

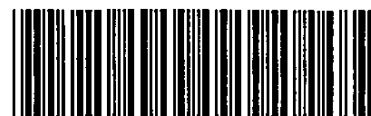
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Element Six Limited

**Directors' Report and Financial Statements
Year Ended 31 December 2010**

Company Registration Number: 02946905

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DIRECTORS AND OTHER INFORMATION

Board of Directors

SE Coe
JA Kilshaw
WF Hühn
A Wilson

Solicitors

Bradley's Solicitors
76 Frimley High Street
Frimley
Surrey GU16 6HP
England

Pitmans
47 Castle Street
Reading RG1 7SR
England

Secretary and Registered Office

Mrs Lynsey Ann Blair
3rd Floor Building 4
566 Chiswick High Road
London W4 5YE
England

Registered Number: 02946905

Bankers

Natwest
Holborn Circus Branch
PO Box No 204
No 1 Hatton Garden
London EC1P 1DU
England

Auditors

PricewaterhouseCoopers
Chartered Accountants and Statutory Auditors
Bank Place
Limerick
Ireland

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the company for the year ended 31 December 2010.

Directors' responsibilities for financial statements

The directors are responsible for preparing their 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 proper accounting records that 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.

Directors' and their interests

The names of the persons who were directors at any time during the year or since year end are set out below. They served as directors for the entire period unless otherwise indicated.

SE Coe

SJ Boxall (resigned 5 April 2011)

JA Kilshaw

CD Jilla (appointed 5 October 2010, resigned 29 December 2010)

WF Huhn (appointed 7 April 2011)

A Wilson (appointed 11 July 2011)

No director had a beneficial interest in the share capital of the company or of any other group company.

There are no directors' interests requiring disclosure under the Companies Act 2006. The company has indemnified the directors of the company against liability in respect of proceedings brought about by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision was in force throughout the year.

Donations

During the year the company made charitable donations of £1,300 (2009: £Nil).

Events since the year end

There were no significant events affecting the company since the year end.

DIRECTORS' REPORT - continued

Principal activities and business review

Element Six Limited is based at Ascot and its primary activity in 2010 was the continuing manufacture and sale of CVD diamond for varied markets including optical, thermal management, mechanical, acoustic and electronic applications. This manufacture includes both the synthesis of CVD diamond and its primary processing (eg planarising and laser cutting to a specified shape). Final product was supplied to either third parties, or other Element Six sites (Isle of Man for Abrasive uses and Cuijk in the Netherlands for optical applications) for subsequent fabrication into finished product.

The company maintained its significant investment in R&D activities in 2010. In addition a small marketing group worked alongside the research and development group to identify new applications and opportunities for the material.

The company also provides management services to other Element Six group companies and the costs and revenues associated with the Group Corporate Service Centre in Chiswick, West London are included in these financial statements.

For 2010 the reported turnover is £26,384,661 (2009 £13,840,713). Part of the reason for the increase in turnover is increased employment costs which are recharged out to other group companies. In addition turnover has increased due to R&D costs previously absorbed within the company now being recharged elsewhere in the Element Six Group.

Total operation staff (i.e. production and R&D) in the company in 2010 averaged 37 (2009 41) with 45 in administration roles (2009 17).

Financial risk management

The Element Six group's operations expose it to a variety of financial risks that include the effect of changes in foreign exchange risk, credit risk, liquidity risk and interest rate risk. The group has in place a risk management programme that seeks to manage the financial exposures of all group companies by monitoring levels of debt finance and the related finance costs. The group uses derivative financial instruments to mitigate certain currency risk exposures.

Currency risk

Currency risk management is a centralised group function. The group uses derivative financial instruments to mitigate certain currency risk exposures. The group treasury's risk management policy is that hedges are restricted to a maximum of 90% of exposure in the first 12 month period, 75% in the second and 25% in subsequent periods to a maximum of four years forward.

