

**Element Six Limited**

**Annual Report and Financial Statements  
Year Ended 31 December 2017**

**Company Registration Number: 02946905**

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## **DIRECTORS AND OTHER INFORMATION**

### **Board of Directors**

JA Kilshaw (resigned 7<sup>th</sup> April 2017)  
A Guthrie  
C O'Donnell (appointed 7<sup>th</sup> April 2017)

### **Secretary and Registered Office**

Yvonne Shave  
Global Innovation Centre  
Fermi Avenue  
Harwell Oxford  
Didcot  
Oxfordshire OX11 0QR  
United Kingdom

Element Six Limited is a private company limited by shares incorporated in the United Kingdom and registered in England and Wales.

**Registered Number:** 02946905

### **Bankers**

BNP Paribas  
10 Harewood Avenue  
London  
NW1 6AA  
United Kingdom

### **Statutory Auditor**

Deloitte LLP  
Statutory Auditor  
London  
United Kingdom

## STRATEGIC REPORT

The directors present their strategic report on Element Six Limited ("the Company") for the year ended 31 December 2017.

### **Business Review and principal activities**

The company is a wholly-owned subsidiary of the Element Six group which manufactures and sells synthetic diamond and other super materials.

The Company transferred the CVD business (the manufacture and sale of synthetic diamonds) and its assets, including its shareholdings, to another Group company, Element Six Technologies Limited, on 1<sup>st</sup> January 2016.

The Company transferred the R&D and Group services business operations, to another Group company, Element Six (UK) Limited, on 1<sup>st</sup> September 2016.

The above two business transfers resulted in a profit on sale of business of £0 (2016: £7,318,390).

The defined benefit pension fund is the only principal activity remaining within the company. The principal risk facing the company is the performance of the pension investment portfolio and pension liability.

### **Results**

The loss after tax for the year is £1,257,949 (2016: profit of £6,026,707). The total comprehensive profit for the year is £7,529,051 (2016: loss of £8,716,293)

### **Financial Position**

The net assets as at 31 December 2017 were £4,507,782 (2016: net liabilities £3,031,269).

### **Financial risk management objectives and policies**

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.

#### *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. These balances are settlement through the Treasury account either monthly or quarterly.

#### *Liquidity risk*

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

**STRATEGIC REPORT - continued**

**Future developments**

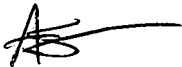
The defined benefit pension fund is the only item remaining within the company. There are no planned changes.

**Events after the balance sheet date**

There have been no significant events since the balance sheet date.

**Approval**

Approved by the Board and signed on its behalf by:



A Guthrie  
Director  
3<sup>rd</sup> September 2018

## DIRECTORS' REPORT

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

### Going Concern

The company is in a net assets position of £4.5 million at the statement of financial position date; including net current assets due from other Element Six group entities of £29.9 million.

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.

J Kilshaw	Resigned 7 <sup>th</sup> April 2017
A Guthrie	
C O'Donnell	Appointed 7 <sup>th</sup> April 2017

### Director's indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

### Research and development

The company continued its research activities on behalf of the Element Six Group until the 31<sup>st</sup> August 2016, at which time it transferred these operations to another group company. Total research and development expenditure during 2017 was £0 (2016: £7,603,922).

### Results and dividends

The company's loss for the financial year was £1,257,949 (2016: profit £6,026,707). This decrease was as a result of there being no activity during the year. The total comprehensive income for the year was £7,529,051 (2016: expense £8,716,293). No dividends were proposed or paid in the year (2016: £nil).

### Future developments

The company will continue to hold the Element Six pension fund liability.

### Auditor and disclosure of information to auditor

- So far as 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.

**DIRECTORS' REPORT - continued**

**Small company provisions**

This report has been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006.

**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**



**A Guthrie**

**Director**

**3<sup>rd</sup> September 2018**

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors present their report and the audited financial statements of the company for the year ended 31 December 2017.

