONMENTAL MATTERS

The Company's products are recognized as being environmentally friendly. IPG's fiber lasers' electrical efficiency is now up to 45% for the most efficient devices as compared to between 2% and 20% for legacy laser technologies. IPG's fiber lasers consume significantly less electricity when employed in industrial and other applications than traditional lasers. In addition fiber lasers consume fewer gases such as helium, CO<sub>2</sub>, oxygen and argon than traditional lasers when cutting and welding different types of materials. Fiber lasers are also replacing environmentally less friendly processes such as printing with inks or engraving, etching and cleaning with chemicals, solvents and media blast.

#### FINANCIAL INSTRUMENTS

The Company's principal financial instruments comprise bank balances, trade debtors and trade creditors. The main purpose of these instruments is to raise and maintain funds to finance the Company's operations. Due to the short term nature of the financial instruments used by the Company we believe there is limited exposure to risk; historically losses related to these financial instruments have been immaterial. The Company's approach to managing risks applicable to the financial instruments concerned is discussed below.

In respect of bank balances the liquidity risk is managed by ensuring the Company is adequately capitalized, generates a profit on sales of product, manages expenses to match the level of activity and by balancing the extension of credit terms to customers with the payment terms obtained from suppliers to ensure a continuity of funding. In addition, bank accounts are maintained at and funds deposited with financial institutions that we believe constitute a low credit risk. Historically, we have also obtained short-term funding and permanent increases in capital from our parent company IPG Photonics Corporation (NASDAQ: IPGP), such as the one described above to either finance short term liquidity requirements or finance losses from the trading operations.

Trade debtors are managed in respect of credit and cash flow risk by policies relating to the terms under which credit may be offered to customers and the regular monitoring of amounts outstanding relative to the payment due dates and to ensure the amount of credit issued to customers is not in excess of their established credit limits.

Trade creditors liquidity risk is managed by ensuring sufficient funds are available to meet amounts due and by negotiating extended credit terms with suppliers.

#### DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### POST BALANCE SHEET EVENTS

There have been no significant events affecting the Company since the year end.

#### AUDITORS

The auditors, Wellers, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

---

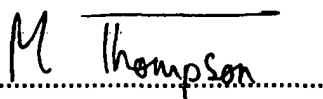
I P G PHOTONICS (UK) LIMITED

---

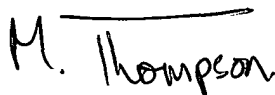
DIRECTORS' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2016

---

This report was approved by the board and signed on its behalf.

  
.....

A Thompson  
Director



Date: 29 DEC 2017



---

## I P G PHOTONICS (UK) LIMITED

---

### INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF I P G PHOTONICS (UK) LIMITED

---

We have audited the revised financial statements of I P G Photonics (UK) Limited for the year ended 31 December 2016, set out on pages 8 to 22. The relevant financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. These revised financial statements have been prepared under the accounting policies set out therein and replace the original financial statements approved by the directors on 25 September 2017.

The revised financial statements have been prepared under The Companies (Revision of Defective Accounts and Reports) Regulations 2008 and accordingly do not take account of events which have taken place after the date on which the original financial statements were approved.

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 Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' responsibilities statement on page 3, the directors are responsible for the preparation of the revised 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 revised financial statements in accordance with applicable law as it has effect under the Companies (Revision of Defective Accounts and Reports) Regulation 2008 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

#### SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the revised financial statements sufficient to give reasonable assurance that the revised financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the revised financial statements. In addition, we read all the financial and non-financial information in the Strategic report and the Directors' report to identify material inconsistencies with the audited revised financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We are also required to report whether in our opinion the original financial statements failed to comply with the requirements of the Companies Act 2006 in the respects identified by the directors.

#### OPINION ON FINANCIAL STATEMENTS

In our opinion the revised financial statements:

- give a true and fair view, seen as at the date of the original financial statements were approved, 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 United Kingdom Generally Accepted Accounting Practice seen as at the date the original financial statements were approved;
- the revised financial statements have been properly prepared in accordance with the provisions of the

---

I P G PHOTONICS (UK) LIMITED

---

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF I P G PHOTONICS (UK) LIMITED  
(CONTINUED)**

---

Companies Act 2006 as they have effect under the Companies (Revision of Defective Accounts and Reports) Regulation 2008; and

- the information given in the revised Director's Report is consistent with the revised financial statements.