Element Six Limited has a limited amount of exposure to currency risk with the majority of its transactions being denominated in Sterling. On occasion large payments are required to be made in foreign currency and this is managed via the Group Treasury function.

Price risk

The company is not exposed to equities price risk. Commodity price risk is managed locally.

Interest rate risk

The company has no significant interest bearing assets or liabilities.

Credit risk

The majority of the company's debtors are intercompany. Monthly aged debtor reports are distributed to monitor debt levels and credit enquiries are made against specific large customers.

Liquidity risk

Liquidity risk is managed through a monthly review of the balance sheet.

DIRECTORS' REPORT - continued

Research and development

Research and development remains a major focus of Element Six Limited. During 2010 the research and development group focused upon reducing the cost of manufacturing CVD diamond and also developing new products from this material, for applications including detectors and single crystal cutting tools. Total research and development expenditure during 2010 was £2,500,141 (2009 £2,505,711).

Results and dividends

The company's profit for the financial year was £3,354,015 (2009 £261,078). No dividends were proposed or paid in the year (2009 £Nil).

Future developments

The directors continue to anticipate growth in turnover, with increased sales to third parties outside the Element Six Group.

Auditors and disclosure of information to auditors

- So far the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and will automatically be deemed to be re-elected in accordance with Section 487 of the Companies Act 2006.

By order of the board



ADRIAN S. WILSON

23/9/11

Adrian S. Wilson



Independent auditors' report to the members of Element Six Limited

We have audited the financial statements of Element Six Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. 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)

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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.

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 2010 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



Independent auditors' report to the members of Element Six Limited - continued

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.

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.

A handwritten signature in black ink, appearing to read 'John Lavin'.

(Senior Statutory Auditor)

**For and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Auditors
Limerick, Ireland**

26 September 2011.

PROFIT AND LOSS ACCOUNT
Year Ended 31 December 2010

	Notes	2010 £	2009 £
Turnover	2	26,384,661	13,840,713
Cost of sales		<u>(23,026,168)</u>	<u>(13,684,362)</u>
Operating profit	3	3,358,493	156,351
Profit on sale of fixed assets		4,420	-
Interest receivable	6	1,102	932
Other finance (expense)/income	17	<u>(10,000)</u>	<u>99,000</u>
Profit on ordinary activities before taxation		3,354,015	256,283
Tax on profit on ordinary activities	7	<u>-</u>	<u>4,795</u>
Profit for the financial year		<u>3,354,015</u>	<u>261,078</u>

All amounts above related to continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year Ended 31 December 2010


	Notes	2010 £	2009 £
Profit for financial year		3,354,015	261,078
Actuarial gains/(losses) on post retirement benefits	17	19,000	(14,166,000)
Movement on deferred tax relating to pension asset	17	<u>-</u>	<u>636,160</u>
Total recognised gains/(losses) relating to the year		<u>3,373,015</u>	<u>(13,268,762)</u>

BALANCE SHEET
31 December 2010

	Notes	2010 £	2009 £
Fixed assets			
Tangible assets	8	<u>5,510,738</u>	<u>6,045,292</u>
Current assets			
Stocks	9	1,018,720	1,075,431
Debtors	10	28,235,367	8,795,327
Cash at bank and in hand		<u>161,686</u>	<u>181,359</u>
		29,415,773	10,052,117
Creditors - amounts falling due within one year	11	<u>(6,974,699)</u>	<u>(5,498,612)</u>
Net current assets		<u>22,441,074</u>	<u>4,553,505</u>
Net assets excluding pension liability		27,951,812	10,598,797
Pension liability	17	<u>(9,367,000)</u>	<u>(9,887,000)</u>
Net assets including pension liability		<u>18,584,812</u>	<u>711,797</u>
Capital and reserves			
Called up share capital	13	1,000	1,000
Capital contribution	14	33,000,000	18,500,000
Profit and loss reserve	15	<u>(14,416,188)</u>	<u>(17,789,203)</u>
Shareholders' funds	16	<u>18,584,812</u>	<u>711,797</u>

