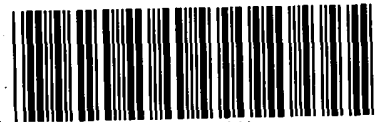


**I P G PHOTONICS (UK) LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

FRIDAY



\*L5F6B931\*

LD2

09/09/2016

#48

COMPANIES HOUSE

---

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

---

**COMPANY INFORMATION**

---

**DIRECTORS**

T Mammen  
C Vishowaty (resigned 31 December 2015)  
A Thompson (appointed 22 June 2015)

**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**

---

**CONTENTS**

---

	Page
<b>Strategic report</b>	1 - 3
<b>Directors' report</b>	4 - 6
<b>Independent auditors' report</b>	7 - 8
<b>Statement of comprehensive income</b>	9
<b>Balance sheet</b>	10
<b>Statement of changes in equity</b>	11
<b>Notes to the financial statements</b>	12 - 23
The following pages do not form part of the statutory financial statements: <b>Detailed profit and loss account and summaries</b>	24 - 26

---

## IPG PHOTONICS (UK) LIMITED

---

### STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

---

#### 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

In 2015, 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 approximately \$1.253 billion in 2015. Including other applications in micro-processing, medical, defence, sensors, instruments and research and development the total market is estimated to be \$1.5 billion. IPGP is developing lasers to address some of these other applications but through the end of 2015 continued to be focused primarily on selling industrial fiber lasers. In 2015 fiber lasers share of the worldwide \$5.4 billion laser source market was about 30% as compared to 25% in 2014.

Sales of fiber lasers in the U.K., which include devices sold directly by IPGUK and those shipped directly to our U.K. customers by our affiliates (on which IPG UK earns commission income), increased to approximately \$5.5 million in 2015 from \$4.4 million in 2014 or by approximately 25%. Excluding sales to a U.K. equipment finance company for telecom product that did not ultimately end up in the U.K. and for which IPGUK is not responsible, sales increased to approximately \$4.1 million in 2015 from \$3.7 million in 2014 or by approximately 11%.

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. 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.

---

## IPG PHOTONICS (UK) LIMITED

---

### STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2015

---

With regard to IPG UK, specifically, steady revenue growth occurred in 2015 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 has led to an improved focus on sales and service with positive feedback and renewed confidence from customers. New sales opportunities were dominated by materials processing applications with modest contributions from other markets. A new OEM telecom account was won and the scientific laser business also contributed to overall growth. Medical applications for laser did not contribute significantly to the UK's growth, although some new opportunities are emerging. Several design wins for high power lasers brought in revenue for 2015 that is expected to mature as future repeat business in the cutting, joining and drilling segments. Two newly designed pulsed laser products were introduced to marking and engraving OEMs. At the year-end there was evidence of strong future growth and a commitment to our products from established industry OEMs and integrators supplying systems to manufacturers of automotive, aerospace and other high value industrial products. A significant development in 2015 was the hiring of a locally based service person to support U.K. customers.

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.

