

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

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2013**



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

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**COMPANY INFORMATION**

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<b>DIRECTORS</b>	T Mammen C Vishowaty
<b>COMPANY SECRETARY</b>	A Lopresti
<b>REGISTERED NUMBER</b>	04132272
<b>REGISTERED OFFICE</b>	1 Vincent Square London SW1P 2PN
<b>INDEPENDENT AUDITORS</b>	Wellers Accountants & Statutory Auditor 1 Vincent Square London SW1P 2PN
<b>BANKERS</b>	Barclays Bank plc Barclays House 8 Alexandra Road Wimbledon London SW19 7LA

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

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

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### **STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2013**

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#### **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 exchange. The company distributes and sells 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, 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, smaller and 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. These lasers are rapidly gaining market share from legacy laser technologies that use gas and crystals to convert electrical energy into an optical output because of their lower cost of ownership and ease of use.

#### **BUSINESS REVIEW**

In 2013, 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, marking, engraving 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 fiber lasers increased by 50% from \$366 million in 2010 to approximately \$911 million in 2013 and that fiber lasers share of the worldwide \$4.5 billion laser source market was about 20% as compared to 17% at the end of 2012.

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 IPGUK earns commission income), increased to approximately £2,514,000 in 2013 from £1,468,000 in 2012. Part of this increase in sales revenue was attributable to a large shipment of approximately £577,000 which was delivered in 2012 but on which revenue was only recognized in 2013.

Sales growth of fiber lasers is expected to continue in the future with fiber laser sales for industrial and non-industrial markets, according to research firm Strategies Unlimited, increasing at an average growth rate of approximately 13% through 2018. 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 in the construction and nuclear industries, under-water cutting of metal and the potential use of lasers to assist in the drilling of oil and gas wells where research and development is ongoing to use a laser to soften the bedrock being drilled. 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. Near term macro-economic concerns and uncertainty remain particularly in Europe and with potentially slower growth in China although this has not fundamentally impacted the growth of IPGP through the first six months of 2014 as IPGP's revenue grew by almost 17% compared to the same period in 2013.

#### **FINANCIAL KEY PERFORMANCE INDICATORS**

In 2014, IPGUK's turnover for product sales and commissions decreased by 34.4.8% to £646,000 from £985,000 in 2012. Turnover was lower due to the fact that commission on revenue recognized during 2013 was invoiced to our affiliate company in 2012 and benefited the 2012 results. As a result of the decrease in revenue, gross profit in 2013 decreased by 26.6% to £284,000 from £388,000. In 2013, administrative expenses decreased to £320,000 from £358,000 primarily due to a decrease in commission and bonus accruals. There were no additions to headcount during the year. The decrease in administrative expenses net of amounts recharged to corporate headquarters was not sufficient to off-set the decrease in gross profit and as a result

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

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**STRATEGIC REPORT (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2013**

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operating profit decreased to £7,000 in 2013 from £70,000 in 2012. In addition to the decrease in operating profit the company incurred exceptional expenses of £1,283,000 related to 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 2003 with a strike price of \$1.50 per share and when the options were exercised the fair market value of IPGP shares ranged between approximately \$63.00 and \$73.00 per share. This gain was invoiced to IPGUK by IPGP and reported as taxable compensation to the employees through PAYE. The gain was recharged to IPGK in accordance with the Agreement on Stock Option Costs. Primarily as a result of these charges the profit on ordinary activities after tax decreased to a loss of £1,278,000 for the year ended December 31st, 2013 from a profit of £49,000 for the year ended December 31st, 2012.

The loss for the current year decreased shareholder equity to a deficit of £964,000 as of 31st December 2013 as compared to a surplus of £314,000 at December 31st, 2012. The deficit primarily related to the accounts payable due to our parent company in relation to the stock compensation amounts charged to the company described above. As a result the current and quick ratios were less than zero as of the end of the year. However, our parent company has agreed to convert the \$2,087,000 due to them into capital through the issuance of additional shares in IPGUK. At an exchange rate of \$1.67 per £1.00, the increase in capital is estimated to be £1,250,000. In addition £212,000 of other reserves are to be capitalised. As a result of these transactions, the issued share capital of the company will be increased to 1,562,000 £1.00 shares. If the aforementioned increase in capital is treated as if it had been caused to take place as of the end of the December 31, 2013, we estimate that shareholder equity would increase from the deficit described above to a surplus of £286,000 as of December 31, 2013. As a result the current and quick ratios would increase to approximately 2 times and demonstrate that the company has sufficient liquidity to meet its current obligations. As a result of the agreed increase in capital, we believe that the financial and liquidity position of the Company is stable even though the operating performance deteriorated during the year.

