

Registered number: 04132272

I P G PHOTONICS (UK) LIMITED

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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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 Barclays House 8 Alexandra Road Wimbledon London SW19 7LA

I P G PHOTONICS (UK) LIMITED

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IPG PHOTONICS (UK) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

INTRODUCTION

IPG Photonics (U.K.) Limited ("IPGUK") 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. 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 photos because of their lower cost of ownership and ease of use.

BUSINESS REVIEW

During 2016 fiber laser technology continued to gain market share from legacy laser technologies worldwide. 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 CO2 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. While near term global macro-economic concerns and uncertainty remain particularly in Europe and with potentially slower growth in China we believe that growth of the total and fiber laser market will be at a faster rate than overall global GDP.

With regard to IPGUK, specifically, steady revenue growth occurred in 2016 as the result of improved levels of repeat business and the capture of new business from own equipment manufacturers (OEMs) for laser materials processing. 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. 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.

IPG PHOTONICS (UK) LIMITED

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

Following the 'Brexit shock' to high value manufacturing we experienced a fourth quarter slowdown in the booking rate from September-November. With the foreign exchange rate appearing to have restabilised at a new level in the November-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. The UK staff headcount had increased to 6 people at the year end.

FINANCIAL KEY PERFORMANCE INDICATORS

In 2016, IPGUK's income from product sales and commissions decreased by 4% to £1,264,000 from £1,338,000 in 2015. Income has remained broadly constant. Sales resulting in commissionable income have increased, while the resale of goods purchased from other corporate divisions has reduced. The business was increasingly focussed on directing business to IPG's main manufacturing sites in 2016. As a result of this organisational streamlining, gross profit increased by 16% to £704,000 in 2016 from £624,000 in 2015. The improvements to sales and gross profit were partially offset by higher administrative expenses that increased by 16% in 2016 to £750,000 from £647,000 in 2015. Administrative expenses increased primarily due to an increase in personnel expenses as 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 improved performance operating income increased to £63,000 from a loss of £75,000 in the prior year. The company incurred exceptional expenses in 2016 of £17,000 for amounts recharged to IPG-UK by IPGP-US that related to the gain realised upon the exercise of stock options granted to UK employees. This gain was invoiced to IPG-UK by IPGP-US and reported as taxable compensation to the employees through PAYE. The gain was recharged to IPG-UK in accordance with the Agreement on Stock Option Costs. The corresponding total amount recharged in 2015 was £183,000. As a result of these charges the profit on ordinary activities after tax was £63,000 for the year ended December 31, 2016 compared to a loss of £75,000 for the year ended December 31, 2015. It is expected that IPGP-US, 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.

.....M. Thompson.....
A Thompson
Director

Date: 25 Sept 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 £62,596 (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, 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, manage 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.

I P G PHOTONICS (UK) LIMITED

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

AUDITORS

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

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

M. Thompson
.....
A Thompson
Director

Date: 25 Sept, 2017

I P G PHOTONICS (UK) LIMITED

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

We have audited the 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'.

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 financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the 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 financial statements sufficient to give reasonable assurance that the 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 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 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.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 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.

I P G PHOTONICS (UK) LIMITED

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

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 financial statements are prepared is consistent with those 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 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: 26/09/2017

I P G PHOTONICS (UK) LIMITED

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

	Note	2016 £	2015 £
Turnover	4	1,264,081	1,338,229
Cost of sales		<u>(563,158)</u>	<u>(713,648)</u>
GROSS PROFIT		700,923	624,581
Administrative expenses		(746,725)	(646,722)
Other operating income	5	125,371	130,234
Exceptional other operating charges		<u>(16,973)</u>	<u>(183,547)</u>
OPERATING PROFIT/(LOSS)	6	<u>62,596</u>	<u>(75,454)</u>
PROFIT/(LOSS) FOR THE YEAR		<u>62,596</u>	<u>(75,454)</u>
OTHER COMPREHENSIVE INCOME:			
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS:			
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>62,596</u>	<u>(75,454)</u>