### **Directors' responsibilities statement**

The directors are responsible for preparing their report and the financial statements in accordance with applicable law and regulations.

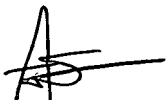
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). Under company law the directors must 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 Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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.

**By Order of the Board**



**A Guthrie**  
**3<sup>rd</sup> September 2018**



## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ELEMENT SIX LIMITED

### Report on the audit of the financial statements

#### Opinion

In our opinion the financial statements of Element Six Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

#### Other information

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

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ELEMENT SIX LIMITED**

### **– continued**

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

We have nothing to report in respect of these matters.

### **Responsibilities of directors**

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Report on other legal and regulatory requirements**

#### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ELEMENT SIX LIMITED**  
**– continued**

**Matters on which we are required to report by exception**

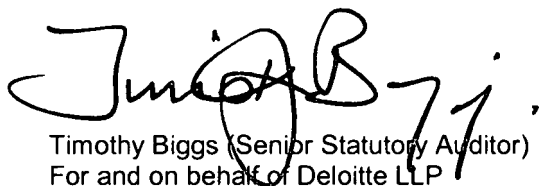
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.
- the directors were not entitled to take advantage of the small companies exemption in preparing the Directors' Report.

We have nothing to report in respect of these matters.

**Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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.



Timothy Biggs (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom

28<sup>th</sup> September 2018

**PROFIT AND LOSS ACCOUNT**  
**Year Ended 31 December 2017**

	Notes	2017 £	2016 £
<b>Turnover</b>	2	-	19,371,357
<b>Cost of sales</b>		-	(19,706,693)
		<hr/>	<hr/>
<b>Operating loss</b>	3	-	(335,336)
Administrative expenses		(239,981)	-
Profit on sales of business		-	7,318,390
Interest receivable	6	12,788	29,380
Other finance expense	15	(915,434)	(932,000)
		<hr/>	<hr/>
<b>(Loss)/Profit before taxation</b>		(1,142,627)	6,080,434
Tax charge on profit/(loss)	7	(115,322)	(53,727)
		<hr/>	<hr/>
<b>(Loss)/Profit for the financial year</b>		<u>(1,257,949)</u>	<u>6,026,707</u>

All amounts above related to continuing operations.

The notes on pages 15 to 29 form part of the financial statements.

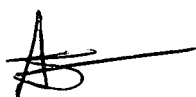
**STATEMENT OF COMPREHENSIVE INCOME**  
**Year Ended 31 December 2017**

	Notes	2017 £	2016 £
(Loss)/Profit for the financial year		(1,257,949)	6,026,707
Items that will not be reclassified subsequently to profit and loss			
Actuarial profit/(loss) on post-retirement benefits	15	8,797,000	(14,743,000)
Tax relating to items that will not be reclassified		-	-
		<u>7,529,051</u>	<u>(8,716,293)</u>
<b>Total comprehensive profit/(loss) relating to the year</b>		<b><u>7,529,051</u></b>	<b><u>(8,716,293)</u></b>

**STATEMENT OF FINANCIAL POSITION**  
**31 December 2017**

	Notes	2017 £	2016 £
<b>Non-current assets</b>			
Debtors	9	995,889	2,995,889
		<u>995,889</u>	<u>2,995,889</u>
<b>Current assets</b>			
Stocks	8	-	15,160
Debtors	9	30,066,335	32,878,433
		<u>30,066,335</u>	<u>32,893,593</u>
<b>Creditors - amounts falling due within one year</b>	11	(145,008)	(2,634,751)
		<u>29,921,327</u>	<u>30,258,842</u>
<b>Net current assets</b>			
		<u>29,921,327</u>	<u>30,258,842</u>
<b>Total assets less current liabilities</b>		30,917,216	33,254,731
Non-current liabilities:			
Pension deficit	15	(26,409,434)	(36,286,000)
		<u>(26,409,434)</u>	<u>(36,286,000)</u>
<b>Net assets / (liabilities)</b>		<u>4,507,782</u>	<u>(3,031,269)</u>
<b>Capital and reserves</b>			
Called up share capital	13	1,000	1,000
Capital contributions	14	33,000,000	33,000,000
Profit and loss account		(28,493,218)	(36,032,269)
		<u>(28,493,218)</u>	<u>(36,032,269)</u>
<b>Total Shareholders' funds/(deficit)</b>		<u>4,507,782</u>	<u>(3,031,269)</u>

