Element Six Limited

Directors' Report and Financial Statements
Year Ended 31 December 2009

Company Registration Number: 02946905

CONTENTS

DIRECTORS AND OTHER INFORMATION

Board of Directors

SE Coe
SJ Boxall
JA Kilshaw

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

Morley & Scott Corporate Services Limited
King's Ride Park
Ascot
Berkshire SL5 8BP
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 2009

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 are set out below They served as directors for the entire period unless otherwise indicated

SE Coe
SJ Boxall
JA Kilshaw

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 no charitable donations (2008 £500)

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 2009 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 2009 In addition a small marketing group worked alongside the research and development group to identify new applications and opportunities for the material

The Ascot site provided office facilities for members of management and support staff from the wider Element Six Group in the first half of 2009 During 2009 these activities were transferred to a new Group Corporate Service Centre in Chiswick, West London Corporate activities from elsewhere in the Element Six Group were also transferred to this location The costs and revenues associated with this office are included in these financial statements

For 2009 the reported turnover is £13,840,713 (2008 £14,392,398)

Total operation staff (i e production and R&D) in the company in 2009 averaged 41 (2008 44) with 17 in administration roles (2008 12)

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

Currency risk

Currency risk management is a centralized group function The group treasury's risk management policy is that hedges are restricted to a maximum of 100% of exposure in the first 12 month period, 50% in the second and 25% in subsequent 12 month periods to a maximum of four years forward The group uses derivative financial instruments to hedge certain risk exposures

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 The company received a gift of £18 5m from its major shareholder during 2008

DIRECTORS' REPORT - continued

Research and development

Research and development remains a major focus of Element Six Limited During 2009 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 2009 was £2,505,711 (2008 £2,935,392)

Results and dividends

The company's profit for the financial year was £263,411 (2008 profit of £5,386,936) No dividends were proposed or paid in the year (2008 £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 a resolution concerning their reappointment will be proposed at the Annual General Meeting

JOHN KILSHAW

By order of the board 29.9.10

PRICEWATERHOUSECOOPERS

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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 2009 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 2009 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

Chartered Accountants

PRICEWATERHOUSECOOPERS

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

Ann Lavin

Ann Lavin (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Auditors
Limerick, Ireland

30 September 2010

PROFIT AND LOSS ACCOUNT
Year Ended 31 December 2009

	Notes	2009 £	2008 £
Turnover	2	13,840,713	14,392,398
Cost of sales		(13,684,362)	(13,332,042)
Operating profit	3	156,351	1,060,356
Exceptional item - transfer of pension obligation of fellow subsidiary	4	-	3,938,000
Profit on ordinary activities before interest and taxation		156,351	4,998,356
Interest receivable	7	932	18,375
Other finance income	18	99,000	375,000
Profit on ordinary activities before taxation		256,283	5,391,731
Tax on profit on ordinary activities	8	4,795	(4,795)
Profit for the financial year		261,078	5,386,936

All amounts above related to continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year Ended 31 December 2009

	Notes	2009 £	2008 £
Profit for financial year		261,078	5,386,936
Actuarial (losses)/gains on post retirement benefits	18	(14,166,000)	8,231,000
Movement on deferred tax relating to pension asset	18	636,160	(636,160)
Total recognised (losses)/gains relating to the year		(13,268,762)	12,981,776

BALANCE SHEET
31 December 2009

	Notes	2009 £	2008 £
Fixed assets			
Tangible assets	9	6,045,292	6,564,372
Current assets			
Stocks	10	1,075,431	1,533,402
Debtors	11	8,795,327	7,414,659
Cash at bank and in hand		181,359	205,535
		10,052,117	9,153,596
Creditors - amounts falling due within one year	12	(5,498,612)	(3,269,249)
Net current assets		4,553,505	5,884,347
Net assets excluding pension (liability)/asset		10,598,797	12,448,719
Pension (liability)/asset	18	(9,887,000)	1,531,840
Net assets including pension (liability)/asset		711,797	13,980,559
Capital and reserves			
Called up share capital	14	1,000	1,000
Capital contribution	15	18,500,000	18,500,000
Profit and loss reserve	16	(17,789,203)	(4,520,441)
Shareholders' funds	17	711,797	13,980,559

The financial statements on pages 8 to 21 were approved by the Board of Directors on ______________ and signed on its behalf by

JOHN KILSHAW 29.9.10

Director
Element Six Limited
Registered Number. 02946905

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 the 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