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

BALANCE SHEET
AS AT 31 DECEMBER 2016

Note	2016 £	2015 £	
Tangible assets	11	143,235	61,554
		<u>143,235</u>	<u>61,554</u>
CURRENT ASSETS			
Stocks	12	98,341	13,450
Debtors: amounts falling due after more than one year	13	18,842	22,442
Debtors: amounts falling due within one year	13	600,666	720,287
Cash at bank and in hand		98,678	222,821
		<u>816,527</u>	<u>979,000</u>
Creditors: amounts falling due within one year	14	(502,386)	(645,774)
NET CURRENT ASSETS		<u>314,141</u>	<u>333,226</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>457,376</u>	<u>394,780</u>
NET ASSETS EXCLUDING PENSION ASSET			
		<u>457,376</u>	<u>394,780</u>
NET ASSETS			
		<u>457,376</u>	<u>394,780</u>
CAPITAL AND RESERVES			
Called up share capital		2,655,710	2,655,710
Profit and loss account		(2,198,334)	(2,260,930)
		<u>457,376</u>	<u>394,780</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on
25/09/2017

M. Thompson

.....
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
COMPREHENSIVE INCOME FOR THE YEAR			
Profit for the year	-	62,596	62,596
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	62,596	62,596
TOTAL TRANSACTIONS WITH OWNERS	-	-	-
AT 31 DECEMBER 2016	2,655,710	(2,198,334)	457,376

**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)
COMPREHENSIVE INCOME FOR THE YEAR			
Loss for the year	-	(75,454)	(75,454)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	(75,454)	(75,454)
Shares issued during the year	1,093,770	-	1,093,770
TOTAL TRANSACTIONS WITH OWNERS	1,093,770	-	1,093,770
AT 31 DECEMBER 2015	2,655,710	(2,260,930)	394,780

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.

The Company has taken advantage of the optional exemption available on transition to FRS 102 which allows lease incentives on leases entered into before the date of transition to the standard 01 January 2015 to continue to be charged over the period to the first market rent review rather than the term of the lease.

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.

I P G PHOTONICS (UK) LIMITED

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

2. ACCOUNTING POLICIES (CONTINUED)

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 financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

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. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

I P G PHOTONICS (UK) LIMITED

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

2. ACCOUNTING POLICIES (CONTINUED)

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 except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of comprehensive income within 'other operating income'.

2.10 Pensions

Defined contribution pension plan

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.

2.11 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.

2.12 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence.

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 reported for assets and liabilities as at the Statement of Financial Position 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. On this background, the directors consider there to be judgments applied only on depreciation policy of the fixed assets and the depreciation rates are based upon the expected useful life of the assets. There are no other judgments in any other accounting policies that might have a material effect on the balances held at the Statement of Financial Position date.

4. TURNOVER

Analysis of turnover by country of destination:

	2016 £	2015 £
United Kingdom	459,035	825,006
Rest of Europe	700,971	505,423
Rest of the world	104,074	7,800
	<u>1,264,080</u>	<u>1,338,229</u>

5. OTHER OPERATING INCOME

	2016 £	2015 £
Other operating income	125,371	130,234
	<u>125,371</u>	<u>130,234</u>

6. 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>2,831</u>	<u>326</u>

I P G PHOTONICS (UK) LIMITED

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

7. 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
	7,500	6,500
FEES PAYABLE TO THE COMPANY'S AUDITOR AND ITS ASSOCIATES IN RESPECT OF:		
All other services	8,600	5,100
	8,600	5,100

8. EMPLOYEES

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

	2016 £	2015 £
Wages and salaries	432,111	330,666
Social security costs	37,868	41,226
Cost of defined contribution scheme	2,831	326
	472,810	372,218

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
	7	5

9. DIRECTORS' REMUNERATION

	2016 £	2015 £
Directors' emoluments	194,438	62,138
	194,438	62,138

I P G PHOTONICS (UK) LIMITED

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

10. TAXATION

	2016 £	2015 £
TOTAL CURRENT TAX	-	-
DEFERRED TAX		
TOTAL DEFERRED TAX	-	-
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	-	-

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

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

	2016 £	2015 £
Profit on ordinary activities before tax	62,596	<i>(75,454)</i>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20%)	12,519	<i>(15,091)</i>
EFFECTS OF:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	260	430
Capital allowances for year in excess of depreciation	(14,340)	-
Utilisation of tax losses	1,561	-
Unrelieved tax losses carried forward	-	14,661
TOTAL TAX CHARGE FOR THE YEAR	-	-