The financial statements on pages 11 to 29 were approved by the Board of Directors on 3<sup>rd</sup> September 2018 and signed on its behalf by:



**A Guthrie**  
**Director**  
**Element Six Limited**  
**Registered Number: 02946905**

**STATEMENT OF CHANGES IN EQUITY**

**At 31 December 2017**

	Called up Share Capital	Capital Contributions	Profit and Loss account	Total
	£	£	£	£
As at 1 January 2017	1,000	33,000,000	(36,032,269)	(3,031,269)
Loss for the financial year	-	-	(1,257,949)	(1,257,949)
Other comprehensive profit	-	-	8,797,000	8,797,000
<b>As at 31 December 2017</b>	<b>1,000</b>	<b>33,000,000</b>	<b>(28,493,218)</b>	<b>4,507,782</b>
<hr/>				
As at 1 January 2016	1,000	33,000,000	(27,315,976)	5,685,024
Loss for the financial year	-	-	6,026,707	6,026,707
Other comprehensive loss	-	-	(14,743,000)	(14,743,000)
<b>As at 31 December 2016</b>	<b>1,000</b>	<b>33,000,000</b>	<b>(36,032,269)</b>	<b>(3,031,269)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Accounting policies

The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") as issued by the Financial Reporting Council as applied in accordance with the provisions of the Companies Act 2006. The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to the presentation of a cash flow statement, standards not effective, financial instruments and related party transactions. Where required, equivalent disclosures are given in the Group accounts of Anglo American Plc. The Group accounts of Anglo American Plc are available to the public and can be obtained from the Anglo American Plc website (<http://www.angloamerican.com/investors/annual-reporting>).

#### General information

The address of the registered office is given on the Company Information page.

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 company is in a net assets position of £4.5 million at the statement of financial position date; including net current assets due from other Element Six group entities of £29.9 million.

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.

The financial statements have been prepared in Sterling denoted by the symbol "£" as that is the currency of the primary economic environment in which the company operates. The principal accounting policies are set out below and have been applied consistently throughout the period.

#### Historical cost convention

The financial statements are prepared under the historical cost convention except for those measured at fair value.

#### 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.



## NOTES TO THE FINANCIAL STATEMENTS - continued

### 1 Accounting policies - continued

#### Research and development

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

#### 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.

#### Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

#### 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 offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Deferred tax assets and liabilities are not discounted.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 1 Accounting policies - continued

#### **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.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

#### **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/expense. Actuarial gains and losses arising from changes in actuarial assumptions and from experience surpluses and deficits are recognised in comprehensive income/loss 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

**1 Accounting policies - continued****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.

**Adoption of new and revised Standards****Amendments to IFRSs and the new Interpretation that are mandatorily effective for the current year**

In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

**Critical accounting judgements and key sources of estimation uncertainty**

There is no critical accounting judgement or key sources of estimation uncertainty in the current or prior financial year financial statements

**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.

	2017 £	2016 £
An analysis of turnover by geographical market is given below:		
UK	-	18,785,668
Europe	-	175,140
Rest of World	-	410,549
	<u>-</u>	<u>19,371,357</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 (loss)/profit**

	2017 £	2016 £
The operating (loss)/profit is stated after charging:		
Auditor's remuneration - audit services	3,182	18,736
Research and development expenditure	-	7,603,922
Operating lease rentals - land and buildings	-	655,368
- plant and machinery	-	17,551
Foreign exchange (income) losses	(24,467)	227,791
Grant income	<u>-</u>	<u>1,188,785</u>

**4 Staff costs**

	2017 £	2016 £
Wages and salaries	-	5,721,275
Social security costs	-	553,358
Pension costs - defined contribution scheme	-	240,422
- defined benefit scheme (note 15)	-	-
	<u>-</u>	<u>6,515,055</u>

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

	2017 Number	2016 Number
Production / R&D	-	52
Administration	-	31
	<u>-</u>	<u>83</u>

Included in wages and salaries is a total expense of £Nil (2016: £Nil) in relation to cash settled share based payments (note 18).

