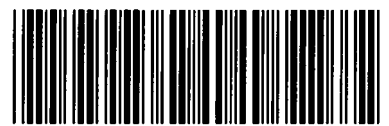


I P G PHOTONICS (UK) LIMITED

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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COMPANIES HOUSE

I P G PHOTONICS (UK) LIMITED

COMPANY INFORMATION

DIRECTORS	T Mammen A Thompson (resigned 4 May 2018) D Goodwin (appointed 4 May 2018) T Ness (appointed 4 May 2018)
COMPANY SECRETARY	A Lopresti
REGISTERED NUMBER	04132272
REGISTERED OFFICE	1 Vincent Square London SW1P 2PN
INDEPENDENT AUDITORS	Wellers Accountants & Statutory Auditors 1 Vincent Square London SW1P 2PN
BANKERS	Barclays Bank plc 1 Churchill Place London E14 5HP

I P G PHOTONICS (UK) LIMITED

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IPG PHOTONICS (UK) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

INTRODUCTION

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

BUSINESS REVIEW

During 2018 fiber laser technology continued to gain worldwide market share from other lasers and non-laser technologies. As the cost of fiber laser technology has come down and the processing benefits have become more widely recognized, the displacement of other lasers and non-laser technologies has accelerated in applications such as metal cutting, welding, brazing, marking, engraving and fine processing. In addition, newer laser processing technologies including cladding, laser sintering and ablation are starting to grow in volume. Industry analysts estimate that the total market for industrial fiber lasers reached £1.3 billion in 2018. Including other applications in micro processing, medical, defence, sensors, instruments and research and development, the total market is estimated to be £2.1 billion. In 2018, fiber lasers were approximately 37% of the £5.8 billion global laser source market.

Industry analysts expect fiber lasers will continue to gain market share within industrial and non-industrial markets and applications. They estimate the fiber laser source market will increase at an average growth rate of approximately 5% through 2023, and that the total value of the market for all laser applications will be approximately £2.9 billion by 2023. They believe the primary growth drivers of fiber lasers will include: (1) further penetration of core industrial applications such as cutting, welding and marking; (2) new advanced industrial laser applications that include deposition processes such as cladding and laser sintering and ablative processes such as paint stripping and cleaning; and (3) new applications in micro materials processing, medical, defense, projection, display, sensing and research and development. Although some of these applications are more speculative and only under development, if successfully qualified, they could represent significant future revenue opportunities.

Growth for IPGP-UK continued in 2018. A strong backlog of orders for advanced applications carried through into 2018, amounting to 32% of total sales. Sales of goods into materials processing applications were derived from welding (23%), cutting (22%) and engraving & marking (23%). The mix of sales to OEM's, integrators and end users remained consistent, with IPGP-UK's customer base increasing by a further 25%. Notable gains were made from existing UK competitors, meaning IPGP-UK now has a dominant market share for laser sources in the UK, mirroring the global trend. IPGP-UK is able to offer the broadest portfolio of fiber lasers, with advantages in power, beam quality, reliability and cost, making IPGP-UK a one-stop provider for UK customers in laser materials processing.

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

There was particular progress within the UK's automotive sector during 2018, stimulated by a surge related to vehicle electrification projects. IPGP-UK has cemented their position as the key provider of laser-based processes for electrification and for other automotive manufacturing processes, making IPGP-UK fiber laser technology the tool of choice in mass production. Substantial group sales (and sales for IPGP-UK) for laser sources and beam delivery for EV projects will result from these efforts in 2019.

System sales continued to develop and now form a large proportion of the 2019 budget. IPGP-UK's growing systems competence, backed up by its existing applications competence, will enable advancements in laser materials processing to become more accessible to the UK's large SME community, expanding the available markets for IPGP-UK in the future.