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 £1,275,000 which is available to reduce future taxable income.

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



**T Mammen**  
Director

Date: 18/9/2014

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## IPG PHOTONICS (UK) LIMITED

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### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

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The directors present their report and the financial statements for the year ended 31 December 2013.

#### 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 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 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

The loss for the year, after taxation, amounted to £1,277,613 (2012 - profit £49,270).

#### DIRECTORS

The directors who served during the year were:

T Mammen  
C Vishowaty

#### ENVIRONMENTAL MATTERS

The Company's products are recognized as being environmentally friendly. IPG's fiber lasers' electrical efficiency now approaches 40% as compared to between 2% and 17% 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 and solvents.

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## IPG PHOTONICS (UK) LIMITED

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### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

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#### 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 for and finance the company's operations. Due to the short term nature of the financial instruments used by the company we believe there is a very limited exposure to risk. 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 concerning the credit offered to customers and the regular monitoring of amounts outstanding for both time and 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.

#### 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.



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**T Mammen**  
Director

Date: 18/9/2014

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

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

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We have audited the financial statements of I P G Photonics (UK) Limited for the year ended 31 December 2013, set out on pages 7 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 Auditing Practices Board'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 2013 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.



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I P G PHOTONICS (UK) LIMITED

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

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**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 Auditor  
1 Vincent Square  
London  
SW1P 2PN

Date: 19/09/2014

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

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Note	2013 £	2012 £
<b>TURNOVER</b>	1,2	<b>646,300</b>	<b>985,364</b>
Cost of sales		<u>(361,912)</u>	<u>(597,807)</u>
<b>GROSS PROFIT</b>		<b>284,388</b>	<b>387,557</b>
Administrative expenses		<b>(320,467)</b>	<b>(357,972)</b>
Other operating income	3	<u>43,299</u>	<u>40,675</u>
<b>OPERATING PROFIT</b>	4	<b>7,220</b>	<b>70,260</b>
<b>EXCEPTIONAL ITEMS</b>			
Other exceptional items	8	<u>(1,283,269)</u>	<u>-</u>
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>(1,276,049)</b>	<b>70,260</b>
Tax on (loss)/profit on ordinary activities	9	<u>(1,564)</u>	<u>(20,990)</u>
<b>(LOSS)/PROFIT FOR THE FINANCIAL YEAR</b>	15	<u><b>(1,277,613)</b></u>	<u><b>49,270</b></u>

All amounts relate to continuing operations.

There were no recognised gains and losses for 2013 or 2012 other than those included in the Profit and loss account.

The notes on pages 9 to 15 form part of these financial statements.

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

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2013**

	Note	£	2013	£	£	2012	£
<b>CURRENT ASSETS</b>							
Debtors	11	93,028			398,531		
Cash at bank and in hand		676,830			129,920		
		<u>769,858</u>			<u>528,451</u>		
<b>CREDITORS: amounts falling due within one year</b>	12	<b>(1,733,460)</b>			<b>(214,440)</b>		
<b>NET CURRENT (LIABILITIES)/ASSETS</b>				<b>(963,602)</b>			<b>314,011</b>
<b>NET (LIABILITIES)/ASSETS</b>				<b>(963,602)</b>			<b>314,011</b>
<b>CAPITAL AND RESERVES</b>							
Called up share capital	14			100,000			100,000
Other reserves	15			211,940			211,940
Profit and loss account	15			<b>(1,275,542)</b>			<b>2,071</b>
<b>SHAREHOLDERS' (DEFICIT)/FUNDS</b>	16			<b>(963,602)</b>			<b>314,011</b>

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



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**T Mammen**  
 Director

Date: 18/9/2014

The notes on pages 9 to 15 form part of these financial statements.

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## I P G PHOTONICS (UK) LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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#### 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 applicable accounting standards.

##### 1.2 Going concern

The accounts have been prepared on the going concern basis, on the understanding that the company will continue to receive the support of its parent company for the foreseeable future. This support has been confirmed by the directors of the parent company.

##### 1.3 Cash flow

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.

##### 1.4 Turnover

Turnover comprises revenue recognised by the company in respect of goods and services supplied during the year, exclusive of Value Added Tax and trade discounts.

Income from the sale of fibre optic technology is recognised when legal title has passed to the customer (end user).