NOTES TO THE FINANCIAL STATEMENTS - continued

5 Directors' emoluments	2017 £	2016 £
Aggregate emoluments	-	209,187
Aggregate amounts receivable under long-term incentive plan	-	-
Contributions paid to defined contribution pension scheme	-	10,578

	2017 Number	2016 Number
Members of defined contribution scheme	-	1

	2017 £	2016 £
The amounts in respect of the highest paid director are as follows:		
Total of emoluments and amounts receivable under long term incentive plan	-	104,822
Contributions paid to defined contribution pension scheme	-	6,340

The Directors' remuneration and transactions were paid by other companies within the Group as from 1<sup>st</sup> September 2016.

6 Interest receivable	2017 £	2016 £
Intercompany interest receivable	12,788	29,380
	<u>12,788</u>	<u>29,380</u>

## NOTES TO THE FINANCIAL STATEMENTS - continued

7 Taxation	2017 £	2016 £
<b>Current tax:</b>		
UK corporation tax	-	-
Amount payable to fellow subsidiary in respect of group relief	-	-
Adjustment in respect of previous years	(115,322)	(53,727)
Total current tax charge	(115,322)	(53,727)
<b>Deferred tax:</b>		
Origination and reversal of timing differences	-	-
Adjustment in respect of previous years	-	-
Adjustment in respect of change in tax rate	-	-
	-	-
Tax charge on profit	(115,322)	(53,727)

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 19.25% (2016:20%) to the profit. The differences are explained below:

	2017 £	2016 £
Profit/(loss) before taxation	(1,142,627)	6,080,434
Profit before taxation multiplied by the standard rate of UK corporation tax of 19.25% (2016:20%)	(219,916)	1,216,258
Non-deductible expenses	-	1,995
Income not taxable	-	(1,251,015)
Tax losses utilised	-	212,928
Group relief claimed for nil consideration	(2,461)	-
Prior year adjustment	115,322	53,727
Deferred tax asset not recognised (note 10)	222,377	(180,166)
Total tax charge for the year	115,322	53,727

**Factors that may affect future tax charges**

On 26 October 2015, Finance Act 2015 was substantively enacted and provided for a reduction in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and a further 1% reduction to 18% from 1 April 2020.

On 6 September 2016, the Finance Act 2016 was substantively enacted and provided for a reduction in the main rate of corporation tax to 17% from 1 April 2020. The reduced rates have been reflected in the calculation of deferred tax at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS - continued

8 Stocks	2017 £	2016 £
Raw materials	-	15,160
Work in progress	-	-
Finished goods	-	-
	<u>-</u>	<u>15,160</u>

The replacement cost of stocks did not differ significantly from the figures shown. The reduction is as a result of the transfer of the CVD, R&D and Group services operations, to other group companies, during 2016.

9 Debtors	2017 £	2016 £
<b>Amounts falling due within one year:</b>		
Trade debtors	-	84,242
Amounts owed by other group undertakings	29,153,458	30,086,926
Corporation tax receivable	622,061	1,717,355
Other debtors	24,130	486,414
VAT receivable	19,839	48,736
Prepayments and accrued income	246,847	454,760
	<u>30,066,335</u>	<u>32,878,433</u>
<b>Amounts falling due after more than one year:</b>		
Amounts owed by other group undertakings	995,889	2,995,889
	<u>31,062,224</u>	<u>35,874,322</u>

Amounts owed by other group undertakings falling due within one year are unsecured, interest free and repayable on demand. Amounts owed by other group undertakings falling due after more than one year are unsecured, interest bearing (the applicable interest rate applied is 1 Month GBP Libor less a margin of 0.1%) and fall due for repayment after more than one year.

