

Registered number: 04132272

I P G PHOTONICS (UK) LIMITED

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017



I P G PHOTONICS (UK) LIMITED

COMPANY INFORMATION

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

I P G PHOTONICS (UK) LIMITED

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IPG PHOTONICS (UK) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

INTRODUCTION

IPG Photonics (U.K.) Limited ("IPGP-UK" 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. IPGP-UK sells and distributes fiber lasers in the United Kingdom and Ireland manufactured by its affiliates in the United States, Germany, Russia, and Italy. Fiber lasers are comprised of semiconductor laser diodes that 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. Within industrial materials processing applications, fiber lasers continue to gain market share from other laser technologies that use gas and crystals to convert electrical energy into photons because of their greater productivity, lower cost of ownership and ease of use.

BUSINESS REVIEW

During 2017 fiber laser technology continued to gain worldwide market share from other lasers and non-laser technologies. As the cost of fiber laser technology has come down and the processing benefits have become more widely recognized, the displacement of other lasers and non-laser technologies has accelerated in applications such as metal cutting, welding, brazing, marking, engraving and fine processing. In addition newer laser processing technologies including cladding, laser sintering and ablation are starting to grow in volume. Industry analysts estimate that the total market for industrial fiber lasers reached \$1.6 billion in 2017. Including other applications in micro processing, medical, defense, sensors, instruments and research and development, the total market is estimated to be \$2.1 billion. In 2017, fiber lasers were approximately 33% of the \$6 billion global laser source market.

Industry analysts expect fiber lasers will continue to gain market share within industrial and non-industrial markets and applications. They estimate the fiber laser source market will increase at an average growth rate of approximately 7.8% through 2023, and that the total value of the market for all laser applications will be approximately \$3.4 billion by 2023. They believe the primary growth drivers of fiber lasers will include: (1) further penetration of core industrial applications such as cutting, welding and marking; and (2) new advanced laser applications that include deposition processes such as cladding and laser sintering, and ablative processes such as paint stripping and cleaning. Emerging applications in heavy industry and oil and gas exploration may also drive fiber laser sales over the longer-term. These applications 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, defense, projection, display and research and development. Although some of these applications are more speculative and only under development, if successfully qualified, they could represent significant future revenue opportunities. Over the last year, global macroeconomic conditions have strengthened, with European economies having improved substantially and concerns about a China slowdown proving unfounded.

With regard to IPGP-UK, sales increased significantly in 2017 as compared to 2016. Existing materials processing customers increased their booking rate for standard products that are integrated into equipment for both domestic and export markets. Additionally, the roll out of new products for existing customers led to further sales growth in materials processing.

In 2017, IPGP-UK made its first sales of fully automated fiber laser systems, accounting for over 12% of sales. New opportunities for systems sales continue to emerge such that we expect sales of systems to form an increasingly larger proportion of IPGP-UK billings.

IPGP-UK also developed a number of new customers that included several blue chip organisations that are recognising the value of fiber lasers; not only as a replacement for solid state laser technologies but also as an enabler of new applications that are not possible with other types of lasers. Typical examples include a variety of dis-similar materials joining applications.

I P G PHOTONICS (UK) LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

Furthermore, UK end users are increasingly purchasing machine tools from non UK suppliers that include IPG fiber laser sources. End users are continuing to gain confidence in the service support organisation on hand in the UK to complete laser installations and service interventions. We estimate the UK fiber laser install base is growing at a significant pace through the import of machines assembled in USA, Asia, and mainland Europe.

Once again, the open order backlog at the yearend was at a record level for the UK business. At the end of the fourth quarter there was compelling evidence of accelerating future growth particularly in the automotive supply chain. Customer commitment to repeat purchases of our products remains strong. IPGP-UK signed up to supply several new blue chip organisations, while at the same time continuing to build strong relationships with OEMs and integrators supplying systems to export markets such as automotive, aerospace, power generation, defence and other high value industrial sectors.

