

Element Six Limited

**Directors' Report and Financial Statements
Year Ended 31 December 2013**

Company Registration Number: 02946905

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CONTENTS

	Page
DIRECTORS AND OTHER INFORMATION	2
STRATEGIC REPORT	3
DIRECTORS' REPORT	4 - 5
INDEPENDENT AUDITOR'S REPORT	6 - 7
PROFIT AND LOSS ACCOUNT	8
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	9
BALANCE SHEET	10
NOTES TO THE FINANCIAL STATEMENTS	11 - 25

DIRECTORS AND OTHER INFORMATION

Board of Directors

SE Coe
JA Kilshaw
WF Hühn
AS Wilson

Secretary and Registered Office

Craig Williamson
Global Innovation Centre
Fermi Avenue London
Harwell Oxford
Didcot
Oxfordshire OX11 0QR
United Kingdom

Bankers

BNP Paribas
10 Harewood Avenue
London
NW1 6AA
United Kingdom

Statutory Auditor

Deloitte LLP
London
United Kingdom

Registered Number: 02946905

STRATEGIC REPORT

The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Principal activities and business review

The company is a wholly-owned subsidiary of the Element Six group which manufactures and sells synthetic diamond and other super materials. The principal activities of the company are to manufacture and sell CVD diamond, provide management services to other Element Six group companies and to undertake research activities on behalf of the Element Six Group.

For 2013 the reported turnover is £36,177,519 (2012: £29,227,173).

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 apart from intercompany balances.

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.

Approved by the Board of Directors
and signed on behalf of the Board on 29 September 2014



Adrian S Wilson
Director

DIRECTORS' REPORT

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

Directors' responsibilities statement

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 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.

Going Concern

Having made appropriate enquiries, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the financial statements.

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
JA Kilshaw
WF Hühn
A Wilson

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 £807 (2012: £1,300).

Events since the year-end

During 2014 the Group Corporate Services Centre in Chiswick, West London, was closed and relocated to Harwell.

DIRECTORS' REPORT - continued

Research and development

The company continues its research activities on behalf of the Element Six Group and in 2013 global research activities were consolidated at a new purpose built facility at Harwell. Total research and development expenditure during 2013 was £3,705,816 (2012: £2,407,557).

Results and dividends

The company's profit for the financial year was £423,032 (2012: £2,773,427). No dividends were proposed or paid in the year (2012: £Nil).

Future developments

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

The company plans to review its activities in line with group strategic objectives following the establishment of the Element Six Global Innovation Centre in the UK.

Auditors and disclosure of information to auditors

- So far the directors are aware, there is no relevant audit information of which the company's auditor is 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 auditor is aware of that information.


Subsidiary undertakings

The company has availed of the exemption under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. Consequently, these financial statements deal with the results of the company as a single entity only. The disclosures required under Part 1 and 2 of Schedule 4 to S1 2008/410, in respect of subsidiary undertakings, are provided in note 10 to the financial statements.

Auditor

The auditor, Deloitte LLP, has indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By Order of the Board


Adrian S Wilson
29 September 2014

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 2013 which comprise the Profit and Loss Account, the Balance Sheet, and the Statement of Total Recognised Gains and Losses and the related notes 1 to 24. 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 auditor's 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 auditor

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 annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its 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.

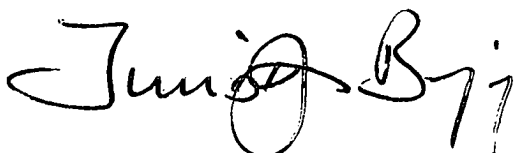
Opinion on other matter prescribed by the Companies Act 2006

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.

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 'Timothy Biggs', with a stylized flourish at the end.

Timothy Biggs (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
29 September 2014

PROFIT AND LOSS ACCOUNT
Year Ended 31 December 2013

	Notes	2013 £	2012 £
Turnover	2	36,177,519	29,227,173
Cost of sales		<u>(33,201,457)</u>	<u>(26,124,352)</u>
Operating profit	3	2,976,062	3,102,821
Loss on disposal of fixed assets		-	(38,787)
Interest receivable	6	67,585	139,893
Other finance expense	20	<u>(704,000)</u>	<u>(321,000)</u>
Profit on ordinary activities before taxation		2,339,647	2,882,927
Tax charge on profit on ordinary activities	7	<u>(1,916,615)</u>	<u>(109,500)</u>
Profit for the financial year		<u>423,032</u>	<u>2,773,427</u>

All amounts above related to continuing operations.