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%
Motor vehicles	-	20%

Assets in the course of construction are not depreciated Depreciation commences once the asset is complete 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 disposal

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

Transfer of pension obligation of fellow subsidiary
Prior to 2008 the company's defined benefit pension scheme covered both employees of the company and also of a fellow subsidiary Element Six (Production) Limited The scheme was effectively accounted for as a multi-employer scheme with each company accounting for its share of the assets and liabilities of the scheme Element Six (Production) Limited ceased trading during 2008 It was agreed that as part of the winding down of that company, Element Six Limited would meet all of that company's liabilities in respect of the scheme, which showed an FRS 17 surplus at 31 December 2007 Since then, the scheme is therefore accounted for as if it were a single employer scheme As part of this agreement Element Six (Production) Limited made a payment to Element Six Limited Both this payment and the transfer of the surplus were accounted for as exceptional items in the Profit and Loss account in the prior 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

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	2009 £	2008 £
UK	6,791,739	6,412,314
Europe	6,232,238	7,694,682
Rest of World	816,736	285,402
	13,840,713	14,392,398

3 Operating profit

		2009 £	2008 £
The operating profit is stated after charging			
Auditors' remuneration	- audit services	22,860	10,772
	- non-audit services	-	-
Research and development expenditure		2,505,711	2,935,392
Depreciation		1,030,264	689,520
Operating lease rentals	- land and buildings	300,901	206,103
	- plant and machinery	4,044	4,206
Foreign exchange losses		10,704	11,469

4 Exceptional item – transfer of pension obligation of fellow subsidiary

In the past the company's defined benefit pension scheme covered both employees of the company and also of a fellow subsidiary Element Six (Production) Limited The scheme was effectively accounted for as a multi-employer scheme with each company accounting for its share of the assets and liabilities of the scheme Element Six (Production) Limited ceased trading during 2008 It was agreed that as part of the winding down of that company, Element Six Limited would meet all of that company's liabilities in respect of the scheme, which showed an FRS 17 surplus of £2 263m at 31 December 2007 Since then, the scheme is accounted for as if it were a single employer scheme

As part of this agreement Element Six (Production) Limited paid £1 675m to Element Six Limited during 2008 This payment, together with the FRS17 surplus transferred from Element Six (Production) Limited, comprised the exceptional income in the profit and loss account

NOTES TO THE FINANCIAL STATEMENTS - continued

5 Staff costs

		2009 £	2008 £
Wages and salaries		5,177,881	4,901,339
Social security costs		541,221	542,085
Pension costs	- defined contribution scheme	217,462	210,466
	- defined benefit scheme (note 18)	9,000	23,000
		5,945,564	5,676,890

The average number of persons employed by the company during the year was as follows	2009 Number	2008 Number
Production	41	44
Administration	17	12
	58	56

6 Directors' emoluments

	2009 £	2008 £
Emoluments	374,272	340,448
Contributions paid to defined contribution pension scheme	20,509	18,796

	2009 Number	2008 Number
Members of defined benefit pension scheme	1	1
Members of defined contribution scheme	2	2

The amounts in respect of the highest paid director are as follows	2009 £	2008 £
Emoluments	155,634	165,311
Contributions paid to defined contribution pension scheme	9,634	9,161

7 Interest receivable

	2009 £	2008 £
Bank interest receivable	932	18,375

NOTES TO THE FINANCIAL STATEMENTS - continued

8 Taxation on ordinary activities

	2009 £	2008 £
Current tax:		
UK corporation tax	-	4,795
Adjustment in respect of prior years	(4,795)	-
Total current tax	(4,795)	4,795
Deferred tax:		
Origination and reversal of timing differences	-	-
Total deferred tax	-	-
Tax on profit on ordinary activities	(4,795)	4,795

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% (2008 28 5%) to the profit on ordinary activities The differences are explained below

	2009 £	2008 £
Profit on ordinary activities before taxation	256,283	5,391,731
Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 28% (2008 28 5%)	71,759	1,536,643
Non deductible expenses	119,970	107,946
Difference between depreciation and capital allowances	193,105	(153,548)
Tax losses utilised	-	(1,270,135)
Tax losses carried forward	304,160	-
Non taxable income	(97,634)	(111,516)
Timing differences in respect of pensions	(591,360)	(104,595)
Adjustment in respect of prior year	(4,795)	-
Current tax (credit)/charge for the year	(4,795)	4,795

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008 Accordingly the company's profit for 2008 was taxed at an effective rate of 28 5% The profit for 2009 is taxed at 28% and will be taxed at 28% in the future