#### FINANCIAL KEY PERFORMANCE INDICATORS

In 2015, IPGUK's turnover for product sales and commissions increased by 44% to £1,338,000 from £927,000 in 2014. Turnover increased as both direct sales and commission on product shipped directly from our main manufacturing sites increased in 2015. As a result of the increase in revenue, gross profit for the year increased to £603,000 in 2015 from £339,000 in 2014 or by 78%. These benefits to sales and gross profit were partially offset by higher administrative expenses that increased by 60% in 2015 to £625,000 from £391,000 in 2014. Administrative expenses increased primarily due to an increase in personnel expenses as we hired a new U.K. general manager as well as administrative and service personnel to support the business. We believe that these investments in personnel will result in substantial sales growth in the U.K. in the near to medium term. In addition to the increase in headcount, expenses related to premises increased as we hired larger premises in Bristol into which we moved in the fourth quarter of 2015. Furthermore, and as a result of the relocation of our office to Bristol, we have accrued rent expenses of approximately £21,000 on our London office through the end of the lease term as that facility is no longer being used. Relocation and recruitment expenses were also higher in 2015 and related to relocating our new service person from Germany to the U.K. Losses related to foreign currency transactions included in operating expenses were £56,000 in 2015 compared to £27,000 in 2014. As a result of the improved performance operating income increased to £108,000 from a loss of £9,000 in the prior year. Excluding the foreign exchange transaction losses and the amount accrued through the end of the London office lease operating profit increased to £185,000. The company incurred exceptional expenses in 2015 of £184,000 for amounts recharged to IPGUK by IPGP that related to the gain realized upon the exercise of stock options granted to employees of IPGUK. There was a substantial gain realized upon the exercise of these options because they were granted in 2005, with an average strike price of \$1.88 per share. When the options were exercised the fair market value of IPGP shares was \$86.15 per share resulting in a gain per share of \$84.28 or approximately £55.00. This gain was invoiced to IPGUK by IPGP and reported as taxable compensation to the employees through PAYE. The gain was recharged to IPGP in accordance with the Agreement on Stock Option Costs. The corresponding total amount recharged in 2014 was £908,000. As a result of these charges the profit on ordinary activities after tax was a loss of £75,000 for the year ended December 31, 2015 compared to a loss of £909,000 for the year ended 31st December 2014.

---

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

---

**STRATEGIC REPORT (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015**

---

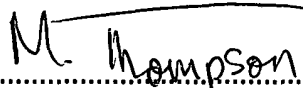
During the year ended 31 December 2015 the share capital of IPGUK was increased by £1,094,000. The increase in share capital was a result of:

- Our parent company converting accounts payable due to them of \$1,407,000 into capital £962,000 at an exchange rate of approximately \$1.46 per £; and
- Our parent company investing additional cash of £ 132,000 in the share capital of IPGUK.

As a result of these transactions, the issued share capital of the company was increased to 2,655,715 £1.00 shares or approximately £2,656,000. Total retained losses are approximately £2,261,000 resulting in total Capital and Reserves of £395,000. The company ended 2015 with cash and cash equivalents of £ 223,000 and current and quick ratios of approximately 1.7 times. These metrics demonstrate that the company has sufficient liquidity to meet its current obligations. We believe that the increase in capital coupled with the improved financial performance of the company mean that the financial and liquidity position of the Company is more stable. In addition, and as evidenced by the investments made not just in our capital but also personnel and facilities, our parent company IPGP is committed to the continued support of IPGUK to grow U.K. sales. It is expected that our parent company will continue to support further investment in personnel, equipment, service and administration to expand our activities and drive growth of sales in 2016 and beyond.

As a result of the taxable compensation incurred in relation to the gain from the exercise of stock options, the Company has a loss carry forward of approximately £2,230,000 which is available to reduce future taxable income. A valuation allowance has been provided against the deferred tax asset associated with these losses as it is now certain when the benefit related to them will be realized.

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

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

Date: 01/09/2016

---

## IPG PHOTONICS (UK) LIMITED

---

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

---

The directors present their report and the financial statements for the year ended 31 December 2015.

#### 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 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; and
- 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 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 loss for the year, after taxation, amounted to £75,454 (2014 - loss £909,933).

No dividends has been proposed for the year ended 31 December 2015.

#### DIRECTORS

The directors who served during the year were:

T Mammen  
C Vishowaty (resigned 31 December 2015)  
A Thompson (appointed 22 June 2015)

#### 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.

---

## IPG PHOTONICS (UK) LIMITED

---

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

---

#### 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 that director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- that 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.



---

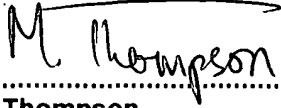
I P G PHOTONICS (UK) LIMITED

---

**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

---

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



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

Date: 01/09/2016

---

## 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 2015, set out on pages 9 to 23. The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2006 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, 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 2015 and of its loss 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.