IPGP-UK has a strong presence with several of the UK's High Value Manufacturing Catapult Centres, ensuring they are at the forefront of emerging laser-based technologies. This presence increased in 2018, with Tier 1 membership at the Manufacturing Technology Centre ("MTC") that will bring with it a 5-year technology partnership and introduction to blue-chip organisations, which will help accelerate the conversion of non-laser to laser technologies, as well as the conversion from traditional lasers to fiber lasers.

The year also saw the commitment by IPGP-UK to expand its operations in the UK and to position itself more centrally to its core customers. Land was purchased at Ansty Park, Coventry UK, adjacent to the MTC. Construction is underway on a high-tech 5,500 square-meter facility due to complete in early 2020.

Once again, the open order backlog at the year-end was at a record level for the UK business, dominated by systems. The 2019 budget represents year-over-year growth above 30%, spread across all sectors and with a broad portfolio of IPGP-UK products.

The UK staff headcount had increased to 11 people at the year end. UK staff are engaged in a continuous improvement program that advances both the sales and service relationship with customers. The subsidiary complied with a number of regulatory requirements triggered by staff headcount increase, completing projects to comply with legislation regarding risk management, workplace pensions, human resources, government security clearances, anti slavery and Health & Safety in the workplace.

I P G PHOTONICS (UK) LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

FINANCIAL KEY PERFORMANCE INDICATORS

Revenue

IPG-UK's total revenue increased by 38% from £2,271,000 in 2017 to £3,126,000 in 2018. Third party turnover decreased by £162,000 from £1,401,000 in 2017 to £1,239,000 in 2018. Related party commission revenue, which is earned on shipments directly from the manufacturing entity, increased by £1,017,000 from £870,000 in 2017 to £1,887,000 in 2018.

Gross profit

The gross profit percentage increased from 38% to 47%.

Administrative expenses

Administrative expenses increased by 56% from £811,000 in 2017 to £1,265,000 in 2018. Administrative expenses increased primarily due to additional headcount and associated employee costs.


Headcount

Headcount was increased during the year to support business growth. We believe that these investments in personnel will result in substantial sales growth in the UK in the near to medium term.

Operating profit

Operating profit increased to £190,000 in 2018 from £58,000 for 2017. The Company incurred expenses related to share-based compensation of £37,000 and £27,000 in 2018 and 2017, respectively. Of this amount, £20,000 and £15,000 related to the gain realized by employees upon the vesting of restricted stock units in 2018 and 2017, respectively. These amounts were invoiced to IPG-UK by IPGP in accordance with the Agreement on Stock Option Costs and reported as taxable compensation of the respective employees through PAYE. It is expected that IPGP, the parent company, will continue to support further investment in personnel, equipment, customer service and administration in order to expand UK and Ireland business activities and drive growth of sales in 2019 and beyond.

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



.....
D Goodwin
Director

Date: 13th August 2019.

I P G PHOTONICS (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their report and the financial statements for the year ended 31 December 2018.

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.

DIRECTORS

The directors who served during the year were:

T Mammen
A Thompson (resigned 4 May 2018)
D Goodwin (appointed 4 May 2018)
T Ness (appointed 4 May 2018)

I P G PHOTONICS (UK) LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

ENVIRONMENTAL MATTERS

The Company's products are recognized as being environmentally friendly. IPGP-UK fiber lasers' electrical efficiency is now up to 45% for the most efficient devices as compared to between 2% and 8% for other laser technologies. IPGP-UK fiber lasers consume significantly less electricity when employed in industrial and other applications than traditional lasers. In addition fiber lasers consume fewer gases such as helium, CO₂, oxygen and argon than traditional lasers when cutting and welding different types of materials. Fiber lasers are also replacing environmentally less friendly processes such as printing with inks or engraving, etching and cleaning with chemicals, solvents and media blast.

FINANCIAL INSTRUMENTS

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

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

AUDITORS

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

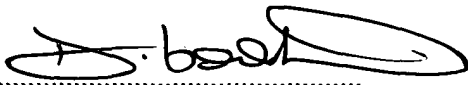
I P G PHOTONICS (UK) LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

SMALL COMPANIES NOTE

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

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



.....
D Goodwin
Director

Date: 13th August 2019.