The notes on pages 11 to 25 form part of the financial statements

The results of the company do not differ materially than if prepared on an unmodified historical cost basis.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year Ended 31 December 2013

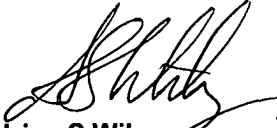
	Notes	2013 £	2012 £
Profit for financial year		423,032	2,773,427
Actuarial losses on post-retirement benefits	20	<u>(740,000)</u>	<u>(2,852,000)</u>
Total recognised losses relating to the year		<u>(316,968)</u>	<u>(78,573)</u>

The notes on pages 11 to 25 form part of the financial statements

BALANCE SHEET
31 December 2013

	Notes	2013 £	2012 £
Fixed assets			
Tangible assets	8	5,864,360	4,084,032
Intangible assets	9	72,969	83,594
Financial assets	10	<u>120,019</u>	<u>120,019</u>
		6,057,348	4,287,645
Current assets			
Stocks	11	2,940,267	1,134,813
Debtors	12	33,438,511	34,186,866
Cash at bank and in hand		<u>-</u>	<u>447,702</u>
		36,378,778	35,769,381
Creditors - amounts falling due within one year	14	<u>(11,428,326)</u>	<u>(8,177,258)</u>
Net current assets		<u>24,950,452</u>	<u>27,592,123</u>
Net assets excluding pension deficit		31,007,800	31,879,768
Pension deficit	20	<u>(16,151,000)</u>	<u>(16,706,000)</u>
Net assets		<u>14,856,800</u>	<u>15,173,768</u>
Capital and reserves			
Called up share capital	16	1,000	1,000
Capital contributions	17	33,000,000	33,000,000
Profit and loss account	18	<u>(18,144,200)</u>	<u>(17,827,232)</u>
Shareholders' funds	19	<u>14,856,800</u>	<u>15,173,768</u>

The financial statements on pages 8 to 25 were approved by the Board of Directors on 29 September 2014 and signed on its behalf by:


Adrian S Wilson
 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 preparation

These financial statements have been prepared on a going concern basis in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

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

Historical cost convention

The financial statements are prepared under the historical cost convention.

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 to third parties relates primarily 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 property	- 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Accounting policies - continued

Intangible assets

Intangible assets (patents) are stated at cost less accumulated amortisation and any impairment. Amortisation is calculated to write off the costs of the intangible assets in equal annual instalments over their estimated useful life.

Intangible assets are reviewed for impairment whenever changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount.

The amortisation period is as follows:	Years
Patents	8

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.

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.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid or recovered) using the tax rates and laws that have been enacted or substantively enacted by 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Accounting policies - continued

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.

Consolidation

The financial statements relate to the results of Element Six Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertaking are included by full consolidation in the consolidated financial statements of its ultimate parent.

Share based payments

Certain employees of the company participate in the Element Six Group Long Term Incentive Plan (LTIP). Until 2012, the LTIP comprised a cash settled plan using phantom share options, which are valued based on the growth in the equity value of the group over a three year period. The vesting period for the phantom share options is three years and all options vest at the end of the three years providing the conditions are met. Phantom share options are issued each year. Consequently, in any given year there are three schemes running concurrently in the group. The value of the phantom share options is estimated at the end of each reporting period by reference to the parameters set out in the scheme rules and updated in subsequent periods as a further year elapses in the cycle. The estimated payment under the plans is spread over the related three year performance period.

The share based payments LTIP plan was replaced in 2012 with a long term bonus scheme (the existing share based plans will continue to the end of their three year cycle). The new scheme is based on defined EBITDA performance criteria over a three year period. Payments under the scheme consist of a percentage of salary for the scheme members, that percentage being driven by the actual out-turn compared with the targets set out in the scheme. The estimated pay-out under the scheme is determined at the end of each reporting period and is spread over the related three year performance period.