A deferred tax asset has not been recognised in respect of trading losses and timing differences relating to fixed assets as there is presently insufficient evidence that the asset will be recovered The amount of the asset not recognised is £3,690,950 (2008 £3,192,292)

Tax recognised in the Statement of Total Recognised Gains and Losses

	2009 £	2008 £
Deferred tax (credit)/charge attributable to retirement benefits	(636,160)	636,160

NOTES TO THE FINANCIAL STATEMENTS - continued

9 Tangible assets

	Short leasehold property £	Plant and machinery £	Fixtures and fittings £	Assets in the course of construction £	Total £
Cost					
At 1 January 2009	4,208,473	7,584,750	225,310	1,309,636	13,328,169
Additions	-	-	-	511,184	511,184
Reclassification	-	1,229,629	69,987	(1,299,616)	-
At 31 December 2009	4,208,473	8,814,379	295,297	521,204	13,839,353
Depreciation					
At 1 January 2009	1,783,691	4,767,238	212,868	-	6,763,797
Charge for the year	313,309	703,384	13,571	-	1,030,264
At 31 December 2009	2,097,000	5,470,622	226,439	-	7,794,061
Net book value					
At 31 December 2009	2,111,473	3,343,757	68,858	521,204	6,045,292
At 31 December 2008	2,424,782	2,817,512	12,442	1,309,636	6,564,372

10 Stocks

	2009 £	2008 £
Raw materials	22,076	30,194
Work in progress	94,100	203,208
Finished goods	959,255	1,300,000
	1,075,431	1,533,402

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

11 Debtors

	2009 £	2008 £
Trade debtors	576,594	485,220
Amounts owed by group undertakings	8,015,402	6,686,074
Other debtors	23,950	118,656
Prepayments and accrued income	179,381	124,709
	8,795,327	7,414,659

Amounts owed by group undertakings are unsecured, interest free and repayable on demand

12 Creditors - amounts falling due within one year

	2009 £	2008 £
Trade creditors	869,158	939,020
Amounts owed to group undertakings	1,933,118	468,303
VAT payable	454,709	187,139
Corporation tax	-	4,795
Other taxation and social security	221,780	133,952
Other creditors	1,192,782	699,578
Accruals and deferred income	827,065	836,462
	5,498,612	3,269,249

Amounts owed to group undertakings are unsecured, interest free and repayable on demand

NOTES TO THE FINANCIAL STATEMENTS - continued

13 Commitments

At 31 December 2009 the company had annual commitments under non-cancellable operating leases as set out below

	2009		2008	
	Land and buildings	Other	Land and Buildings	Other
	£	£	£	£
Operating leases which expire				
- in two to five years	19,200	4,044	-	2,705
- in over five years	212,200	-	206,103	-
	231,400	4,044	206,103	2,705

14 Share capital

	2009	2008
	£	£
Authorised:		
50,000 ordinary shares of £1 each	50,000	50,000
Allotted, called up and fully paid:		
1,000 ordinary shares of £1 each	1,000	1,000

15 Capital contribution

This comprises a contribution from Element Six Technologies SARL, the immediate parent company of Element Six Limited

16 Reserves

	Profit and loss reserve
	£
At 1 January 2009	(4,520,441)
Profit for the financial year	261,078
Actuarial loss on pension scheme	(14,166,000)
Movement on deferred tax relating to pension asset	636,160
At 31 December 2009	(17,789,203)
Pension liability	9,887,000
Profit and loss reserve excluding pension liability	(7,902,203)

17 Reconciliation of movements in shareholders' funds

	2009	2008
	£	£
Profit for the year	261,078	5,386,936
Capital contribution	-	18,500,000
Actuarial (loss)/gain on pension scheme (note 18)	(14,166,000)	8,231,000
Movement in deferred tax relating to pension liability/asset	636,160	(636,160)
Net (reduction)/addition in shareholders' funds	(13,268,762)	31,481,776
Opening shareholders' funds	13,980,559	(17,501,217)
Closing shareholders' funds	711,797	13,980,559

18 Pension commitments

	2009 £'000	2008 £'000
Post retirement pension benefits (liability)/asset (a)	(9,782)	1,636
Post retirement medical benefits liability (b)	(105)	(104)
	(9,887)	1,532

(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 2009 or 2008 The cost in respect of the scheme for the year ended 31 December 2009 was £217,462 (2008 £210,466)