I P G PHOTONICS (UK) LIMITED

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

OPINION

We have audited the financial statements of I P G Photonics (UK) Limited (the 'Company') for the year ended 31 December 2018, which comprise the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

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

CONCLUSIONS RELATING TO GOING CONCERN

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

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

OTHER INFORMATION

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

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

I P G PHOTONICS (UK) LIMITED

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

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

We have nothing to report in this regard.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' responsibilities statement on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

I P G PHOTONICS (UK) LIMITED

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


AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



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

Wellers

Accountants
Statutory Auditors
1 Vincent Square
London
SW1P 2PN

Date: 16/08/2019

I P G PHOTONICS (UK) LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £	2017 £
Turnover	4	3,126,025	2,270,879
Cost of sales		(1,668,216)	(1,404,881)
GROSS PROFIT		1,457,809	865,998
Administrative expenses		(1,263,970)	(811,436)
Other operating income		(3,600)	3,600
OPERATING PROFIT	5	190,239	58,162
PROFIT FOR THE FINANCIAL YEAR		190,239	58,162

There was no other comprehensive income for 2018 (2017:£NIL).

The notes on pages 13 to 28 form part of these financial statements.

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

BALANCE SHEET
AS AT 31 DECEMBER 2018

	Note	2018 £	2017 £
FIXED ASSETS			
Tangible assets	10	4,041,284	253,301
		<u>4,041,284</u>	<u>253,301</u>
CURRENT ASSETS			
Stocks	11	664,548	522,772
Debtors: amounts falling due after more than one year	12	22,176	22,342
Debtors: amounts falling due within one year	12	879,417	501,682
Bank & cash balances		717,207	30,148
		<u>2,283,348</u>	<u>1,076,944</u>
Creditors: amounts falling due within one year	13	(1,077,608)	(773,460)
NET CURRENT ASSETS		<u>1,205,740</u>	<u>303,484</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,247,024</u>	<u>556,785</u>
NET ASSETS		<u><u>5,247,024</u></u>	<u><u>556,785</u></u>
CAPITAL AND RESERVES			
Called up share capital		7,155,710	2,655,710
Profit and loss account		(1,908,686)	(2,098,925)
		<u>5,247,024</u>	<u>556,785</u>

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



.....
D Goodwin
 Director

Date: 13th August 2019.

The notes on pages 13 to 26 form part of these financial statements.

I P G PHOTONICS (UK) LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Called up share capital £	Profit and loss account £	Total equity £
At 1 January 2018	2,655,710	(2,098,925)	556,785
COMPREHENSIVE INCOME FOR THE YEAR			
Profit for the year	-	190,239	190,239
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	190,239	190,239
Shares issued during the year	4,500,000	-	4,500,000
TOTAL TRANSACTIONS WITH OWNERS	4,500,000	-	4,500,000
AT 31 DECEMBER 2018	7,155,710	(1,908,686)	5,247,024

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

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

The notes on pages 13 to 28 form part of these financial statements.

I P G PHOTONICS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL INFORMATION

The Company is a private company limited by shares and was incorporated in England and Wales. The principal place of business is Axis 1, Hawkfield Business Park, Bristol, BS14 0BY.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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:

Freehold property	-	No depreciation
Assets under construction	-	No depreciation
S/Term Leasehold Property	-	33% straight line
Plant & machinery	-	20% straight line
Fixtures & fittings	-	33% straight line
Office equipment	-	33% straight line
Computer equipment	-	33% straight line
Demo units	-	33% straight line

Freehold property consists of land which is expected to have an unlimited useful life and therefore no depreciation is provided. Assets under construction consists of building and machinery. These are to be depreciated when the assets are available for use.

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

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

2.4 Operating leases: the Company as lessee

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

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

2.5 Stocks

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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 and loans to related parties.