**EMPHASIS OF MATTER - Revision of notes 1 to 20**

In forming our opinion on the revised financial statements, which is not qualified, we have considered the adequacy of the disclosures made in notes 1 to 20 of these revised financial statements. The original financial statements were approved on 25 September 2017 and our previous report was signed on 26 September 2017. We have not performed subsequent events review for the period from the date of our previous report to the date of the report.

**OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and the Directors' report for the financial year for which the revised financial statements are prepared is consistent with those revised financial statements and such reports have been prepared in accordance with applicable legal requirements.

In the light of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and the Directors' report.

**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 revised 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.



Andrew Dore (Senior statutory auditor)  
for and on behalf of

**Wellers**  
Accountants  
Statutory Auditors  
1 Vincent Square  
London  
SW1P 2PN

Date: 11/01/2018

---

**I P G PHOTONICS (UK) LIMITED**

---

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2016**

---

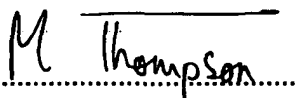
	Note	2016 £	2015 £
Turnover	4	1,275,084	1,338,229
Cost of sales		(554,776)	(713,648)
<b>GROSS PROFIT</b>		<b>720,308</b>	<b>624,581</b>
Administrative expenses		(616,465)	(700,035)
<b>OPERATING PROFIT/(LOSS)</b>	5	<b>103,843</b>	<b>(75,454)</b>
<b>PROFIT/(LOSS) FOR THE YEAR</b>		<b>103,843</b>	<b>(75,454)</b>
<b>OTHER COMPREHENSIVE INCOME:</b>			
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS:</b>			
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>103,843</b>	<b>(75,454)</b>

**I P G PHOTONICS (UK) LIMITED**  
**REGISTERED NUMBER: 04132272**

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2016**

	Note	2016 £	2015 £
Tangible assets	10	<u>136,106</u>	<u>61,554</u>
		<b>136,106</b>	<b>61,554</b>
<b>CURRENT ASSETS</b>			
Stocks	11	107,453	13,450
Debtors: amounts falling due after more than one year	12	18,842	22,442
Debtors: amounts falling due within one year	12	611,880	720,287
Cash at bank and in hand		<u>98,678</u>	<u>222,821</u>
		<b>836,853</b>	<b>979,000</b>
Creditors: amounts falling due within one year	13	<u>(474,336)</u>	<u>(645,774)</u>
<b>NET CURRENT ASSETS</b>		<b>362,517</b>	<b>333,226</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><b>498,623</b></u>	<u><b>394,780</b></u>
 <b>NET ASSETS EXCLUDING PENSION ASSET</b>		 <u><b>498,623</b></u>	 <u><b>394,780</b></u>
<b>NET ASSETS</b>		<u><b>498,623</b></u>	<u><b>394,780</b></u>
 <b>CAPITAL AND RESERVES</b>			
Called up share capital		2,655,710	2,655,710
Profit and loss account		<u>(2,157,087)</u>	<u>(2,260,930)</u>
		<u><b>498,623</b></u>	<u><b>394,780</b></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on





A Thompson  
 Director

The notes on pages 11 to 22 form part of these financial statements.

**I P G PHOTONICS (UK) LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Called up share capital £	Profit and loss account £	Total equity £
At 1 January 2016	2,655,710	(2,260,930)	394,780
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>			
Profit for the year	-	103,843	103,843
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>	-	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	-	103,843	103,843
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	-	-	-
<b>AT 31 DECEMBER 2016</b>	<b>2,655,710</b>	<b>(2,157,087)</b>	<b>498,623</b>

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Called up share capital £	Profit and loss account £	Total equity £
At 1 January 2015	1,561,940	(2,185,476)	(623,536)
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>			
Loss for the year	-	(75,454)	(75,454)
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>	-	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	-	(75,454)	(75,454)
Shares issued during the year	1,093,770	-	1,093,770
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	<b>1,093,770</b>	<b>-</b>	<b>1,093,770</b>
<b>AT 31 DECEMBER 2015</b>	<b>2,655,710</b>	<b>(2,260,930)</b>	<b>394,780</b>

The notes on pages 11 to 22 form part of these financial statements.