The financial statements on pages 8 to 22 were approved by the Board of Directors on _____
and signed on its behalf by

Director
Element Six Limited
Registered Number 02946905


ADRIAN S WILSON 23/9/2011.
Adrian S. Wilson

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The significant accounting policies adopted by the company are as follows

Basis of accounting

The financial statements are prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006, and accounting standards generally accepted in the United Kingdom. Accounting standards generally accepted in the United Kingdom in preparing financial statements giving a true and fair view are those issued by the Accounting Standards Board and published by the Institute of Chartered Accountants of England and Wales

The financial statements have been prepared in Sterling denoted by the symbol "£"

Turnover and revenue recognition

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and the provision of services in the ordinary course of the company's activities. 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. The following specific recognition criteria must also be met before revenue is recognised

(a) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably

(b) Rendering of services

Revenue from services rendered relates to research contracts. There are two categories of contracts, those where costs are recovered and fixed price contracts. Where the costs are recovered, payment is not dependent on any specific deliverable and revenue is recognised immediately. For fixed price contracts a specified deliverable has to be supplied before payment is made and revenue is recognised only when the deliverable is supplied. Revenues from the provision of group management services are recognised in the period in which the services are provided

Research and development

Research and development expenditure is written off to the profit and loss account as incurred

Fixed assets and depreciation

All fixed assets are stated at historical cost less accumulated depreciation. Historical cost comprises the invoice cost as well as all costs related to the acquisition and installation of the asset

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows

Short leasehold buildings	-	Over lease term
Plant and machinery	-	12.5% - 20%
Fixtures, fittings and equipment	-	10% - 20%

Assets in the course of construction are not depreciated. Depreciation commences once the asset is completed and brought into use

Stock

Stock is valued at the lower of cost and net realisable value. Cost is determined as follows

Raw materials, consumables and goods for resale	-	purchase cost on a first-in, first-out basis
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and distribution

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Accounting policies - continued

Taxation

Corporation tax is provided on taxable profits at current rates

Deferred tax is recognised in respect of timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date and will result in an obligation to pay more, or a right to pay less or to receive more, tax

Deferred tax assets are recognised only to the extent that the directors consider that it is 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 is measured on an undiscounted basis at the tax rates that are expected to apply in periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Foreign currencies

Transactions in foreign currencies are translated to Sterling at the exchange rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All exchange differences are taken to the profit and loss account

Operating leases

Rentals payable under operating leases are charged to the profit and loss account in the period to which they relate

Retirement benefits

The company has both a defined benefit pension scheme and a Group Personal Pension Plan (defined contribution scheme)

Defined benefit pension scheme assets are measured at fair value. Defined benefit pension scheme liabilities are measured on an actuarial basis using the projected unit method. The excess of scheme liabilities over scheme assets is presented on the balance sheet as a liability, net of related deferred tax. The defined benefit pension charge to operating profit comprises the current service cost and past service costs. The excess of the expected return on scheme assets over the interest cost on the scheme liabilities is presented in the profit and loss account as other finance income. Actuarial gains and losses arising from changes in actuarial assumptions and from experience surpluses and deficits are recognised in the statement of total recognised gains and losses for the year in which they occur

The defined contribution pension charge to operating profit comprises the contribution payable to the Group Personal Pension Plan for the year

Other post retirement benefits

The company has also agreed to provide certain post-employment medical aid benefits. The obligation represents the amount that employees have earned in return for service in the current and prior periods. The obligations are measured annually by independent qualified actuaries. Actuarial gains and losses are recognised as they occur in the statement of total recognised gains and losses

Grants

Grant income is recognised when the conditions for the receipt of the grant have been satisfied. Revenue grants are recognised in the profit and loss account to match them against the expenditure to which they relate