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

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

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

2.8 Creditors

Short-term creditors are measured at the transaction price.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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.

2.10 Share-based payments

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

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

2.11 PENSIONS

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

2. ACCOUNTING POLICIES (CONTINUED)

2.12 Holiday pay accrual

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

2.13 Taxation

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

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

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

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

Impairment of trade receivables

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

Tangible fixed assets

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

Share-based payments

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

I P G PHOTONICS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

4. TURNOVER

Analysis of turnover by country of destination:

	2018 £	2017 £
United Kingdom	1,200,226	1,258,165
Rest of Europe	1,243,443	750,209
Rest of the world	682,356	262,505
	<u>3,126,025</u>	<u>2,270,879</u>

5. OPERATING PROFIT

The operating profit is stated after charging:

	2018 £	2017 £
Depreciation of tangible fixed assets	132,617	65,573
Exchange differences	15,844	3,493
Defined contribution pension cost	40,892	11,026
Share based payment	37,341	26,713
	<u>226,694</u>	<u>106,805</u>

6. AUDITORS' REMUNERATION

	2018 £	2017 £
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	7,500	7,500
	<u>7,500</u>	<u>7,500</u>

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

All other services	24,230	22,500
	<u>24,230</u>	<u>22,500</u>

I P G PHOTONICS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

7. EMPLOYEES

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

	2018 £	2017 £
Wages and salaries	706,182	567,820
Social security costs	86,788	64,408
Cost of defined contribution scheme	40,892	11,853
	833,862	644,081

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

	2018 No.	2017 No.
Administration	4	4
Sales, Service & Research	7	5
	11	9

8. DIRECTORS' REMUNERATION

	2018 £	2017 £
Directors' emoluments	157,791	185,254
	157,791	185,254

I P G PHOTONICS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

9. TAXATION

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is lower than (2017 - *lower than*) the standard rate of corporation tax in the UK of 19% (2017 - 19%). The differences are explained below:

	2018 £	2017 £
Profit on ordinary activities before tax	190,239	58,162
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 - 19%)	36,145	11,051
EFFECTS OF:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	1,302	2,565
Capital allowances for year in excess of depreciation	(17,028)	(20,061)
Utilisation of tax losses	(20,419)	7,704
Other differences	-	(1,259)
TOTAL TAX CHARGE FOR THE YEAR	-	-

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

The Company has £2,138,503 (2017: £2,276,522) 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 2018**

10. TANGIBLE FIXED ASSETS

	Freehold property £	S/Term leasehold property £	Fixtures & fittings £	Plant & machinery £	Office equipment £
COST OR VALUATION					
At 1 January 2018	-	26,855	31,347	127,392	28,195
Additions	2,447,279	8,343	745	88,864	6,502
Disposals	-	-	-	(772)	-
At 31 December 2018	<u>2,447,279</u>	<u>35,198</u>	<u>32,092</u>	<u>215,484</u>	<u>34,697</u>
DEPRECIATION					
At 1 January 2018	-	9,147	12,612	27,604	12,861
Charge for the year on owned assets	-	10,532	9,022	35,192	9,048
Disposals	-	-	-	(166)	-
At 31 December 2018	<u>-</u>	<u>19,679</u>	<u>21,634</u>	<u>62,630</u>	<u>21,909</u>
NET BOOK VALUE					
At 31 December 2018	<u>2,447,279</u>	<u>15,519</u>	<u>10,458</u>	<u>152,854</u>	<u>12,788</u>
At 31 December 2017	<u>-</u>	<u>17,708</u>	<u>18,735</u>	<u>99,788</u>	<u>15,333</u>