---

## I P G PHOTONICS (UK) LIMITED

---

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

---

#### 1. GENERAL INFORMATION

The Company was incorporated in England and Wales. The registered office is 1 Vincent Square, London, SW1P 2PN.

#### 2. ACCOUNTING POLICIES

##### 2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

##### 2.2 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

###### Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

###### Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

---

## I P G PHOTONICS (UK) LIMITED

---

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

---

#### 2. ACCOUNTING POLICIES (CONTINUED)

##### 2.3 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

L/Term Leasehold Property	-	33% straight line
Plant & machinery	-	20% straight line
Fixtures & fittings	-	33% straight line
Office equipment	-	33% straight line
Computer equipment	-	33% straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of comprehensive income.

##### 2.4 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Statement of comprehensive income on a straight-line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

##### 2.5 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

##### 2.6 Debtors

Short-term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

##### 2.7 Financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of

---

## I P G PHOTONICS (UK) LIMITED

---

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

---

#### 2. ACCOUNTING POLICIES (CONTINUED)

##### 2.7 Financial instruments (continued)

financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties and loans to related parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

##### 2.8 Creditors

Short-term creditors are measured at the transaction price.

##### 2.9 Foreign currency translation

###### Functional and presentation currency

The Company's functional and presentational currency is GBP.

###### Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income.



---

## I P G PHOTONICS (UK) LIMITED

---

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

---

#### 2. ACCOUNTING POLICIES (CONTINUED)

##### 2.10 Share-based payments

The Company grants share-based payments as consideration for services received from certain employees and directors. Compensation cost for all share-based payments is based on the estimated grant-date fair value. The fair value of both stock options and restricted stock units ("RSU") granted is estimated using the Black-Scholes method. Determining the appropriate fair value model and calculating the fair value of share-based payments requires the use of assumptions, including volatility, expected life, and expected annual dividend yield. The Company allocates and records share-based compensation on a straight-line basis over the requisite service period, which is generally the vesting period. The amount recognized as an expense is adjusted to reflect the actual number of shares or options that will vest.

The Company applies "withhold to cover" as a tax payment method for vesting of restricted stock awards. Pursuant to this method, the Company settles the restricted stock grants on a net basis by withholding the number of shares with a fair value equal to the monetary value of the employees' tax obligation based on the actual stock price on the vesting date and only issues the remaining shares on completion of the vesting period.

##### 2.11 Pensions

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

##### 2.12 Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the Balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the Balance sheet date.

##### 2.13 Taxation

Tax is recognised in the Profit and loss account, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

---

**I P G PHOTONICS (UK) LIMITED**

---

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

---

**3. JUDGMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reports for assets and liabilities as at the Balance Sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key areas where the estimates and assumptions applied have a significant risk of causing a material adjustment to the carrying value of assets and liabilities are discussed below:

**Impairment of trade receivables**

The Company is required to make an estimate of the recoverable value of trade receivables. When assessing impairment of trade receivables, management considers factors including any specific known problems or risks.

**Tangible fixed assets**

Management considers there to be judgments applied on the depreciation policy of fixed assets and the depreciation rates based upon the expected useful life of the assets.

**Share-based payments**

Determining the appropriate fair value model and calculating the fair value of share-based payments requires the use of highly subjective assumptions, including the expected life of the share-based payment awards and stock price volatility.