The provision for the LTIP is accounted for centrally until such time as payments under the scheme are approved by the group's Remuneration Committee. Element Six Limited reflects an accrual at the year-end for the amounts payable in the following year to its employees under the scheme. In accordance with the group's transfer pricing structure, these costs are in turn recharged to other entities within the Element Six group and reflected within amounts due from group undertakings at the year end.

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 product revenues and research and development income.

	2013 £	2012 £
An analysis of turnover by geographical market is given below:		
UK	11,270,014	11,005,459
Europe	21,217,037	16,533,013
Rest of World	3,690,468	1,688,701
	<u>36,177,519</u>	<u>29,227,173</u>

The directors consider that the disclosure of further disaggregated information would be seriously prejudicial to the interests of the company and therefore have not disclosed such information.

3 Operating profit

	2013 £	2012 £
The operating profit is stated after charging:		
Auditor's remuneration - audit services	12,119	10,730
Research and development expenditure	3,705,816	2,407,557
Depreciation	1,137,147	1,106,625
Amortisation	10,625	1,406
Operating lease rentals - land and buildings	1,049,750	617,022
- plant and machinery	48,502	22,002
Foreign exchange (income)/losses	(124,878)	103,704
Grant income	<u>154,081</u>	<u>155,519</u>

4 Staff costs

	2013 £	2012 £
Wages and salaries	9,097,594	11,631,567
Social security costs	1,254,957	1,537,925
Pension costs - defined contribution scheme	930,490	848,426
- defined benefit scheme (note 20)	-	-
	<u>11,283,041</u>	<u>14,017,918</u>

The average number of persons (including executive directors) employed by the company during the year was as follows:

	2013 Number	2012 Number
Production	78	50
Administration	82	66
	<u>160</u>	<u>116</u>

Included in wages and salaries is a total expense of £Nil (2012: £2,651,379) in relation to cash settled share based payments (note 21).

NOTES TO THE FINANCIAL STATEMENTS - continued

5 Directors' emoluments	2013	2012
	£	£
Aggregate emoluments	621,110	608,585
Aggregate amounts receivable under long-term incentive plan	382,284	201,287
Contributions paid to defined contribution pension scheme	<u>34,607</u>	<u>32,718</u>
	2013	2012
	Number	Number
Members of defined benefit pension scheme	-	-
Members of defined contribution scheme	<u>3</u>	<u>3</u>
	2013	2012
	£	£
The amounts in respect of the highest paid director are as follows:		
Total of emoluments and amounts receivable under long term incentive plan	547,601	456,998
Contributions paid to defined contribution pension scheme	<u>14,061</u>	<u>13,019</u>
6 Interest receivable	2013	2012
	£	£
Intercompany interest receivable	66,989	139,470
Bank interest receivable	596	423
Bank interest payable	-	-
	<u>67,585</u>	<u>139,893</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

7 Taxation on ordinary activities	2013	2012
	£	£
Current tax:		
UK corporation tax	-	-
Amount payable to fellow subsidiary in respect of group relief	(44,748)	(13,895)
Adjustment in respect of previous years	<u>4,223</u>	<u>66,243</u>
Total current tax credit/(charge)	<u>(40,525)</u>	<u>52,348</u>
Deferred tax:		
Origination and reversal of timing differences	(1,807,610)	(300,829)
Adjustment in respect of previous years	(68,480)	301,120
Adjustment in respect of change in tax rate	<u>-</u>	<u>(162,139)</u>
	<u>(1,876,090)</u>	<u>(161,848)</u>
 Tax charge on profit on ordinary activities	 <u>(1,916,615)</u>	 <u>(109,500)</u>

The tax assessed for the period is lower (2012: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2013 of 23.25% (2012: 24.5%). The differences are explained below:

	2013	2012
	£	£
Profit on ordinary activities before taxation	<u>2,339,647</u>	<u>2,882,927</u>
Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 23.25% (2012: 24.5%)	543,968	706,317
Non-deductible expenses	10,201	21,914
Difference between depreciation and capital allowances	264,387	92,176
Tax losses utilised	(177,768)	(284,697)
R&D allowance	(258,481)	(94,744)
Other timing differences	(337,559)	(406,696)
Group loss relief utilised	<u>-</u>	<u>(20,375)</u>
Current tax charge for the year	<u>44,748</u>	<u>13,895</u>