I P G PHOTONICS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

10. TANGIBLE FIXED ASSETS (CONTINUED)

	Computer equipment £	Demo units £	Assets under construction £	Total £
COST OR VALUATION				
At 1 January 2018	7,400	121,076	-	342,265
Additions	-	251,639	1,138,653	3,942,025
Disposals	-	(30,744)	-	(31,516)
At 31 December 2018	<u>7,400</u>	<u>341,971</u>	<u>1,138,653</u>	<u>4,252,774</u>
DEPRECIATION				
At 1 January 2018	3,093	23,647	-	88,964
Charge for the year on owned assets	1,482	67,341	-	132,617
Disposals	-	(9,925)	-	(10,091)
At 31 December 2018	<u>4,575</u>	<u>81,063</u>	<u>-</u>	<u>211,490</u>
NET BOOK VALUE				
At 31 December 2018	<u>2,825</u>	<u>260,908</u>	<u>1,138,653</u>	<u>4,041,284</u>
At 31 December 2017	<u>4,307</u>	<u>97,430</u>	<u>-</u>	<u>253,301</u>

The net book value of land and buildings may be further analysed as follows:

	2018 £	2017 £
Freehold	2,447,279	-
Short term leasehold property	15,519	17,708
	<u>2,462,798</u>	<u>17,708</u>

I P G PHOTONICS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

11. STOCKS

	2018 £	2017 £
Finished goods and goods for resale	664,548	522,772
	664,548	522,772

Stock recognised in cost of sales during the year as an expense was £1,424,240 (2017: £1,209,479).

12. DEBTORS

	2018 £	2017 £
DUE AFTER MORE THAN ONE YEAR		
Other debtors	22,176	22,342
	22,176	22,342

DUE WITHIN ONE YEAR

	2018 £	2017 £
Trade debtors	259,979	137,633
Amounts owed by group undertakings	474,666	313,941
Other debtors	58,183	14,501
Prepayments and accrued income	86,589	35,607
	879,417	501,682

13. CREDITORS: Amounts falling due within one year

	2018 £	2017 £
Trade creditors	132,674	10,151
Amounts owed to group undertakings	736,164	587,038
Other taxation and social security	19,529	13,083
Accruals and deferred income	189,241	163,188
	1,077,608	773,460

I P G PHOTONICS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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14. SHARE BASED PAYMENTS

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

	2018 Weighted average exercise price £	2018 Number	2018 Weighted average exercise price £	2017 Number
Summary of restricted stock unit activity				
Outstanding at the beginning of the year	70.99	429	72.37	450
Granted during the year	182.71	135	87.47	104
Converted during the year	75.17	(151)	67.50	(125)
OUTSTANDING AT THE END OF THE YEAR	110.38	413	70.99	429

	2018 Weighted average exercise price £	2018 Number	2017 Weighted average exercise price £	2017 Number
Summary of stock option activity				
Outstanding at the beginning of the year	71.96	1,470	73.60	1,150
Granted during the year	184.96	467	88.56	320
OUTSTANDING AT THE END OF THE YEAR	102.46	1,937	71.96	1,470
Exercisable at the end of year	74.48	830	68.34	500

Total expenses recognised during the year was £37,341 (2017: £26,713).

I P G PHOTONICS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

15. FINANCIAL INSTRUMENTS

	2018	2017
	£	£
FINANCIAL ASSETS		
Financial assets that are debt instruments measured at amortised cost	737,143	455,173
FINANCIAL LIABILITIES		
Financial liabilities measured at amortised cost	(1,034,079)	(736,320)

16. CASH FLOW STATEMENT

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

17. PENSION COMMITMENTS

The Company contributes to a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £40,892 (2017: £11,026). Contributions totaling £nil (2017: £57 paid in advance) was due to the fund at the balance sheet date.

18. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2018 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2018	2017
	£	£
Not later than 1 year	31,404	31,404
Later than 1 year and not later than 5 years	31,404	62,808
TOTAL	62,808	94,212

I P G PHOTONICS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

19. RELATED PARTY TRANSACTIONS

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

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

The financials statements of the parent company are available on <https://www.ipgphotonics.com>

20. CONTROLLING PARTY

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