The company has £2,285,389 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

11. TANGIBLE FIXED ASSETS

	L/Term Leasehold Property £	Plant & machinery £	Fixtures & fittings £	Office equipment £	Computer equipment £
COST OR VALUATION					
At 1 January 2016	-	-	9,819	48,082	7,400
Additions	25,715	43,491	21,144	14,350	2,258
At 31 December 2016	<u>25,715</u>	<u>43,491</u>	<u>30,963</u>	<u>62,432</u>	<u>9,658</u>
DEPRECIATION					
At 1 January 2016	-	-	164	3,460	123
Charge for the year on owned assets	4,231	2,197	3,777	12,115	2,957
At 31 December 2016	<u>4,231</u>	<u>2,197</u>	<u>3,941</u>	<u>15,575</u>	<u>3,080</u>
NET BOOK VALUE					
At 31 December 2016	<u><u>21,484</u></u>	<u><u>41,294</u></u>	<u><u>27,022</u></u>	<u><u>46,857</u></u>	<u><u>6,578</u></u>
At 31 December 2015	<u>-</u>	<u>-</u>	<u>9,655</u>	<u>44,622</u>	<u>7,277</u>

I P G PHOTONICS (UK) LIMITED

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

11. TANGIBLE FIXED ASSETS (CONTINUED)

	Total £
COST OR VALUATION	
At 1 January 2016	65,301
Additions	106,958
At 31 December 2016	172,259
DEPRECIATION	
At 1 January 2016	3,747
Charge for the year on owned assets	25,277
At 31 December 2016	29,024
NET BOOK VALUE	
At 31 December 2016	143,235
At 31 December 2015	61,554

12. STOCKS

	2016 £	2015 £
Finished goods and goods for resale	98,341	13,450
	98,341	13,450

Stock recognised in cost of sales during the year as an expense was £450,894 (2015: £703,924).

13. DEBTORS

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

I P G PHOTONICS (UK) LIMITED

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

13. DEBTORS (CONTINUED)

	2016 £	2015 £
DUE WITHIN ONE YEAR		
Trade debtors	590,700	716,543
Other debtors	3,600	-
Prepayments and accrued income	6,366	3,744
	<u>600,666</u>	<u>720,287</u>

14. CREDITORS: Amounts falling due within one year

	2016 £	2015 £
Trade creditors	361,007	518,426
Amounts owed to group undertakings	42,724	-
Other taxation and social security	12,813	43,274
Other creditors	317	8,757
Accruals and deferred income	85,525	75,317
	<u>502,386</u>	<u>645,774</u>

15. SHARE BASED PAYMENTS

	2016 £	2015 £
Equity compensation	16,973	183,547
	<u>16,973</u>	<u>183,547</u>

The exceptional items for current and prior year is the total cost of share options over shares of the parent company exercised by the employees of IPG Photonics UK Ltd during the year. IPG Photonics UK Ltd agreed to indemnify the parent company in respect of the cost of options exercised.

I P G PHOTONICS (UK) LIMITED

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

16. SHARE BASED PAYMENTS

The following information is relevant in the determination of the fair value of options granted during the year under the parent company equity-settled share-based remuneration schemes operated by the Company.

	Number 2016	<i>Number 2015</i>
Outstanding at the beginning of the year	1,500	-
Granted during the year	225	1,500
OUTSTANDING AT THE END OF THE YEAR	1,725	<i>1,500</i>
	2016	<i>2015</i>
	£	<i>£</i>
Parent company equity-settled schemes	16,973	183,547
	16,973	<i>183,547</i>

17. FINANCIAL INSTRUMENTS

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

18. 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.

19. 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 totalling £317 (2015 - 293) were payable to the fund at the balance sheet date

I P G PHOTONICS (UK) LIMITED

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

20. 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
TOTAL	125,616	157,020

21. 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 Photonics Inc. (USA)
IPG Fibertech S.r.l. (Italy)
IPG Polus (Russia)

22. CONTROLLING PARTY

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