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

In our opinion 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 directors' report has been prepared in accordance with applicable legal requirements.

#### **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

---

I P G PHOTONICS (UK) LIMITED

---

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

---

- 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: 09/09/2016

---

I P G PHOTONICS (UK) LIMITED

---

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2015

---

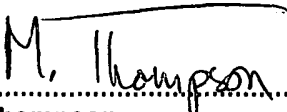
	Note	2015 £	2014 £
Turnover	3	1,338,229	927,009
Cost of sales		(735,222)	(587,620)
<b>GROSS PROFIT</b>		<b>603,007</b>	<b>339,389</b>
Administrative expenses		(625,148)	(391,173)
Other operating income	4	130,234	42,415
Exceptional other operating charges		(183,547)	(907,816)
<b>OPERATING LOSS</b>	5	<b>(75,454)</b>	<b>(917,185)</b>
Tax on loss	9	-	7,252
<b>LOSS FOR THE ;YEAR</b>		<b>(75,454)</b>	<b>(909,933)</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>(75,454)</b>	<b>(909,933)</b>

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

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2015**

Note	2015 £	2014 £	
Tangible assets	10	61,554	-
		<u>61,554</u>	<u>-</u>
<b>CURRENT ASSETS</b>			
Stocks	11	13,451	81
Debtors: amounts falling due within one year	12	742,694	115,425
Cash at bank and in hand	13	222,855	294,963
		<u>979,000</u>	<u>410,469</u>
Creditors: amounts falling due within one year	14	(645,774)	(1,034,005)
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>333,226</u>	<u>(623,536)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>394,780</u>	<u>(623,536)</u>
<b>NET ASSETS EXCLUDING PENSION ASSET</b>		<u>394,780</u>	<u>(623,536)</u>
<b>NET ASSETS</b>		<u>394,780</u>	<u>(623,536)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	2,655,710	1,561,940
Profit and loss account		(2,260,930)	(2,185,476)
		<u>394,780</u>	<u>(623,536)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 01/09/2016

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

The notes on pages 12 to 23 form part of these financial statements.

---

I P G PHOTONICS (UK) LIMITED

---

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

---

	Share capital £	Retained earnings £	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)
Actuarial gains on pension scheme	-	-	-
<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>	1,093,770	-	1,093,770
<b>AT 31 DECEMBER 2015</b>	<b>2,655,710</b>	<b>(2,260,930)</b>	<b>394,780</b>

---

## I P G PHOTONICS (UK) LIMITED

---

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

---

#### 1. ACCOUNTING POLICIES

##### 1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom 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 2).

The following principal accounting policies have been applied:

##### 1.2 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;
- 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 2015

---

#### 1. ACCOUNTING POLICIES (continued)

##### 1.3 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.

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

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:

Fixtures & fittings	- 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 within 'other operating income' in the Statement of comprehensive income.

##### 1.4 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.

##### 1.5 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.

##### 1.6 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.



---

## I P G PHOTONICS (UK) LIMITED

---

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

---

#### 1. ACCOUNTING POLICIES (continued)

##### 1.7 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 accounts receivable and payable, 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 payables or receivables, 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 Profit and loss account.

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.

##### 1.8 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 2015

---

#### 1. ACCOUNTING POLICIES (continued)

##### 1.9 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 Profit and loss account 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 Profit and loss account within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Profit and loss account within 'other operating income'.

##### 1.10 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 payments obligations.

The contributions are recognised as an expense in the Profit and loss account 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.