NOTES TO THE FINANCIAL STATEMENTS - continued

2 Turnover

Turnover, which is shown net of VAT, represents amounts derived from the sale of goods and provision of services as well as revenue derived from the research and development of ultra hard materials

Turnover is derived principally from other group companies worldwide with some third party research and development income

An analysis of turnover by geographical market is given below	2010 £	2009 £
UK	12,010,263	6,791,739
Europe	13,432,172	6,232,238
Rest of World	942,226	816,736
	<u>26,384,661</u>	<u>13,840,713</u>

3 Operating profit

The operating profit is stated after charging

	2010 £	2009 £
Auditors' remuneration - audit services	20,033	22,860
- non-audit services	-	-
Research and development expenditure	2,500,141	2,505,711
Depreciation	1,031,125	1,030,264
Operating lease rentals - land and buildings	433,232	300,901
- plant and machinery	4,262	4,044
Foreign exchange losses	29,783	10,704
Grant income	<u>95,569</u>	<u>120,005</u>

4 Staff costs

	2010 £	2009 £
Wages and salaries	10,136,562	5,177,881
Social security costs	1,351,389	541,221
Pension costs - defined contribution scheme	248,165	217,462
- defined benefit scheme (note 17)	<u>9,000</u>	<u>9,000</u>
	<u>11,745,116</u>	<u>5,945,564</u>

The average number of persons employed by the company during the year was as follows

	2010 Number	2009 Number
Production	37	41
Administration	<u>45</u>	<u>17</u>
	<u>82</u>	<u>58</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

5 Directors' emoluments	2010	2009
	£	£
Emoluments	596,894	374,272
Contributions paid to defined contribution pension scheme	<u>37,793</u>	<u>20,509</u>
	2010	2009
	Number	Number
Members of defined benefit pension scheme	1	1
Members of defined contribution scheme	<u>3</u>	<u>2</u>
	2010	2009
	£	£
The amounts in respect of the highest paid director are as follows		
Emoluments	203,647	155,634
Contributions paid to defined contribution pension scheme	<u>10,597</u>	<u>9,634</u>
6 Interest receivable	2010	2009
	£	£
Bank interest receivable	<u>1,102</u>	<u>932</u>
7 Taxation on ordinary activities	2010	2009
	£	£
Current tax:		
UK corporation tax	-	-
Total current tax credit	<u>-</u>	<u>(4,795)</u>
Deferred tax		
Origination and reversal of timing differences	<u>-</u>	<u>-</u>
Tax credit on profit on ordinary activities	<u>-</u>	<u>(4,795)</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

7 Taxation on ordinary activities - continued

The tax assessed on the result for the year differs from that which would result from applying the standard effective rate of corporation tax in the UK of 28% (2009 28%) to the profit on ordinary activities. The differences are explained below

	2010 £	2009 £
Profit on ordinary activities before taxation	<u>3,354,015</u>	<u>256,283</u>
Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 28% (2009 28%)	939,124	71,759
Non deductible expenses	29,266	119,970
Difference between depreciation and capital allowances	(5,024)	193,105
Tax losses utilised	(612,794)	-
Tax losses carried forward	-	304,160
R&D allowance	(210,012)	(97,634)
Timing differences in respect of pensions	(140,560)	(591,360)
Adjustment in respect of prior year	-	(4,795)
Current tax credit for the year	<u>-</u>	<u>(4,795)</u>

A deferred tax asset has not been recognised in respect of trading losses and timing differences relating to fixed assets. While the directors are satisfied that the company will remain profitable they will continue to recognise these assets as they are realised. The amount of the asset not recognised is £2,775,067 (2009 £3,690,950)

Tax recognised in the Statement of Total Recognised Gains and Losses

	2010 £	2009 £
Deferred tax credit attributable to retirement benefits	<u>-</u>	<u>(636,160)</u>