Factors that may affect future tax charges

The Finance Act 2012, which was substantively enacted on 3 July 2012, provided for a reduction in the main rate of UK corporation tax from 26% to 24% effective from 1 April 2012, and a further 1% reduction to 23% from 1 April 2013. This reduced rate of 23% was reflected in the calculation of deferred tax at 31 December 2012.

In the 2013 Budget (delivered on 20 March 2013), it was announced that the main rate of corporation tax for UK companies would reduce to 21% from 1 April 2014, and then reduce further to 20% from 1 April 2015. These future reductions in the main rate of corporation tax were substantively enacted for financial reporting purposes on 2 July 2013. The reduced rate of 20% has therefore been reflected in the calculation of deferred tax at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS - continued

8 Tangible assets	Short leasehold property £	Plant and machinery £	Fixtures and fittings £	Construction in progress £	Total £
Cost					
At 1 January 2013	4,610,730	8,662,085	775,012	552,526	14,600,353
Additions	-	177,652	-	2,739,824	2,917,476
Transfer from CIP	(4,967)	627,474	(22,238)	(600,269)	-
Disposals	-	-	-	-	-
At 31 December 2013	<u>4,605,763</u>	<u>9,467,211</u>	<u>752,774</u>	<u>2,692,081</u>	<u>17,517,829</u>
Depreciation					
At 1 January 2013	3,154,003	6,820,209	542,109	-	10,516,321
Charge for the year	370,517	642,914	123,717	-	1,137,148
Disposals	-	-	-	-	-
At 31 December 2012	<u>3,524,520</u>	<u>7,463,123</u>	<u>665,826</u>	<u>-</u>	<u>11,653,469</u>
Net book value					
At 31 December 2013	<u>1,081,243</u>	<u>2,004,088</u>	<u>86,948</u>	<u>2,692,081</u>	<u>5,864,360</u>
At 31 December 2012	<u>1,456,727</u>	<u>1,841,876</u>	<u>232,903</u>	<u>552,526</u>	<u>4,084,032</u>
9 Intangible assets				Patents £	Total £
Cost					
At 1 January 2013				85,000	85,000
Additions				-	-
At 31 December 2013				<u>85,000</u>	<u>85,000</u>
Amortisation					
At 1 January 2013				1,406	1,406
Charge for the year				<u>10,625</u>	<u>10,625</u>
At 31 December 2012				<u>12,031</u>	<u>12,031</u>
Net book value					
At 31 December 2013				<u>72,969</u>	<u>72,969</u>
At 31 December 2012				<u>83,594</u>	<u>83,594</u>

Intangible assets represent patents acquired from another group company.

NOTES TO THE FINANCIAL STATEMENTS - continued

10 Financial assets

£

Investment in subsidiary undertaking at 1 January and 31 December 2013 120,019

Element Six Limited owns 100% of the issued share capital of Element Six Technologies US Corporation. In the opinion of the directors the value of the above financial asset to the company is not less than its carrying value.

Details of the company's subsidiary undertaking are as follows:

Name	Registered Office	Interest in ordinary shares	Nature of business
Element Six Technologies US Corporation	3500 South Dupont Highway Dover, County of Kent, DE 19901, California, USA	100%	Manufacturing and sale of CVD diamond

11 Stocks

2013
£

2012
£

Raw materials	1,523,424	51,238
Work in progress	785,350	279,703
Finished goods	<u>631,493</u>	<u>803,872</u>
	<u>2,940,267</u>	<u>1,134,813</u>

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

12 Debtors

2013
£

2012
£

Amounts falling due within one year:

Trade debtors	1,471,621	463,860
Amounts owed by group undertakings	23,947,962	20,117,261
Corporation tax receivable	9,000	76,247
Other debtors	196,517	111,149
VAT receivable	760,353	-
Prepayments and accrued income	785,733	573,823
Deferred tax asset (note 13)	<u>-</u>	<u>1,876,090</u>
	<u>27,171,186</u>	<u>23,218,430</u>

Amounts falling due after more than one year:

Amounts owed by group undertakings	<u>6,267,325</u>	<u>10,968,436</u>
	<u>33,438,511</u>	<u>34,186,866</u>

Amounts owed by group undertakings falling due within one year are unsecured, interest free and repayable on demand. Amounts owed by group undertakings falling due after more than one year are unsecured, interest bearing and fall due for repayment after more than one year.