##### 1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Computer equipment	-	33% straight line
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##### 1.6 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

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

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

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**1. ACCOUNTING POLICIES (continued)**

**1.7 Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the Profit and loss account.

**2. TURNOVER**

A geographical analysis of turnover is as follows:

	2013 £	2012 £
United Kingdom	419,553	670,047
Rest of European Union	226,747	315,317
	<u>646,300</u>	<u>985,364</u>

**3. OTHER OPERATING INCOME**

	2013 £	2012 £
Management charges receivable	43,299	40,675
	<u>43,299</u>	<u>40,675</u>

**4. OPERATING PROFIT**

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

	2013 £	2012 £
Foreign exchange differences	(21,669)	318
	<u>(21,669)</u>	<u>318</u>

During the year, no director received any emoluments (2012 - £NIL).

**5. AUDITORS' REMUNERATION**

	2013 £	2012 £
Fees payable to the company's auditor for the audit of the company's annual accounts	4,000	4,000
	<u>4,000</u>	<u>4,000</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

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**6. STAFF COSTS**

Staff costs were as follows:

	2013 £	2012 £
Wages and salaries	232,526	237,037
Social security costs	29,026	33,651
	<u>261,552</u>	<u>270,688</u>

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

	2013 No.	2012 No.
Administration	1	1
Sales & Research	3	3
	<u>4</u>	<u>4</u>

**7. SHARE BASED PAYMENTS**

During the year employees of the company exercised options to acquire shares of the parent company. The exercise price for the options was \$1.50 per share. The number of shares acquired and their average market value at the date the options were exercised were:

6,667 shares at \$63.21  
6,667 shares at \$72.60  
16,667 shares at \$72.27

**8. EXCEPTIONAL ITEMS**

	2013 £	2012 £
Equity compensation	<u>1,283,269</u>	<u>-</u>

**SHARE BASED PAYMENTS**

The exceptional item relates to the total cost of 30,001 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.

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

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

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**9. TAXATION**

	<b>2013 £</b>	<b>2012 £</b>
<b>Analysis of tax charge in the year</b>		
<b>Current tax</b> (see note below)		
UK corporation tax charge on (loss)/profit for the year	-	7,252
<b>Deferred tax</b>		
Effects of accumulated trading losses	-	15,302
Tax liability on disallowed expenses	<b>1,564</b>	<b>(1,564)</b>
<b>Total deferred tax</b> (see note 13)	<b>1,564</b>	<b>13,738</b>
<b>Tax on (loss)/profit on ordinary activities</b>	<b>1,564</b>	<b>20,990</b>

**Factors affecting tax charge for the year**

The tax assessed for the year is lower than (2012 - *lower than*) the standard rate of corporation tax in the UK of 23% (2012 - 24%). The differences are explained below:

	<b>2013 £</b>	<b>2012 £</b>
(Loss)/profit on ordinary activities before tax	<b>(1,276,049)</b>	<b>70,260</b>
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23% (2012 - 24%)	<b>(293,491)</b>	<b>16,862</b>
<b>Effects of:</b>		
Expenses not deductible for tax purposes	<b>220</b>	<b>1,853</b>
Capital allowances for year in excess of depreciation	-	<b>(28)</b>
Utilisation of tax losses	-	<b>(11,435)</b>
Unrelieved tax losses carried forward	<b>293,271</b>	<b>-</b>
<b>Current tax charge for the year</b> (see note above)	<b>-</b>	<b>7,252</b>

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

**10. TANGIBLE FIXED ASSETS**

	Office equipment £
<b>Cost</b>	
At 1 January 2013 and 31 December 2013	3,320
<b>Depreciation</b>	
At 1 January 2013 and 31 December 2013	3,320
<b>Net book value</b>	
At 31 December 2013	-
At 31 December 2012	-

**11. DEBTORS**

	2013 £	2012 £
<b>Due after more than one year</b>		
Deferred tax asset (see note 13)	-	1,564
<b>Due within one year</b>		
Trade debtors	87,992	392,185
Amounts owed by group undertakings	300	150
Other debtors	4,736	4,632
	<u>93,028</u>	<u>398,531</u>

**12. CREDITORS:**

**Amounts falling due within one year**

	2013 £	2012 £
Trade creditors	1,113,311	102,635
Corporation tax	-	7,252
Other taxation and social security	11,801	13,703
Other creditors	173,187	30,693
Accruals and deferred income	435,161	60,157
	<u>1,733,460</u>	<u>214,440</u>



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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

**13. DEFERRED TAXATION**

	2013 £	2012 £
At beginning of year	1,564	15,302
Affect of increased tax losses during the year	(1,564)	(13,738)
At end of year	<u>-</u>	<u>1,564</u>

The deferred taxation balance is made up as follows:

	2013 £	2012 £
Disallowed expenses	<u>-</u>	<u>1,564</u>

**14. SHARE CAPITAL**

	2013 £	2012 £
<b>Allotted, called up and fully paid</b>		
100,000 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

**15. RESERVES**

	Other reserves £	Profit and loss account £
At 1 January 2013	211,940	2,071
Loss for the financial year		(1,277,613)
At 31 December 2013	<u>211,940</u>	<u>(1,275,542)</u>

**16. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	2013 £	2012 £
Opening shareholders' funds	314,011	264,741
(Loss)/profit for the financial year	(1,277,613)	49,270
Closing shareholders' (deficit)/funds	<u>(963,602)</u>	<u>314,011</u>

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## IPG PHOTONICS (UK) LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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#### 17. 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 £226,270 (2012 - £177,643) and IPG Fibertech S.r.l. Nil (2012 - £94).