**4. TURNOVER**

Analysis of turnover by country of destination:

	2016 £	2015 £
United Kingdom	470,038	825,006
Rest of Europe	700,972	505,423
Rest of the world	104,074	7,800
	<u>1,275,084</u>	<u>1,338,229</u>

**5. OPERATING PROFIT/(LOSS)**

The operating profit/(loss) is stated after charging:

	2016 £	2015 £
Depreciation of tangible fixed assets	25,277	3,747
Fees payable to the Company's auditor and its associates for the audit of the company's annual financial statements	7,500	6,500
Exchange differences	5,681	55,700
Defined contribution pension cost	2,831	326
	<u>41,289</u>	<u>66,273</u>

---

**I P G PHOTONICS (UK) LIMITED**

---

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

---

**6. AUDITORS' REMUNERATION**

	2016 £	2015 £
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	7,500	6,500
	<u>7,500</u>	<u>6,500</u>
<b>FEEES PAYABLE TO THE COMPANY'S AUDITOR AND ITS ASSOCIATES IN RESPECT OF:</b>		
All other services	8,600	5,100
	<u>8,600</u>	<u>5,100</u>

**7. EMPLOYEES**

Staff costs, including directors' remuneration, were as follows:

	2016 £	2015 £
Wages and salaries	389,388	330,666
Social security costs	37,868	41,226
Cost of defined contribution scheme	2,831	326
	<u>430,087</u>	<u>372,218</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2016 No.	2015 No.
Administration	4	2
Sales & Research	3	3
	<u>7</u>	<u>5</u>

**8. DIRECTORS' REMUNERATION**

	2016 £	2015 £
Directors' emoluments	151,714	62,138
	<u>151,714</u>	<u>62,138</u>

---

**I P G PHOTONICS (UK) LIMITED**

---

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

---

**9. TAXATION**

**FACTORS AFFECTING TAX CHARGE FOR THE YEAR**

The tax assessed for the year is lower than (2015 - lower than) the standard rate of corporation tax in the UK of 20% (2015 - 20%). The differences are explained below:

	2016 £	2015 £
<b>Profit on ordinary activities before tax</b>	<b>103,843</b>	<b>(75,454)</b>
<b>Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20%)</b>	<b>20,769</b>	<b>(15,091)</b>
<b>EFFECTS OF:</b>		
<b>Expenses not deductible for tax purposes, other than goodwill amortisation and impairment</b>	<b>2,116</b>	<b>430</b>
<b>Capital allowances for year in excess of depreciation</b>	<b>(14,340)</b>	<b>-</b>
<b>Utilisation of tax losses</b>	<b>(8,545)</b>	<b>-</b>
<b>Unrelieved tax losses carried forward</b>	<b>-</b>	<b>14,661</b>
<b>TOTAL TAX CHARGE FOR THE YEAR</b>	<b>-</b>	<b>-</b>

**FACTORS THAT MAY AFFECT FUTURE TAX CHARGES**

The Company has £2,235,974 of tax losses which are being carried forward to use against future taxable profits.

**I P G PHOTONICS (UK) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**10. TANGIBLE FIXED ASSETS**

	L/Term Leasehold Property £	Plant & machinery £	Fixtures & fittings £	Office equipment £	Computer equipment £
<b>COST OR VALUATION</b>					
At 1 January 2016	-	40,888	9,819	7,194	7,400
Additions	16,781	44,451	20,258	14,243	-
At 31 December 2016	<u>16,781</u>	<u>85,339</u>	<u>30,077</u>	<u>21,437</u>	<u>7,400</u>
<b>DEPRECIATION</b>					
At 1 January 2016	-	-	164	3,460	123
Charge for the year on owned assets	3,216	11,307	3,664	1,506	1,488
At 31 December 2016	<u>3,216</u>	<u>11,307</u>	<u>3,828</u>	<u>4,966</u>	<u>1,611</u>
<b>NET BOOK VALUE</b>					
At 31 December 2016	<u>13,565</u>	<u>74,032</u>	<u>26,249</u>	<u>16,471</u>	<u>5,789</u>
At 31 December 2015	<u>-</u>	<u>40,888</u>	<u>9,655</u>	<u>3,734</u>	<u>7,277</u>

	Total £
<b>COST OR VALUATION</b>	
At 1 January 2016	65,301
Additions	95,733
At 31 December 2016	<u>161,034</u>
<b>DEPRECIATION</b>	
At 1 January 2016	3,747
Charge for the year on owned assets	21,181
At 31 December 2016	<u>24,928</u>
<b>NET BOOK VALUE</b>	
At 31 December 2016	<u>136,106</u>
At 31 December 2015	<u>61,554</u>

**I P G PHOTONICS (UK) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**11. STOCKS**

	2016 £	2015 £
Finished goods and goods for resale	107,453	13,450
	107,453	13,450
	107,453	13,450

Stock recognised in cost of sales during the year as an expense was £446,962 (£703,925).