8 Tangible assets

	Short leasehold property £	Plant and machinery £	Fixtures and fittings £	Assets in the course of construction £	Total £
Cost					
At 1 January 2010	4,208,473	8,814,379	295,297	521,204	13,839,353
Additions	-	-	-	496,571	496,571
Reclassification	-	57,985	449,333	(507,318)	-
At 31 December 2010	<u>4,208,473</u>	<u>8,872,364</u>	<u>744,630</u>	<u>510,457</u>	<u>14,335,924</u>
Depreciation					
At 1 January 2010	2,097,000	5,470,622	226,439	-	7,794,061
Charge for the year	313,039	648,079	70,007	-	1,031,125
At 31 December 2010	<u>2,410,039</u>	<u>6,118,701</u>	<u>296,446</u>	<u>-</u>	<u>8,825,186</u>
Net book value					
At 31 December 2010	<u>1,798,434</u>	<u>2,753,663</u>	<u>448,184</u>	<u>510,457</u>	<u>5,510,738</u>
At 31 December 2009	<u>2,111,473</u>	<u>3,343,757</u>	<u>68,858</u>	<u>521,204</u>	<u>6,045,292</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

9 Stocks	2010 £	2009 £
Raw materials	29,298	22,076
Work in progress	213,501	94,100
Finished goods	775,921	959,255
	<u>1,018,720</u>	<u>1,075,431</u>

The replacement cost of stocks did not differ significantly from the figures shown

10 Debtors	2010 £	2009 £
Amounts falling due within one year:		
Trade debtors	714,560	576,594
Amounts owed by group undertakings	10,833,809	8,015,402
Other debtors	6,066	23,950
Prepayments and accrued income	437,753	179,381
	<u>11,992,188</u>	<u>8,795,327</u>
Amounts falling due after one year		
Amounts owed by group undertakings	16,243,179	-
	<u>28,235,367</u>	<u>8,795,327</u>

Amounts owed by group undertakings less than one year are unsecured, interest free and repayable on demand. Amounts owed by group undertakings greater than one year are unsecured, interest bearing and fall due for repayment in greater than one year.

11 Creditors - amounts falling due within one year	2010 £	2009 £
Trade creditors	1,204,583	869,158
Amounts owed to group undertakings	463,839	1,933,118
VAT payable	178,276	454,709
Other taxation and social security	247,765	221,780
Other creditors	4,044,805	1,192,782
Accruals and deferred income	835,431	827,065
	<u>6,974,699</u>	<u>5,498,612</u>

Amounts owed to group undertakings are unsecured, repayable on demand and include both interest bearing and interest free balances.

NOTES TO THE FINANCIAL STATEMENTS - continued

12 Commitments

At 31 December 2010 the company had annual commitments under non-cancellable operating leases as set out below

	2010		2009	
	Land and buildings £	Other £	Land and Buildings £	Other £
Operating leases which expire				
- in two to five years	304,084	26,069	19,200	4,044
- in over five years	212,200	-	212,200	-
	<u>516,284</u>	<u>26,069</u>	<u>231,400</u>	<u>4,044</u>

13 Share capital

	2010 £	2009 £
Authorised:		
50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
Allotted, called up and fully paid.		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

14 Capital contributions

This comprises contributions received from Element Six Technologies SARL, the immediate parent company of Element Six Limited. The contributions did not confer any rights to the share capital of the company on the donor company.

15 Reserves

	Profit and loss reserve £
At 1 January 2010	(17,789,203)
Profit for the financial year	3,354,015
Actuarial gain on post retirement benefits	<u>19,000</u>
At 31 December 2010	(14,416,188)
Pension liability	<u>9,367,000</u>
Profit and loss reserve excluding pension liability	<u>(5,049,188)</u>