The UK staff headcount had increased to 9 people at the year end. UK staff are engaged in a continuous improvement program that advances both the sales and service relationship with customers. The subsidiary complied with a number of regulatory requirements triggered by staff headcount increase, completing projects to comply with legislation regarding risk management, workplace pensions, human resources, government security clearances, anti-slavery and Health & Safety in the workplace.

FINANCIAL KEY PERFORMANCE INDICATORS

IPG-UK's total revenue increased by 78% from £1,275,000 in 2016 to £2,271,000 in 2017. Third-party turnover increased by £858,000 from £543,000 in 2016 to £1,401,000 in 2017 based on increased product sales used in welding and brazing applications and increased service revenue. Related-party commission revenue increased by £137,000 from £733,000 in 2016 to £870,000 in 2017. The gross profit percentage decreased from 56% to 38% based on the growth in third-party product sales as compared with commission revenue. Administrative expenses increased by 32% to £811,000 in 2017 from £616,000 in 2016. Administrative expenses increased primarily due to employee costs, including wages, bonus, and social security costs. Headcount was also added during the year to support 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 employee costs, expenses related to depreciation expense increased based on investment in the Bristol office during 2016 and 2017. As a result of the above mentioned charges and activities, operating income decreased to £58,000 from £103,000 from the prior year. The Company incurred expenses related to share based compensation of £27,000 and £26,000 in 2017 and 2016, respectively. Of this amount £15,000 and £16,000 related to the gain realized by employees upon the vesting of restricted stock units in 2017 and 2016, respectively. These amounts were invoiced to IPG-UK 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 2018 and beyond.

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



.....
T Mammen
Director

Date: 30/04/2018

I P G PHOTONICS (UK) LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017**

The directors present their report and the financial statements for the year ended 31 December 2017.

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 £58,162 (2016 - £103,843).

No dividends have been proposed for the year ended 31 December 2017.

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 2017

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 8% for other 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, CO₂, 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 2017

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



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T Mammen
Director

Date: 30/04/2018

I P G PHOTONICS (UK) LIMITED

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

OPINION

We have audited the financial statements of I P G Photonics (UK) Limited (the 'Company') for the year ended 31 December 2017, which comprise the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditors' report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material

I P G PHOTONICS (UK) LIMITED

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

misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OPINION ON OTHER MATTERS 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 financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the 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 or the Directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' responsibilities statement 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

I P G PHOTONICS (UK) LIMITED

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' report.

USE OF OUR REPORT

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.



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

Wellers

Accountants

Statutory Auditors

1 Vincent Square

London

SW1P 2PN

Date: 01/05/2018

I P G PHOTONICS (UK) LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

| | Note | 2017 £ | 2016 £ |
|---|------|----------------|----------------|
| Turnover | 4 | 2,270,879 | 1,275,084 |
| Cost of sales | | (1,404,881) | (554,776) |
| GROSS PROFIT | | 865,998 | 720,308 |
| Administrative expenses | | (811,436) | (616,465) |
| Other operating income | 5 | 3,600 | - |
| OPERATING PROFIT | 6 | 58,162 | 103,843 |
| PROFIT FOR THE FINANCIAL YEAR | | 58,162 | 103,843 |
| OTHER COMPREHENSIVE INCOME: | | | |
| ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS: | | | |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 58,162 | 103,843 |