##### 1.11 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.

##### 1.12 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 2015**

---

**1. ACCOUNTING POLICIES (continued)**

**1.13 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.

**2. 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.

**3. ANALYSIS OF TURNOVER**

Analysis of turnover by country of destination:

	2015 £	2014 £
United Kingdom	832,806	677,422
Rest of Europe	505,423	249,588
	<u>1,338,229</u>	<u>927,010</u>

**4. OTHER OPERATING INCOME**

	2015 £	2014 £
Other operating income	130,234	42,415
	<u>130,234</u>	<u>42,415</u>

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**5. OPERATING LOSS**

The operating loss is stated after charging:

	2015 £	2014 £
Depreciation of tangible fixed assets	3,747	3,320
Fees payable to the Company's auditor and its associates for the audit of the company's annual financial statements	6,500	6,500
Exchange differences	55,700	27,075
Defined contribution pension cost	326	-
	<u>          </u>	<u>          </u>

**6. AUDITORS' REMUNERATION**

	2015 £	2014 £
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	6,500	6,500
	<u>6,500</u>	<u>6,500</u>

**FEEs PAYABLE TO THE COMPANY'S AUDITOR AND ITS ASSOCIATES IN RESPECT OF:**

All other services	5,100	8,100
	<u>5,100</u>	<u>8,100</u>

**7. EMPLOYEES**

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

	2015 £	2014 £
Wages and salaries	327,754	229,265
Social security costs	36,616	25,649
Payments to the company defined contribution pension plan	326	-
	<u>364,696</u>	<u>254,914</u>

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

	2015 No.	2014 No.
Administration	2	1
Sales & Research	3	3
	<u>5</u>	<u>4</u>

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**8. DIRECTORS' REMUNERATION**

	2015 £	2014 £
Directors' emoluments	61,538	-
	61,538	-
	61,538	-

**9. TAXATION**

	2015 £	2014 £
<b>CORPORATION TAX</b>		
Current tax on profits for the year	-	(7,252)
	-	(7,252)
<b>TOTAL CURRENT TAX</b>	-	(7,252)
<b>DEFERRED TAX</b>		
<b>TOTAL DEFERRED TAX</b>	-	-
	-	-
<b>TAXATION ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES</b>	-	(7,252)
	-	(7,252)

**FACTORS AFFECTING TAX CHARGE FOR THE YEAR**

The tax assessed for the year is lower than (2014 - lower than) the standard rate of corporation tax in the UK of 20% (2014 - 21%). The differences are explained below:

	2015 £	2014 £
Profit on ordinary activities before tax	(75,454)	(917,184)
	(75,454)	(917,184)
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2014 - 21%)	(15,091)	(192,609)
<b>EFFECTS OF:</b>		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	430	96
Unrelieved tax losses carried forward	14,661	185,261
	14,661	185,261
<b>TOTAL TAX CHARGE FOR THE YEAR</b>	-	(7,252)
	-	(7,252)

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**9. TAXATION (continued)**

The company has £2,292,625 of unused tax losses which are being carried forward to use in future periods.

**10. TANGIBLE FIXED ASSETS**

	Fixtures & fittings £	Office equipment £	Computer equipment £	Total £
<b>COST OR VALUATION</b>				
Acquisition of subsidiary	9,819	48,082	7,400	65,301
At 31 December 2015	<u>9,819</u>	<u>48,082</u>	<u>7,400</u>	<u>65,301</u>
<b>DEPRECIATION</b>				
Disposal of subsidiary	164	3,460	123	3,747
At 31 December 2015	<u>164</u>	<u>3,460</u>	<u>123</u>	<u>3,747</u>
At 31 December 2015	<u><u>9,655</u></u>	<u><u>44,622</u></u>	<u><u>7,277</u></u>	<u><u>61,554</u></u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**11. STOCKS**

	2015 £	2014 £
Finished goods and goods for resale	13,451	81
	<u><u>13,451</u></u>	<u><u>81</u></u>

---

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

---

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

---

**12. DEBTORS**

	2015 £	2014 £
Trade debtors	716,508	101,287
Amounts owed by group undertakings	-	300
Other debtors	-	10,552
Prepayments and accrued income	26,186	3,287
	<u>742,694</u>	<u>115,426</u>