NOTES TO THE FINANCIAL STATEMENTS - continued

13 Deferred tax asset	2013 £
At 1 January 2013	1,876,090
Debit to the profit and loss account	<u>(1,876,090)</u>
At 31 December 2013	<u>-</u>

The opening deferred tax asset arose from unutilised tax losses brought forward and timing differences related to fixed assets.

There are unprovided deferred tax assets as follows:	2013 £	2012 £
Retirement benefit deficit	3,221,000	3,825,590
Accelerated capital allowances	297,363	-
Tax losses	1,259,557	-
Other timing differences	<u>64,482</u>	<u>-</u>
	<u>4,842,402</u>	<u>3,825,590</u>

Deferred tax assets in respect of the retirement benefit deficit, accelerated capital allowances, tax losses and other temporary differences have not been recognised. This is on the basis that it is not probable that there will be sufficient and suitable taxable profits arising in future periods against which to utilise them.

14 Creditors - amounts falling due within one year	2013 £	2012 £
Trade creditors	2,945,566	1,439,192
Amounts owed to group undertakings	2,103,407	571,439
Group relief payable	58,647	-
VAT payable	-	271,952
Other taxation and social security	443,734	285,990
Other creditors	2,654,870	4,643,309
Accruals and deferred income	<u>3,222,102</u>	<u>965,376</u>
	<u>11,428,326</u>	<u>8,177,258</u>

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

15 Commitments

At 31 December 2013 the company had annual commitments under non-cancellable operating leases as set out below:

	2013		2012	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
- in the next year	117,733	-	-	2,190
- in two to five years	679,667	-	508,645	1,008
- in over five years	<u>8,940,096</u>	<u>-</u>	<u>612,000</u>	<u>-</u>
	<u>9,737,496</u>	<u>-</u>	<u>1,120,645</u>	<u>3,198</u>

The company acts as guarantor in respect of a lease agreement entered into by US subsidiary, Element Six Technologies U.S. Corporation. The company has provided a letter of credit to the value of \$100,000 in respect of this lease commitment to Element Six Technologies U.S. Corporation.

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Share capital	2013 £	2012 £
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>

17 Capital contributions

These comprise 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.

18 Reserves	Profit and loss reserve £
At 1 January 2013	(17,827,232)
Profit for the financial year	423,032
Actuarial loss on post-retirement benefits	<u>(740,000)</u>
At 31 December 2013	(18,144,200)
Pension liability	<u>16,151,000</u>
Profit and loss reserve excluding pension liability	<u>(1,993,200)</u>

19 Reconciliation of movements in shareholders' funds	2013 £	2012 £
Profit for the year	423,032	2,773,427
Actuarial loss on post-retirement benefits (note 20)	<u>(740,000)</u>	<u>(2,852,000)</u>
Net reduction in shareholders' funds	(316,968)	(78,573)
Opening shareholders' funds	<u>15,173,768</u>	<u>15,252,341</u>
Closing shareholders' funds	<u>14,856,800</u>	<u>15,173,768</u>

20 Pension commitments	2013 £'000	2012 £'000
Post retirement pension benefits liability (a)	(16,105)	(16,633)
Post retirement medical benefits liability (b)	<u>(46)</u>	<u>(73)</u>
	<u>(16,151)</u>	<u>(16,706)</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 2013 or 2012. The cost in respect of the scheme for the year ended 31 December 2013 was £930,490 (2012: £848,426).

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 2012 and is available to scheme members but not for public inspection.