NOTES TO THE FINANCIAL STATEMENTS - continued

10 Deferred tax asset	2017 £
At 1 January 2017	-
Debit to the profit and loss account	-
At 31 December 2017	-

There are unrecognised deferred tax assets as follows:

	2017 £	2016 £
Retirement benefit deficit	4,477,534	6,155,530
Tax losses	438,425	-
Other timing differences	-	34,663
	<u>4,915,959</u>	<u>6,190,193</u>

Deferred tax assets in respect of the retirement benefit deficit 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.

11 Creditors - amounts falling due within one year	2017 £	2016 £
Trade creditors	89,199	1,132,533
Amounts owed to group undertakings	47,118	1,034,433
Other creditors	-	119,859
Accruals and deferred income	8,691	347,926
	<u>145,008</u>	<u>2,634,751</u>

Amounts owed to group undertakings falling due within one year are unsecured, repayable on demand and interest free.

12 Commitments

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

	2017		2016	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
- not later than one year	-	-	-	-
- later than one year and not later than five years	-	-	-	-
- later than five years	-	-	12,959,793	-
	<u>-</u>	<u>-</u>	<u>12,959,793</u>	<u>-</u>



NOTES TO THE FINANCIAL STATEMENTS - continued

13 Share capital	2017 £	2016 £
<b>Authorised:</b>		
50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
<b>Allotted, called up and fully paid:</b>		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

14 Capital contributions

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

15 Pension commitments	2017 £'000	2016 £'000
Post retirement pension benefits liability (a)	(26,338)	(36,209)
Post retirement medical benefits liability (b)	(71)	(77)
	<u>(26,409)</u>	<u>(36,286)</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 2017 or 2016.

The company also participates in a contributory defined benefit scheme. The fund administration cost included within the profit and loss account in respect of the scheme for the year ended 31 December 2017 was £324,810. 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 2018 and is available to scheme members but not for public inspection.

NOTES TO THE FINANCIAL STATEMENTS - continued

15 Pension commitments - continued

(a) Pension benefits – continued

An actuarial valuation was carried out as at 31 December 2017 using the projected unit basis. The principal assumptions used by the actuary were as follows:

	2017 %	2016 %
Discount rate	2.55	2.60
Rate of increase in pensionable salaries	-	-
Rate of increase in pensions in payment	3.20	3.30
Rate of inflation	2.20	2.30

The mortality assumptions used were as follows:

	2017 Years	2016 Years
Longevity at age 60 for current pensioners:		
- Men	27.2	27.5
- Women	28.8	29.0
Longevity at age 60 for future pensioners:		
- Men	28.6	29.2
- Women	29.8	30.2

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

	Long-term rate of return expected 31 December 2017 %	2017 £'000	Long-term rate of return expected 31 December 2016 %	2016 £'000
Fair value of scheme assets	2.55	84,047	2.60	78,128
Present value of scheme liabilities		(110,385)		(114,337)
Deficit in scheme		(26,338)		(36,209)

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

	2017 %	2016 %
Equities	41	41
Gilts	15	14
Corporate bonds	33	33
Insured Pensioners	2	2
Property	9	10
	100	100

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 15 Pension commitments - continued

## (a) Pension benefits - continued

Reconciliation of present value of scheme liabilities	2017 £'000	2016 £'000
1 January	114,337	93,659
Current service cost	-	-
Interest on scheme liabilities	2,919	3,487
Benefits paid	(4,164)	(3,450)
Actuarial (losses)/profits	(2,707)	20,641
31 December	<u>110,385</u>	<u>114,337</u>
Reconciliation of fair value of scheme assets		
1 January	78,128	71,093
Expected return on scheme assets	2,003	2,555
Actuarial gains	6,080	5,930
Benefits paid	(4,164)	(3,450)
Contributions by employer	2,000	2,000
31 December	<u>84,047</u>	<u>78,128</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 defined benefit pension Scheme exposes the company to actuarial risks, such as longevity risk, interest rate risk, salary risk, market (investment) risk and currency risk

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 £8,083,000 (2016: £8,485,000).

