

I P G PHOTONICS (UK) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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I P G PHOTONICS (UK) LIMITED

COMPANY INFORMATION

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

I P G PHOTONICS (UK) LIMITED

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I P G PHOTONICS (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

The directors present their report and the financial statements for the year ended 31 December 2011

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing 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 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.

PRINCIPAL ACTIVITY

The principal activity of the company in the year under review was that of Fibre Optic Technology.

BUSINESS REVIEW

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 and Germany. Fiber lasers are a new generation of lasers manufactured using semiconductor laser diodes to convert an electrical input into an optical output and 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, 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.

In 2011, 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 recognised, the displacement of traditional laser technologies in applications such as metal cutting, welding, marking, engraving has accelerated. In addition, IPGUK's sales benefited from a rebound in overall laser sales as the macro-economic environment improved. We estimate that the total market for fiber lasers increased by 50% from \$366 million in 2010 to \$588 million in 2011 and that fiber lasers share of the worldwide \$3.8 billion laser source market was about 15.5%. The strong growth of fiber lasers is expected to continue in the future with fiber laser sales increasing at an average growth rate of more than 20% through 2015 primarily

I P G PHOTONICS (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

driven by the applications described above as well as newer more advanced applications in decommissioning nuclear facilities or assisting in the drilling of oil and gas wells. 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 2012 as IPGP's revenue grew by almost 18% compared to the same period in 2011.

As a result of the buoyant fiber laser market in 2011, IPGUK's turnover for product sales and commissions increased by 75% to £1,329,166 from £758,607 in 2011. However, due to the increase in direct product turnover as a proportion of total turnover as compared to commission income gross profit in 2011 decreased slightly £360,199 from £385,562. In 2011, administrative expenses decreased slightly to £328,317 from £331,069 primarily due to lower office lease expenses. There were no additions to headcount during the year. Profit on ordinary activities before tax decreased to £65,962 in 2011 from a profit of £88,727 in 2010 and as a result profit after tax for the financial year decreased to £50,014 for the year ended 31 December 2011 from £72,353 for the prior year ended 31 December 2010.

The profit for the current year increased shareholder equity to £264,741 as of 31 December 2011 as compared to £214,727 at 31 December 2010 substantially all represented by net current assets. The current and quick ratios were 5.00 times as of the end of the year and demonstrates that the company has sufficient liquidity to meet its current obligations. Overall, we believe that the financial and liquidity position of the Company is strong and has improved in 2011.

The Company's products are recognised as being environmentally friendly. IPG's fiber lasers' electrical efficiency approaches 30% as compared to between 2% and 15% for competing legacy laser technologies. IPG's fiber lasers consume significantly less electricity when employed in industrial and other applications than traditional lasers. In addition fiber lasers consume fewer gases such as helium, CO₂, oxygen and argon than traditional lasers when cutting and welding different types of materials. Fiber lasers are also replacing environmentally less friendly processes such as printing with inks or engraving and etching with chemicals.

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 shown below.

In respect of bank balances the liquidity risk is managed by ensuring the company is adequately capitalised, generates a profit on sales of products, 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 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.

I P G PHOTONICS (UK) LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011**

RESULTS

The profit for the year, after taxation, amounted to £50,015 (2010 - £72,353)

DIRECTORS

The directors who served during the year were

T Mammen
C Vishowaty


PROVISION 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 information needed by the company's auditors in connection with preparing their report 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



.....
T Mammen
Director

Date 31/08/2012

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 2011, set out on pages 6 to 14. 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 Directors' report to identify material inconsistencies with the audited financial statements. 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 2011 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.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

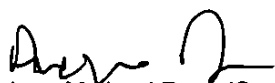
I P G PHOTONICS (UK) LIMITED

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

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

Wellers

Accountants

Statutory Auditor

1 Vincent Square

London

SW1P 2PN

Date 31/08/2012

I P G PHOTONICS (UK) LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Note	2011 £	2010 £
TURNOVER	1,2	1,329,167	758,607
Cost of sales		(968,967)	(373,045)
GROSS PROFIT		360,200	385,562
Administrative expenses		(328,317)	(331,069)
Other operating income	3	34,080	34,234
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		65,963	88,727
Tax on profit on ordinary activities	7	(15,948)	(16,374)
PROFIT FOR THE FINANCIAL YEAR	14	50,015	72,353

All amounts relate to continuing operations

There were no recognised gains and losses for 2011 or 2010 other than those included in the Profit and loss account

The notes on pages 8 to 14 form part of these financial statements

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

BALANCE SHEET
AS AT 31 DECEMBER 2011

	Note	£	2011	£	£	2010	£
CURRENT ASSETS							
Stocks	9	-			426,096		
Debtors	10	95,560			307,254		
Cash at bank and in hand		235,451			208,843		
		<u>331,011</u>			<u>942,193</u>		
CREDITORS: amounts falling due within one year	11	<u>(66,269)</u>			<u>(727,466)</u>		
NET CURRENT ASSETS				264,742			214,727
NET ASSETS				<u>264,742</u>			<u>214,727</u>
CAPITAL AND RESERVES							
Called up share capital	13			100,000			100,000
Other reserves	14			211,940			211,940
Profit and loss account	14			(47,198)			(97,213)
SHAREHOLDERS' FUNDS	15			<u>264,742</u>			<u>214,727</u>

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



T Mammen
Director

Date 31/08/2012

The notes on pages 8 to 14 form part of these financial statements

I P G PHOTONICS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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 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