NOTES TO THE FINANCIAL STATEMENTS - continued

20 Pension commitments - continued

(a) Pension benefits – continued

An actuarial valuation for FRS 17 purposes was carried out as at 31 December 2013 using the projected unit basis. The principal assumptions used by the actuary were as follows:

	2013 %	2012 %
Discount rate	4.4	4.5
Rate of increase in pensionable salaries	-	-
Rate of increase in pensions in payment	2.5	2.5
Rate of inflation	3.4	3.0

The mortality assumptions used were as follows:

	2013 Years	2012 Years
Longevity at age 60 for current pensioners:		
- Men	26.7	26.7
- Women	28.4	28.6
Longevity at age 60 for future pensioners:		
- Men	28.2	28.3
- Women	29.3	24.4

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

	Long-term rate of return expected 31 December 2013 %	2013 £'000	Long-term rate of return expected 31 December 2012 %	2012 £'000
Fair value of scheme assets	4.4	64,708	5.5	61,933
Present value of scheme liabilities		(80,813)		(78,566)
Deficit in scheme		(16,105)		(16,633)

The major categories of Scheme assets as a percentage of total Scheme assets were:

	2013 %	2012 %
Equities	39	16
Gilts	15	5
Corporate bonds	34	13
DGF	0	64
Insured Pensioners	2	2
Property	10	0
	100	100

NOTES TO THE FINANCIAL STATEMENTS - continued

20 Pension commitments - continued

(a) Pension benefits - continued

Reconciliation of present value of scheme liabilities	2013 £'000	2012 £'000
1 January	78,566	73,284
Current service cost		-
Interest on scheme liabilities	3,479	3,590
Benefits paid	(2,552)	(3,004)
Actuarial losses	1,320	4,696
31 December	<u>80,813</u>	<u>78,566</u>

Reconciliation of fair value of scheme assets

1 January	61,933	57,840
Expected return on scheme assets	2,775	3,269
Actuarial gains	552	1,828
Benefits paid	(2,552)	(3,004)
Contributions by employer	<u>2,000</u>	<u>2,000</u>
31 December	<u>64,708</u>	<u>61,933</u>

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 £3,327,000 (2012: £5,097,000).

Analysis of amounts charged to profit and loss are as follows:	2013 £'000	2012 £'000
Current service cost	-	-
Total charge to operating profit	-	-
Interest on pension scheme liabilities	(3,479)	(3,590)
Expected return on pension scheme assets	<u>2,775</u>	<u>3,269</u>
Net finance expense	<u>(704)</u>	<u>(321)</u>

Analysis of amounts recognised in the statement of total recognised gains and losses	2013 £'000	2012 £'000
Actual less expected return on scheme assets	552	1,828
Experience gain on plan liabilities	66	459
Changes in underlying the present value of scheme liabilities	<u>(1,386)</u>	<u>(5,155)</u>
Total actuarial losses recognised	<u>(768)</u>	<u>(2,868)</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

20 Pension commitments - continued

(a) Pension benefits - continued

The cumulative amount of actuarial losses recognised in the statement of total recognised gains and losses, including the financial year ended 31 December 2013, is £17,695,392 (2012: £16,927,392). The total contributions expected to be made to the scheme by Element Six Limited in the year to 31 December 2014 is £2,000,000.

Amounts for current and previous years:	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Present value of scheme liabilities	(80,813)	(78,566)	(73,284)	(67,132)	(63,449)
Fair value of scheme assets	64,708	61,933	57,840	57,873	53,667
Deficit	(16,105)	(16,633)	(15,444)	(9,259)	(9,782)
Experience adjustments on scheme assets	552	1,828	(3,560)	2,494	(4,426)
Expressed as a % of scheme assets	1%	3%	6%	4%	8%
Experience adjustments on scheme liabilities	66	(459)	50	(302)	(849)
Expressed as a % of scheme liabilities	0%	1%	0%	0%	1%

(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 £46,000 (2012: £73,000). The medical aid charge to the profit and loss account for the year was £5,000 (2012: £6,000) and £28,000 (2012: £16,000) is included in the statement of total recognised gains and losses.