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 2009 using the projected unit basis

The major assumptions used by the actuary were

	2009 %	2008 %
Discount rate	5 6	6 40
Rate of increase in pensionable salaries	3 25	2 75
Rate of increase in pensions in payment	2 5	2 50
Rate of inflation	3 25	2 75

The mortality assumptions used were as follows	2009 Years	2008 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	29 8	29 8

NOTES TO THE FINANCIAL STATEMENTS - continued

18 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 2009 %	2009 £'000	Long-term rate of return expected 31 December 2008 %	2008 £'000
Share assets	6 60	53,667	6 75	54,205
Total market value of assets		53,667		54,205
Present value of scheme liabilities		(63,449)		(51,933)
(Liability)/surplus in scheme		(9,782)		2,272
Related deferred tax asset/liability		-		(636)
Net pension (liability)/asset		(9,782)		1,636

Reconciliation of present value of scheme liabilities	2009 £'000	2008 £'000
1 January	51,933	41,992
Current service cost	9	23
Transfer of Element Six (Production) Limited liabilities (note (i))	-	14,408
Interest cost	3,276	3,193
Benefits paid	(1,508)	(1,772)
Actuarial losses/(gains)	9,739	(5,911)
31 December	63,449	51,933

Reconciliation of fair value of scheme assets		
1 January	54,205	30,499
Expected return on scheme assets	3,375	3,568
Transfer of Element Six (Production) Limited assets (note (i))	-	16,671
Actuarial (losses)/gains	(4,426)	2,257
Benefits paid	(1,508)	(1,772)
Contributions by employer	2,021	2,982
31 December	53,667	54,205

Note (i)
As disclosed in note 4 the net surplus of £2 263m resulting from the transfer of the pension obligation of Element Six (Production) Limited was reflected as an exceptional cost in the profit and loss account in the prior year

NOTES TO THE FINANCIAL STATEMENTS - continued

18 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 £1,051,000 (loss) (2008 gain of £5,826,000)

Analysis of amounts charged to profit and loss are as follows:	2009 £'000	2008 £'000
Current service cost	(9)	(23)
Total charge to operating profit	(9)	(23)
Interest on scheme liabilities	(3,276)	(3,193)
Expected return on scheme assets	3,375	3,568
Net finance income	99	375
Transfer of assets from fellow subsidiary (note 4)	-	2,263
	99	2,615

The total current service cost of £9,000 (2007 £23,000) is included within cost of sales

Actuarial gains and losses
The cumulative amount of actuarial losses recognised in the statement of recognised gains and loss is £5,804,392

Actuarial valuation
The full actuarial valuation at 31 December 2009 showed a deficit of £9,782,000 (2008 surplus of £2,272,000) The total contributions expected to be made to the scheme by Element Six Limited in the year to 31 December 2010 is £2,021,000

Amounts for current and previous years:	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Defined benefit obligation	(63,449)	(51,933)	(41,992)	(43,821)
Plan assets	53,667	54,205	30,499	28,701
(Deficit)/surplus	(9,782)	2,272	(11,493)	(15,120)
Experience adjustments on plan assets Amount (£'000)	(4,426)	2,257	(1,738)	(3,432)
Experience adjustments on plan liabilities Amount (£'000)	(849)	830	(1,977)	1,363
Total amount recognised in the statement of total recognised gains and losses Amount (£'000)	(14,165)	8,168	1,196	2,069

NOTES TO THE FINANCIAL STATEMENTS - continued

18 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 £105,000 (2008 £104,000) The medical aid charge for the year was £9,000 (2008 £51,000 credit), of which £1,000 (2008 £63,000) is included in the statement of total recognised gains and losses

Movement in the liability in the balance sheet	2009 £'000	2008 £'000
At start of year	104	169
Current service cost	2	3
Interest cost	6	9
Benefits paid	(8)	(14)
Actuarial loss/(gains)	1	(63)
At 31 December 2009	105	104

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

	2009 %	2008 %
Discount rate	5 6	6 4
Price inflation	3 3	2 8
Medical premium inflation	8 0	7 5

19 Related party transactions

The company has availed of the exemption contained in FRS 8 from the requirement to disclose transactions with companies all of whose voting rights are controlled within the group

20 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

21 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 (100%), a company incorporated in Luxembourg

The company's ultimate parent and controlling company is De Beers SA, a company incorporated in Luxembourg, which 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 Societies, Centre Administratif Pierre Werner, 13 Rue Erasme, Luxembourg-Kirchberg