Purchases were made from IPG Photonics Corporation £3,800 (2012 - £71,017), IPG Laser GmbH of £351,533 (2012 - £365,770) and IPG Fibertech Srl £366 (2012 - £54,175).

Management charges were received from IPG Photonics Corporation £43,299 (2012 - £40,675).

At 31 December 2012, the balances owing by group companies were:

IPG Photonics S.r.l. Nil (2012 - Nil)  
IPG Laser GmbH £18,271 (2012 - £222,873)  
IPG Photonics Corporation Nil (2012 - £40,675)

Balances owing to group companies were:

IPG Laser GmbH £25,036 (2012 - £76,826)  
IPG Photonics Corporation £1,107,334 (2012 - £20,157)

#### 18. POST BALANCE SHEET EVENTS

During September 2014 the parent company converted \$2,087,000 due to them into capital through the issue of additional shares in IPG Photonics UK Ltd. This has resulted into increased paid up share capital of £1,250,000. In addition other reserves of £211,940 were converted to share capital resulting in total issued share capital of £1,562,000..

#### 19. ULTIMATE PARENT UNDERTAKING AND 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 publically available from the company's website. These financial statements include the results of IPG Photonics (UK) Limited.

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

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**DETAILED TRADING AND PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2013**

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	Page	2013 £	2012 £
<b>TURNOVER</b>	17	<b>646,300</b>	<b>985,364</b>
Cost of sales	17	<b>(361,912)</b>	<b>(597,807)</b>
		<hr/>	<hr/>
<b>GROSS PROFIT</b>		<b>284,388</b>	<b>387,557</b>
Other operating income	17	<b>43,299</b>	<b>40,675</b>
		<hr/>	<hr/>
		<b>327,687</b>	<b>428,232</b>
 <b>LESS: OVERHEADS</b>			
Administrative expenses	18	<b>(320,467)</b>	<b>(357,972)</b>
		<hr/>	<hr/>
<b>OPERATING PROFIT</b>		<b>7,220</b>	<b>70,260</b>
Exceptional items	18	<b>(1,283,269)</b>	<b>-</b>
		<hr/>	<hr/>
<b>(LOSS)/PROFIT FOR THE YEAR</b>		<b>(1,276,049)</b>	<b>70,260</b>
		<hr/> <hr/>	<hr/> <hr/>

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

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**SCHEDULE TO THE DETAILED ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

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	<b>2013</b> <b>£</b>	<b>2012</b> <b>£</b>
<b>TURNOVER</b>		
Sales	<b>419,553</b>	<b>670,047</b>
European sales	<b>226,747</b>	<b>315,317</b>
	<b>646,300</b>	<b>985,364</b>
	<b>2013</b> <b>£</b>	<b>2012</b> <b>£</b>
<b>COST OF SALES</b>		
Purchases	<b>361,912</b>	<b>597,807</b>
	<b>2013</b> <b>£</b>	<b>2012</b> <b>£</b>
<b>OTHER OPERATING INCOME</b>		
Management charges receivable	<b>43,299</b>	<b>40,675</b>

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

**SCHEDULE TO THE DETAILED ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

	2013 £	2012 £
<b>ADMINISTRATIVE EXPENSES</b>		
Staff salaries	232,526	237,037
Social security	29,026	33,651
Motor expenses	8,386	10,752
Entertainment	199	919
Travelling	2,064	6,386
Printing and stationery	1,029	3,117
Telephone	3,460	3,003
Computer costs	1,357	626
Advertising and promotion	-	12,961
Auditors' remuneration	4,000	4,000
Professional charges	26,710	17,400
Bank charges	1,464	1,308
Foreign exchange differences	(21,669)	318
Sundry expenses	1,710	514
Rent, rates and services	19,800	18,150
Insurance	10,405	7,830
	<u>320,467</u>	<u>357,972</u>
	2013 £	2012 £
<b>EXCEPTIONAL ITEMS</b>		
Equity compensation	<u>(1,283,269)</u>	<u>-</u>