Movement in the liability in the balance sheet	2013 £'000	2012 £'000
At start of year	73	88
Current service cost	2	2
Interest cost	3	4
Benefits paid	(4)	(5)
Actuarial gain	(28)	(16)
At 31 December 2013	46	73

The principal assumptions used in determining post retirement medical funding are as follows:	2013 %	2012 %
Discount rate	4.40	4.50
Price inflation	3.35	2.70
Medical premium inflation	8.10	7.45

NOTES TO THE FINANCIAL STATEMENTS - continued

21 Share based payments

Certain employees of the company participate in the Element Six Group Long Term Incentive Plan (LTIP). Until 2012, the LTIP comprised a cash settled plan using phantom share options, which are valued based on the growth in the equity value of the group over a three year period. The vesting period for the phantom share options is three years and all options vest at the end of the three years providing the conditions are met. Phantom share options are issued each year. Consequently, in any given year there are three schemes running concurrently in the group. The value of the phantom share options is estimated at the end of each reporting period by reference to the parameters set out in the scheme rules and updated in subsequent periods as a further year elapses in the cycle. The estimated payment under the plans is spread over the related three year performance period.

The share based payments LTIP plan was replaced in 2012 with a long term bonus scheme (the existing share based plans will continue to the end of their three year cycle). The new scheme is based on defined EBITDA performance criteria over a three year period. Payments under the scheme consist of a percentage of salary for the scheme members, that percentage being driven by the actual out-turn compared with the targets set out in the scheme. The estimated payout under the scheme is determined at the end of each reporting period and is spread over the related three year performance period.

The provision for the LTIP is accounted for centrally until such time as payments under the scheme are approved by the group's Remuneration Committee. Element Six Limited reflects an accrual at the year-end for the amounts payable to its employees under the scheme. The total charge to the profit and loss account for the year in respect of this scheme was £Nil (2012: £2,651,379) which was in turn recharged to other group companies in accordance with the group's transfer pricing structure.

22 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:	2013 £'000	2012 £'000
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Sale of goods and services to:

Element Six Limited (Ireland)	23,549	13,450
Element Six US Corporation	19	1
Element Six Limited (Japan)	83	99
Diamond Microwave Devices Limited	-	33
Element Six (UK) Limited	1,029	12
Element Six GmbH Hard Materials (Germany)	60	45
Element Six AB (Sweden)	58	41
Element Six (Production) (Pty) Limited (South Africa)	-	2
Element Six Industrial Diamond (Suzhou) Limited	3	-
Element Six SA	9	-
Element Six Hard Materials (China)	6	-

Purchases of goods and services from:

Element Six Limited (Ireland)	276	394
Element Six (Production) (Pty) Limited	1,016	179
Element Six AB (Sweden)	200	3
Element Six (UK) Limited	2,627	-
Element Six GmbH	3	-
Element Six US Corporation	3	-
Element Six Limited (Japan)	11	-
Element Six GmbH Hard Materials (Germany)	2	-

NOTES TO THE FINANCIAL STATEMENTS - continued

22 Related party transactions - continued

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

Amounts due from:

	2013 £'000	2012 £'000
Element Six US Corporation	8	1
Element Six Limited (Japan)	20	6
Element Six (Production) (Pty) Limited	-	1
Element Six Limited (Ireland)	2,645	1,104
Element Six GmbH Hard Materials (Germany)	31	11
Element Six Hard Materials (China)	-	3
Element Six AB (Sweden)	11	-
Element Six (UK) Limited	37	7
Element Six Industrial Diamond (Suzhou) Limited	3	-
Element Six SA	15	-

Amounts due to:

	2013 £'000	2012 £'000
Element Six Limited (Ireland)	59	268
Element Six Limited (Japan)	10	-
Element Six (Production) (Pty) Limited	634	187
Element Six AB (Sweden)	122	3
Element Six (UK) Limited	323	-
Element Six US Corporation	1	-
Element Six GmbH Hard Materials (Germany)	1	-

23 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.

24 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.

Element Six Abrasives SA is owned by De Beers S.A., which is registered in Luxembourg. The ultimate controlling party of De Beers S.A. is Anglo American plc (85%). The parent of the largest group in whose consolidated financial statements the company is included is Anglo American plc. Copies of the consolidated financial statements are available from www.angloamerican.com