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

BALANCE SHEET
AS AT 31 DECEMBER 2017

| | Note | 2017 £ | 2016 £ |
|---|------|-----------------------|-----------------------|
| FIXED ASSETS | | | |
| Tangible assets | 11 | <u>253,301</u> | <u>136,106</u> |
| | | 253,301 | 136,106 |
| CURRENT ASSETS | | | |
| Stocks | 12 | 522,772 | 107,453 |
| Debtors: amounts falling due after more than one year | 13 | 22,342 | 18,842 |
| Debtors: amounts falling due within one year | 13 | 501,682 | 611,880 |
| Cash at bank and in hand | | <u>30,148</u> | <u>98,678</u> |
| | | 1,076,944 | 836,853 |
| Creditors: amounts falling due within one year | 14 | <u>(773,460)</u> | <u>(474,336)</u> |
| NET CURRENT ASSETS | | 303,484 | 362,517 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>556,785</u> | <u>498,623</u> |
| NET ASSETS | | <u>556,785</u> | <u>498,623</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | | 2,655,710 | 2,655,710 |
| Profit and loss account | | <u>(2,098,925)</u> | <u>(2,157,087)</u> |
| | | <u>556,785</u> | <u>498,623</u> |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on
30/04/2018



.....
T Mammen
Director

The notes on pages 12 to 24 form part of these financial statements.

I P G PHOTONICS (UK) LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

| | Called up share capital £ | Profit and loss account £ | Total equity £ |
|--|------------------------------------|------------------------------------|-------------------|
| At 1 January 2017 | 2,655,710 | (2,157,087) | 498,623 |
| COMPREHENSIVE INCOME FOR THE YEAR | | | |
| Profit for the year | - | 58,162 | 58,162 |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR | - | - | - |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | - | 58,162 | 58,162 |
| TOTAL TRANSACTIONS WITH OWNERS | - | - | - |
| AT 31 DECEMBER 2017 | 2,655,710 | (2,098,925) | 556,785 |

**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 |
| COMPREHENSIVE INCOME FOR THE YEAR | | | |
| Profit for the year | - | 103,843 | 103,843 |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR | - | - | - |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | - | 103,843 | 103,843 |
| TOTAL TRANSACTIONS WITH OWNERS | - | - | - |
| AT 31 DECEMBER 2016 | 2,655,710 | (2,157,087) | 498,623 |

The notes on pages 12 to 24 form part of these financial statements.

I P G PHOTONICS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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 2017

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 |
| Demo units | - | 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.

I P G PHOTONICS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. ACCOUNTING POLICIES (CONTINUED)

2.7 Financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of 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 2017

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 2017**

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 reported 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:

| | 2017 £ | 2016 £ |
|-------------------|------------------|------------------|
| United Kingdom | 1,258,165 | 470,038 |
| Rest of Europe | 750,209 | 700,972 |
| Rest of the world | 262,505 | 104,074 |
| | <u>2,270,879</u> | <u>1,275,084</u> |

5. OTHER OPERATING INCOME

| | 2017 £ | 2016 £ |
|---------------|--------------|-----------|
| Sundry income | 3,600 | - |
| | <u>3,600</u> | <u>-</u> |

I P G PHOTONICS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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6. OPERATING PROFIT

The operating profit is stated after charging:

| | 2017 £ | 2016 £ |
|---------------------------------------|-------------------|-------------------|
| Depreciation of tangible fixed assets | 65,573 | 25,277 |
| Exchange differences | 3,493 | 5,680 |
| Defined contribution pension cost | 11,026 | 2,831 |
| | <u> </u> | <u> </u> |

7. AUDITORS' REMUNERATION

| | 2017 £ | 2016 £ |
|---|-------------------|-------------------|
| Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts | 7,500 | 7,500 |
| | <u> </u> | <u> </u> |
| | 7,500 | 7,500 |
| FEES PAYABLE TO THE COMPANY'S AUDITOR AND ITS ASSOCIATES IN RESPECT OF: | | |
| All other services | 22,500 | 8,600 |
| | <u> </u> | <u> </u> |
| | 22,500 | 8,600 |
| | <u> </u> | <u> </u> |

8. EMPLOYEES

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

| | 2017 £ | 2016 £ |
|-------------------------------------|-------------------|-------------------|
| Wages and salaries | 578,524 | 389,388 |
| Social security costs | 54,531 | 37,868 |
| Cost of defined contribution scheme | 11,026 | 2,831 |
| | <u> </u> | <u> </u> |
| | 644,081 | 430,087 |
| | <u> </u> | <u> </u> |