16 Reconciliation of movements in shareholders' funds

	2010 £	2009 £
Profit for the year	3,354,015	261,078
Capital contribution	14,500,000	-
Actuarial gain/(loss) on post retirement benefits (note 17)	19,000	(14,166,000)
Movement in deferred tax relating to pension liability	<u>-</u>	<u>636,160</u>
Net addition/(reduction) in shareholders' funds	17,873,015	(13,268,762)
Opening shareholders' funds	<u>711,797</u>	<u>13,980,559</u>
Closing shareholders' funds	<u>18,584,812</u>	<u>711,797</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Pension commitments	2010 £'000	2009 £'000
Post retirement pension benefits liability (a)	(9,259)	(9,782)
Post retirement medical benefits liability (b)	(108)	(105)
	<u>(9,367)</u>	<u>(9,887)</u>

(a) Pension benefits

The company operates a defined contribution scheme, which covers all employees joining the company. The assets of the defined contribution scheme are held separately from those of the company in an independently administered fund. There were no outstanding contributions to the fund at 31 December 2010 or 2009. The cost in respect of the scheme for the year ended 31 December 2010 was £248,165 (2009 £217,462).

The company also participates in a contributory defined benefit scheme. This scheme was closed to new entrants in 2002.

The most recent actuarial valuation of the scheme for funding purposes was carried out by independent professionally qualified actuaries as at 1 January 2009 and is available to scheme members but not for public inspection.

An actuarial valuation for FRS 17 purposes was carried out as at 31 December 2010 using the projected unit basis. The principal assumptions used by the actuary were as follows:

	2010 %	2009 %
Discount rate	5.4	5.6
Rate of increase in pensionable salaries	3.4	3.25
Rate of increase in pensions in payment	2.5	2.5
Rate of inflation	<u>3.4</u>	<u>3.25</u>

The mortality assumptions used were as follows:

	2010 Years	2009 Years
Longevity at age 65 for current pensioners		
- Men	26.2	26.2
- Women	28.7	28.7
Longevity at age 65 for future pensioners		
- Men	27.5	27.5
- Women	<u>29.8</u>	<u>29.8</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Pension commitments - continued

(a) Pension benefits - continued

The assets in the scheme and the expected rates of return were

	Long-term rate of return expected 31 December 2010 %	2010 £'000	Long-term rate of return expected 31 December 2009 %	2009 £'000
Fair value of scheme assets	6.70	57,873	6.60	53,667
Present value of scheme liabilities		(67,132)		(63,449)
Pension liability		(9,259)		(9,782)
Related deferred tax asset		-		-
Net pension liability		(9,259)		(9,782)

Reconciliation of movement in scheme liabilities

	2010 £'000	2009 £'000
1 January	63,449	51,933
Current service cost	9	9
Interest on scheme liabilities	3,490	3,276
Benefits paid	(2,289)	(1,508)
Actuarial losses	2,473	9,739
31 December	67,132	63,449

Reconciliation of movement in scheme assets

	2010 £'000	2009 £'000
1 January	53,667	54,205
Expected return on scheme assets	3,480	3,375
Actuarial gains/(losses)	2,494	(4,426)
Benefits paid	(2,289)	(1,508)
Contributions by employer	521	2,021
31 December	57,873	53,667

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Pension commitments - continued

(a) Pension benefits - continued

Scheme assets do not include any of Element Six Limited's own financial instruments, or any property occupied by Element Six Limited. The investment strategy is a liability driven one and the scheme assets are a combination of various portfolio funds.

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy.

The actual return on scheme assets in the year was £5,974,000 (2009: loss of £1,051,000).

	2010 £'000	2009 £'000
Analysis of amounts charged to profit and loss are as follows:		
Current service cost	(9)	(9)
Total charge to operating profit	(9)	(9)
Interest on scheme liabilities	(3,490)	(3,276)
Expected return on scheme assets	3,480	3,375
Net finance (expense)/income	(10)	99

The total current service cost of £9,000 (2009: £9,000) is included within cost of sales.