**13. CASH AND CASH EQUIVALENTS**

	2015 £	2014 £
Cash at bank and in hand	222,855	294,963
	<u>222,855</u>	<u>294,963</u>

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

	2015 £	2014 £
Trade creditors	518,426	981,680
Taxation and social security	43,274	9,977
Other creditors	8,757	6,462
Accruals and deferred income	75,317	35,886
	<u>645,774</u>	<u>1,034,005</u>

**15. SHARE CAPITAL**

	2015 £	2014 £
<b>Allotted, called up and fully paid</b>		
2,655,710 (2014 - 1,561,940) Ordinary shares of £1 each	<u>2,655,710</u>	<u>1,561,940</u>

During the financial year 1,093,770 shares of £1 each were issued at par value and were fully paid up.

---

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

---

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

---

**16. EXCEPTIONAL ITEMS**

	<b>2015</b>	<b>2014</b>
	<b>£</b>	<b>£</b>
Equity compensation	<b>183,547</b>	<b>907,816</b>
	<b>183,547</b>	<b>907,816</b>

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.

**17. SHARE BASED PAYMENTS**

During the year an existing employee of the company exercised options to acquire shares of the parent company. The average exercise price for the options was \$1.88 per share. The number of shares acquired and their average market value at the date the options were exercised were:

3334 shares at \$86.15

	<b>2015</b>	<b>2014</b>
	<b>£</b>	<b>£</b>
Equity-settled schemes	<b>183,547</b>	<b>907,816</b>
	<b>183,547</b>	<b>907,816</b>

**18. FINANCIAL INSTRUMENTS**

	<b>2015</b>	<b>2014</b>
	<b>£</b>	<b>£</b>
Financial assets which are debt instruments amortised at cost	<b>619,014</b>	<b>101,286</b>
Financial liabilities amortised at cost	<b>(418,387)</b>	<b>(974,077)</b>
	<b>200,627</b>	<b>(872,791)</b>

**19. 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.



---

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

---

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

---

**20. PENSION COMMITMENTS**

The Company operates 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 £326 (2014 - nil). Contributions totalling £293 (2014 - nil) were payable to the fund at the balance sheet date

**21. COMMITMENTS UNDER OPERATING LEASES**

At 31 December 2015 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2015 £	2014 £
Later than 1 year and not later than 5 years	157,020	-
<b>TOTAL</b>	<b>157,020</b>	<b>-</b>

**22. 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)

During the period sales were made to IPG Laser GmbH £481,842 (2014 - £249,588).

Purchases were made from IPG Photonics Corporation £74,554 (2014 - £76,612), IPG Laser GmbH of £558,914 (2014 - £505,138) and IPG Fibertech Srl £3,281 (2014 - £3,293).

Management charges were received from IPG Photonics Corporation £130,234 (2014 - £42,415).

At 31 December 2015, the balances owing by group companies were:

IPG Laser GmbH £338,323 (2014 - 24,104)  
IPG Photonics Corporation £122,494 (2014 - nil)

Balances owing to group companies were:

IPG Laser GmbH £425,870 (2014 - £202,490)  
IPG Photonics Corporation nil (2014 - £717,404)

---

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

---

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

---

**23. CONTROLLING PARTY**

The ultimate parent company throughout the current and previous year was IPG Photonics Corporation, a public listed company in the USA. In the view of the directors, there is no ultimate controlling party for this or the previous year.

The ultimate parent company of the group, IPG Photonics Corporation (USA) prepares consolidated financial statements, which are publicly available from the company's website. These financial statements include the results of IPG Photonics (UK) Limited.

**24. FIRST TIME ADOPTION OF FRS 102**

The policies applied under the entity's previous accounting framework are not materially different to FRS 102 and have not impacted on equity or profit or loss.