**12. DEBTORS**

	2016 £	2015 £
<b>DUE AFTER MORE THAN ONE YEAR</b>		
Other debtors	18,842	22,442
	18,842	22,442
	18,842	22,442

	2016 £	2015 £
<b>DUE WITHIN ONE YEAR</b>		
Trade debtors	597,983	716,543
Other debtors	7,531	-
Prepayments and accrued income	6,366	3,744
	611,880	720,287
	611,880	720,287

**13. CREDITORS: Amounts falling due within one year**

	2016 £	2015 £
Trade creditors	361,007	518,426
Other taxation and social security	18,204	43,274
Other creditors	317	8,757
Accruals and deferred income	94,808	75,317
	474,336	645,774
	474,336	645,774

**I P G PHOTONICS (UK) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**14. SHARE BASED PAYMENTS**

The Company grants share-based payments as consideration for services received from certain employees and directors. The following information is relevant in the determination of the fair value of the options granted during the year under the parent company equity-settled share-based remuneration scheme operated by the Company.

	<b>Weighted average exercise price 2016 £</b>	<b>Number 2016</b>	<i>Weighted average exercise price 2015 £</i>	<i>Number 2015</i>
<b>Summary of RSU activity</b>				
Outstanding at the beginning of the year	73.78	500		-
Granted during the year	65.32	75	73.78	500
Exercised during the year	73.78	(57)		-
Expired during the year	73.78	(68)		-
<b>OUTSTANDING AT THE END OF THE YEAR</b>	<b>72.37</b>	<b>450</b>	<b>73.78</b>	<b>500</b>

	<b>Weighted average exercise price 2016 £</b>	<b>Number 2016</b>	<i>Weighted average exercise price 2015 £</i>	<i>Number 2015</i>
<b>Summary of stock option activity</b>				
Outstanding at the beginning of the year	74.70	1,000		-
Granted during the year	66.33	150	74.70	1,000
<b>OUTSTANDING AT THE END OF THE YEAR</b>	<b>73.60</b>	<b>1,150</b>		<b>1,000</b>
<b>Exercisable at the end of year</b>	<b>74.70</b>	<b>250</b>		<b>-</b>

Total expenses recognised during the year was £26,256 (2015: £183,547).

---

**I P G PHOTONICS (UK) LIMITED**

---

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

---

**15. FINANCIAL INSTRUMENTS**

	2016	2015
	£	£
Financial assets which are debt instruments amortised at cost	605,511	716,542
Financial liabilities amortised at cost	(434,530)	(587,741)
	<u>170,981</u>	<u>128,801</u>

**16. CASH FLOW STATEMENT**

The Company, being a subsidiary undertaking where 90% or more of the voting rights are controlled within the group whose consolidated financial statements are publicly available, is exempt from the requirement to draw up a cash flow statement in accordance with FRS 1.

**17. PENSION COMMITMENTS**

The Company contributes to a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £2,831 (2015 - 326). Contributions totaling £317 (2015 - 293) were payable to the fund at the balance sheet date

**18. COMMITMENTS UNDER OPERATING LEASES**

At 31 December 2016 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2016	2015
	£	£
Not later than 1 year	31,404	-
Later than 1 year and not later than 5 years	94,212	157,020
<b>TOTAL</b>	<u>125,616</u>	<u>157,020</u>

**19. RELATED PARTY TRANSACTIONS**

The Company is a fully owned subsidiary of IPG Photonics Corporation (USA), in addition to related party transactions with the parent company, the Company also traded with other fully owned subsidiaries of the parent company, the following companies traded with IPG Photonics (UK) Limited during the year under review:

IPG Laser GmbH (Germany)  
IPG Fibertech S.r.l. (Italy)  
NTO IRE- Polus (Russia)



---

**I P G PHOTONICS (UK) LIMITED**

---

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

---

**20. CONTROLLING PARTY**

The ultimate controlling party is IPG Photonics corporation a company registered in the USA.