NOTES TO THE FINANCIAL STATEMENTS - continued

15 Pension commitments - continued

(a) Pension benefits - continued

2017	2016
£'000	£'000

**Sensitivity analysis:**

The table below shows the impact on the defined benefit obligation if the assumptions were changed as shown (assuming all other assumptions remain constant)

0.5% p.a. decrease in discount rate	11,609	12,320
0.5% p.a. increase in inflation (and salary increase, if any) rate	730	859
1 year increase in life expectancy	5,994	5,154

**Analysis of amounts charged to profit and loss are as follows:**

Current service cost	-	-
Total charge to operating profit	-	-
Interest on pension scheme liabilities	(2,919)	(3,487)
Expected return on pension scheme assets	2,003	2,555
Net finance expense	(916)	(932)

**Analysis of amounts recognised in the statement of total comprehensive income**

	2017	2016
	£'000	£'000
Actual less expected return on scheme assets	6,080	6,292
Experience gain on plan liabilities	-	-
Changes in underlying the present value of scheme liabilities	2,717	(21,035)
Total actuarial gain / (losses) recognised	8,797	(14,743)

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 15 Pension commitments - continued

## (a) Pension benefits - continued

The cumulative amount of actuarial losses recognised in other comprehensive income/expenses, including the financial year ended 31 December 2017, is £26,338,000 (2016: £36,209,000). The total contributions expected to be made to the scheme by Element Six Limited in the year to 31 December 2018 is £2,000,000.

Amounts for current and previous years:	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Present value of scheme liabilities	(110,385)	(114,337)	(93,659)	(96,123)	(80,813)
Fair value of scheme assets	84,047	78,128	71,093	69,755	64,708
Deficit	(26,338)	(36,209)	(22,566)	(26,368)	(16,105)
Experience adjustments on scheme assets	6,080	5,930	602	2,275	552
Expressed as a % of scheme assets	7%	8%	1%	3%	1%
Experience adjustments on scheme liabilities	(82)	0	815	(24)	66
Expressed as a % of scheme liabilities	0%	0%	1%	0%	0%

## (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 £71,000 (2016: £77,000). The medical aid charge to the profit and loss account for the year was £11,000 (2016: £32,000) and £11,000 (2016: £32,000) is included in other comprehensive income/expenses.

Movement in the liability in the balance sheet	2017 £'000	2016 £'000
At 1 January 2017	77	42
Current service cost	4	2
Interest cost	2	2
Benefits paid	(1)	(1)
Actuarial (loss)/gain	(11)	32
At 31 December 2017	71	77
The principal assumptions used in determining post-retirement medical funding are as follows:	2017	2016
	%	%
Discount rate	2.65	2.30
Price inflation	3.2	3.05
Medical premium inflation	7.95	7.80

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 16 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. There have been no pay-outs made in respect of the LTIP plans in the current period (2016: £nil).

### 17 Related party transactions

The company has availed of the exemption contained in FRS101 not to disclose transactions with related companies all of whose voting rights are controlled within the group of Element Six Holdings Limited.

### 18 Parent company and controlling party

The immediate parent company is Element Six Holdings Limited, a company registered in the UK (registered number 07359334). The parent company of the smallest group of undertakings of which the company is a member and in whose group financial statements it is included is Element Six Holding Limited, 20 Carlton House Terrace, London SW1Y 5AN, United Kingdom a company incorporated in the United Kingdom.

The Company's ultimate parent and controlling party is Anglo American plc, a public limited company registered in England and Wales (registered number 3564138). The Group financial statements of Anglo American plc can be obtained from the Company Secretary of Anglo American plc, 20 Carlton House Terrace, London SW1Y 5AN, United Kingdom or the Anglo American plc website.