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

| | 2017 No. | 2016 No. |
|------------------|-------------------|-------------------|
| Administration | 4 | 4 |
| Sales & Research | 5 | 3 |
| | <u> </u> | <u> </u> |
| | 9 | 7 |
| | <u> </u> | <u> </u> |

I P G PHOTONICS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

9. DIRECTORS' REMUNERATION

| | 2017 £ | 2016 £ |
|-----------------------|----------------|----------------|
| Directors' emoluments | 185,254 | 151,714 |
| | <u>185,254</u> | <u>151,714</u> |

10. TAXATION

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is lower than (2016 - lower than) the standard rate of corporation tax in the UK of 19% (2016 - 20%). The differences are explained below:

| | 2017 £ | 2016 £ |
|--|-----------|-----------|
| Profit on ordinary activities before tax | 58,162 | 103,843 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2016 - 20%) | 11,051 | 20,769 |
| EFFECTS OF: | | |
| Expenses not deductible for tax purposes, other than goodwill amortisation and impairment | 2,565 | 2,116 |
| Capital allowances for year in excess of depreciation | (20,061) | (14,340) |
| Utilisation of tax losses | 7,704 | (8,545) |
| Other differences | (1,259) | - |
| TOTAL TAX CHARGE FOR THE YEAR | <u>-</u> | <u>-</u> |

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

The Company has £2,276,522 (2016: £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 2017**

11. TANGIBLE FIXED ASSETS

| | L/Term Leasehold Property £ | Plant & machinery £ | Fixtures & fittings £ | Office equipment £ |
|-------------------------------------|--------------------------------------|---------------------------|-----------------------------|--------------------------|
| COST OR VALUATION | | | | |
| At 1 January 2017 | 16,781 | 85,339 | 30,077 | 21,437 |
| Additions | 12,190 | 85,544 | 1,270 | 6,758 |
| Disposals | (2,116) | (12,747) | - | - |
| Transfers between classes | - | (30,744) | - | - |
| At 31 December 2017 | 26,855 | 127,392 | 31,347 | 28,195 |
| DEPRECIATION | | | | |
| At 1 January 2017 | 3,216 | 11,307 | 3,828 | 4,966 |
| Charge for the year on owned assets | 5,976 | 21,766 | 8,784 | 7,895 |
| Disposals | (45) | (1,492) | - | - |
| Transfers between classes | - | (3,977) | - | - |
| At 31 December 2017 | 9,147 | 27,604 | 12,612 | 12,861 |
| NET BOOK VALUE | | | | |
| At 31 December 2017 | 17,708 | 99,788 | 18,735 | 15,334 |
| At 31 December 2016 | 13,565 | 74,032 | 26,249 | 16,471 |

I P G PHOTONICS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

11. TANGIBLE FIXED ASSETS (CONTINUED)

| | Computer equipment £ | Demo units £ | Total £ |
|-------------------------------------|----------------------------|-----------------|----------------|
| COST OR VALUATION | | | |
| At 1 January 2017 | 7,400 | - | 161,034 |
| Additions | - | 90,332 | 196,094 |
| Disposals | - | - | (14,863) |
| Transfers between classes | - | 30,744 | - |
| At 31 December 2017 | 7,400 | 121,076 | 342,265 |
| DEPRECIATION | | | |
| At 1 January 2017 | 1,611 | - | 24,928 |
| Charge for the year on owned assets | 1,482 | 19,670 | 65,573 |
| Disposals | - | - | (1,537) |
| Transfers between classes | - | 3,977 | - |
| At 31 December 2017 | 3,093 | 23,647 | 88,964 |
| NET BOOK VALUE | | | |
| At 31 December 2017 | 4,307 | 97,429 | 253,301 |
| <i>At 31 December 2016</i> | <i>5,789</i> | <i>-</i> | <i>136,106</i> |

12. STOCKS

| | 2017 £ | 2016 £ |
|-------------------------------------|----------------|----------------|
| Finished goods and goods for resale | 522,772 | 107,453 |
| | 522,772 | 107,453 |

Stock recognised in cost of sales during the year as an expense was £1,209,479 (2016: £446,962).