1.3 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)

1.4 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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1.5 Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads

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

I P G PHOTONICS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

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

	2011 £	2010 £
United Kingdom	1,273,081	758,607
Rest of European Union	56,086	-
	<u>1,329,167</u>	<u>758,607</u>

3. OTHER OPERATING INCOME

	2011 £	2010 £
Management charges receivable	34,080	34,234
	<u>34,080</u>	<u>34,234</u>

4. PROFIT

The profit is stated after charging

	2011 £	2010 £
Foreign exchange differences	22,999	14,885
	<u>22,999</u>	<u>14,885</u>

During the year, no director received any emoluments (2010 - £NIL)

5. AUDITORS' REMUNERATION

	2011 £	2010 £
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>

I P G PHOTONICS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

6. STAFF COSTS

Staff costs were as follows

	2011 £	2010 £
Wages and salaries	201,281	195,428
Social security costs	23,831	18,186
	<u>225,112</u>	<u>213,614</u>

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

	2011 No.	2010 No
Administration	1	1
Sales & Research	3	5
	<u>4</u>	<u>6</u>

7. TAXATION

	2011 £	2010 £
Analysis of tax charge in the year		
Current tax (see note below)		
UK corporation tax charge on profit for the year	-	-
Deferred tax (see note 12)		
Effects of accumulated trading losses	15,948	16,374
Tax on profit on ordinary activities	<u>15,948</u>	<u>16,374</u>

Factors affecting tax charge for the year

The tax charge for the year which has been calculated on the profits on ordinary activities before tax at the standard rate of corporation tax in the UK of 21% (2010 - 21%) is affected by the tax losses brought forward

Factors that may affect future tax charges

Future tax charges will be affected by tax losses carried forward

I P G PHOTONICS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

8. TANGIBLE FIXED ASSETS

	Computer equipment £
Cost	
At 1 January 2011 and 31 December 2011	<u>3,320</u>
Depreciation	
At 1 January 2011 and 31 December 2011	<u>3,320</u>
Net book value	
At 31 December 2011	<u>-</u>
<i>At 31 December 2010</i>	<u>-</u>

9. STOCKS

	2011 £	2010 £
Finished goods and goods for resale	<u>-</u>	<u>426,096</u>

10. DEBTORS

	2011 £	2010 £
Due after more than one year		
Deferred tax asset (see note 12)	15,302	31,250
Due within one year		
Trade debtors	72,500	140,156
Amounts owed by group undertakings	-	129,712
Other debtors	7,758	6,136
	<u>95,560</u>	<u>307,254</u>

I P G PHOTONICS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

11. CREDITORS:
Amounts falling due within one year

	2011	2010
	£	£
Trade creditors	12,951	27,709
Amounts owed to group undertakings	-	49,223
Social security and other taxes	-	18,785
Other creditors	43,193	10,650
Accruals and deferred income	10,125	621,099
	66,269	727,466

12. DEFERRED TAX ASSET

	2011	2010
	£	£
At beginning of year	31,250	47,624
Affect of increase in tax losses in the year	(15,948)	(16,374)
	15,302	31,250

The deferred tax asset is made up as follows

	2011	2010
	£	£
Tax losses carried forward	15,302	31,250

The deferred tax asset has been provided on the tax losses carried forward. The company generates profits to utilise these losses. It is expected that future profits will continue to be generated which will see these losses further utilised.

13. SHARE CAPITAL

	2011	2010
	£	£
Allotted, called up and fully paid		
100,000 Ordinary shares of £1 each	100,000	100,000

I P G PHOTONICS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

14. RESERVES

	Other reserves £	Profit and loss account £
At 1 January 2011	211,940	(97,213)
Profit for the year		50,015
	<hr/>	<hr/>
At 31 December 2011	211,940	(47,198)
	<hr/>	<hr/>

15. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2011 £	2010 £
Opening shareholders' funds	214,727	42,374
Profit for the year	50,015	72,353
Movement on other reserves	-	100,000
	<hr/>	<hr/>
Closing shareholders' funds	264,742	214,727
	<hr/>	<hr/>

IPG PHOTONICS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

16. 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 Photonics Corporation £4,501 (2010 - £8,350), IPG Laser GmbH £192,969 (2010 - £87,241) and IPG Fibertech S r l £486 (2010 - Nil)

Purchases were made from IPG Photonics Corporation £98,165 (2010 - £59,989), IPG Laser GmbH of £362,123 (2010 - £478,310) and IPG Fibertech Srl £70,845 (2010 - £10,591)

Management charges were received from IPG Photonics Corporation £34,080 (2010 - £34,234)
Management charges were paid to an associated company, IP Fibre Devices (UK) Limited, of Nil (2010 - £45,491) IP Fibre Devices (UK) Limited is associated by way of similar directors of that of IPG Photonics Corporation

At 31 December 2011, the balances owing by group companies were

IPG Photonics S r l £422 (2010 - Nil)
IPG Laser GmbH £9,758 (2010 - £30,717)
IPG Photonics Corporation £4,397 (2010 - £1,371)
IPG Photonics Corporation USD Nil (2010 - £10,384)
IPG Laser GmbH USD Nil (2010 - £87,240)

Balances owing to group companies were

IPG Laser GmbH £9,802 (2010 - £49,223)

An amount of Nil (2010 - £15,315) was also owing to IP Fibre Devices (UK) Limited

17. 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