	2010 £'000	2009 £'000
Analysis of amounts recognised in the statement of total recognised gains and losses		
Actual less expected return on scheme assets	2,494	(4,426)
Experience losses on plan liabilities	(302)	(849)
Changes in assumptions underlying the present value of scheme liabilities	(2,171)	(8,890)
Total actuarial gains/(losses) recognised	21	(14,165)

The cumulative amount of actuarial losses recognised in the statement of total recognised gains and losses, including the financial year ended 31 December 2010, is £5,783,392 (2009: £5,804,392). The total contributions expected to be made to the scheme by Element Six Limited in the year to 31 December 2011 is £2,315,000.

Amounts for current and previous years.	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Present value of scheme liabilities	(67,132)	(63,449)	(51,933)	(41,992)
Fair value of scheme assets	57,873	53,667	54,205	30,499
(Deficit)/surplus	(9,259)	(9,782)	2,272	(11,493)
Experience adjustments on scheme assets	2,494	(4,426)	2,257	(1,738)
Experience adjustments on scheme liabilities	(302)	(849)	830	(1,977)

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Pension commitments - continued

(b) Post retirement medical benefits

With regard to the provision of other retirement benefits, the company has agreed to provide certain post-employment medical aid benefits which are unfunded. The liability at the year end amounted to £108,000 (2009 £105,000). The medical aid charge for the year was £10,000 (2009 £9,000 charge), of which £2,000 (2009 £1,000) is included in the statement of total recognised gains and losses.

Movement in the liability in the balance sheet	2010 £'000	2009 £'000
At start of year	105	104
Current service cost	2	2
Interest cost	6	6
Benefits paid	(7)	(8)
Actuarial loss/(gains)	2	1
At 31 December 2010	108	105

The principal assumptions used in determining post retirement medical funding are as follows

	2010 %	2009 %
Discount rate	5.4	5.6
Price inflation	3.4	3.3
Medical premium inflation	7.8	8.0

18 Related party transactions

The company has availed of the exemption contained in FRS 8 "Related Party Disclosures", not to disclose transactions with related companies all of whose voting rights are controlled within the group.

A summary of the transactions and balances with other related entities is as follows

	2010 £'000	2009 £'000
<u>Sale of goods and services to</u>		
Element Six Limited (Ireland)	11,138	336
Element Six US Corporation	844	413
Element Six Limited (Japan)	29	29
Diamond Microwave Devices Limited	762	701
Diamond Detectors Limited	189	133
<u>Purchases of goods and services from</u>		
Element Six Limited (Ireland)	302	290
Element Six (Production) (Pty) Limited	104	-
Element Six Limited (Hong Kong)	4	-
Diamond Microwave Devices Limited	105	160

NOTES TO THE FINANCIAL STATEMENTS - continued

18 Related party transactions - continued

	2010 £'000	2009 £'000
<u>Amounts due from</u>		
Diamond Microwave Devices Limited	165	156
Diamond Detectors Limited	54	8
Element Six US Corporation	57	436
Element Six Limited (Japan)	4	-
Element Six (Production) Pty Limited	6	41
Element Six Limited (Ireland)	3,444	1,633
<u>Amounts due to</u>		
Element Six Limited (Hong Kong)	1	-

19 Cash flow statement

The directors have availed of the exemption contained in FRS 1 "Cash Flow Statements" (revised), which permits qualifying subsidiaries of a parent undertaking, which itself publishes consolidated financial statements which include the subsidiary, not to produce a cash flow statement

20 Parent company and controlling party

The company's immediate parent company is Element Six Technologies SARL, a company incorporated in Luxembourg. The parent company of the smallest group of undertakings of which the company is a member and in whose group accounts it is included, is Element Six SA, a company incorporated in Luxembourg.

The company's ultimate parent and controlling company is De Beers SA, a company incorporated in Luxembourg. De Beers SA is the parent undertaking of the largest and smallest group for which group accounts are prepared and publicly available. These are available from Registre de Commerce et des Sociétés, Centre Administratif Pierre Werner, 13 Rue Erasme, Luxembourg-Kirchberg.