I P G PHOTONICS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

13. DEBTORS

| | 2017 £ | 2016 £ |
|-------------------------------------|----------------|----------------|
| DUE AFTER MORE THAN ONE YEAR | | |
| Other debtors | 22,342 | 18,842 |
| | <u>22,342</u> | <u>18,842</u> |
| | | |
| | 2017 £ | 2016 £ |
| DUE WITHIN ONE YEAR | | |
| Trade debtors | 137,633 | 240,863 |
| Amounts owed by group undertakings | 313,941 | 357,120 |
| Other debtors | 14,501 | 7,531 |
| Prepayments and accrued income | 35,607 | 6,366 |
| | <u>501,682</u> | <u>611,880</u> |

14. CREDITORS: Amounts falling due within one year

| | 2017 £ | 2016 £ |
|------------------------------------|----------------|----------------|
| Trade creditors | 10,151 | 36,707 |
| Amounts owed to group undertakings | 587,038 | 324,300 |
| Other taxation and social security | 13,083 | 18,204 |
| Other creditors | - | 317 |
| Accruals and deferred income | 163,188 | 94,808 |
| | <u>773,460</u> | <u>474,336</u> |

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**NOTES TO THE FINANCIAL STATEMENTS
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15. 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.

| | Weighted average exercise price (pence) £ | Number 2017 | Weighted average exercise price (pence) £ | Number 2016 |
|---|---|----------------|---|----------------|
| Outstanding at the beginning of the year | 72.37 | 450 | 73.78 | 500 |
| Granted during the year | 87.47 | 104 | 65.32 | 75 |
| Exercised during the year | 67.50 | (57) | 73.78 | (57) |
| Expired during the year | 67.50 | (68) | 73.78 | (68) |
| OUTSTANDING AT THE END OF THE YEAR | 70.99 | 429 | 72.37 | 450 |

| | Weighted average exercise price 2017 £ | Number 2017 | Weighted average exercise price 2016 £ | Number 2016 |
|---|--|----------------|--|----------------|
| Summary of stock option activity | | | | |
| Outstanding at the beginning of the year | 73.60 | 1,150 | 74.70 | 1,000 |
| Granted during the year | 88.56 | 320 | 66.33 | 150 |
| OUTSTANDING AT THE END OF THE YEAR | 71.96 | 1,470 | 73.60 | 1,150 |
| Exercisable at the end of year | 68.34 | 500 | 74.70 | 250 |

Total expenses recognised during the year was £26,713 (2016: £26,256).

I P G PHOTONICS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

16. FINANCIAL INSTRUMENTS

| | 2017 £ | 2016 £ |
|---|------------------|----------------|
| FINANCIAL ASSETS | | |
| Financial assets which are debt instruments amortised at cost | 455,173 | 605,511 |
| Financial liabilities amortised at cost | (736,320) | (434,530) |
| | <u>(281,147)</u> | <u>170,981</u> |

17. 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.

18. 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 £11,026 (2016: 2,831). Contributions totaling £57 (2016: 317 payable) were paid in advance to the fund at the balance sheet date.

19. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2017 the Company had future minimum lease payments under non-cancellable operating leases as follows:

| | 2017 £ | 2016 £ |
|--|---------------|----------------|
| Not later than 1 year | 31,404 | 31,404 |
| Later than 1 year and not later than 5 years | 62,808 | 94,212 |
| TOTAL | <u>94,212</u> | <u>125,616</u> |

I P G PHOTONICS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

20. 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)

21. CONTROLLING PARTY

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