

EMTELLE UK LIMITED

For the year ended 31 December 2012
Registration number SC079486
Directors' report and financial statements

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EMTELLE UK LIMITED
For the year ended 31 December 2012
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 Directors	
S King	
K Byllemos	
J Whisker	
 Company secretary	
Wm. Brown (Registrars) Limited	
 Independent auditors	
PricewaterhouseCoopers LLP	
Chartered Accountants and Statutory Auditors	
 Bankers	
HSBC Bank plc.	
 Solicitors	
Ward Hadaway	
 Registered office	
Haughhead	
Hawick	
Roxburghshire	
TD9 8LF	

EMTELLE UK LIMITED
For the year ended 31 December 2012
Directors' report

The directors submit their annual report and audited financial statements for the year ended 31 December 2012.

The directors who held office during the year and up to the date of signing the financial statements were:

S King
J Skyum (resigned 28/03/12)
R Langdon (resigned 27/11/12)
K Byllemos
J Whisker (appointed 27/11/12)

Results and dividends

The results for the year are set out on page 6. A dividend of £nil was paid during the year (2011 - £nil). Overall it was another challenging year. However, whilst turnover remained at the prior year level, there was a 15% increase in UK sales, which offset declines in other geographical regions. The business faced raw material price volatility due to continuing increases in oil prices and a competitive market. Despite this the company was able to push through price rises, implement efficiency improvements and control costs to deliver an improvement in profitability.

Principal activities

Emtelle UK Limited's principal activities are to manufacture and sell PVC and polyethylene ducting products and the blown fibre telecommunications system marketed under the brand name Fibreflow.

Review of the business

Emtelle UK Limited operates in a competitive and growing market for both principal areas of activity.

Key financial KPI's include: gross margin and EBITDA. The gross margin (before depreciation) has been increased to 29% (2011: 25%) in 2012. Consequently the EBITDA percentage has increased from 8% to 13% over the same period mainly due to improvements in gross profit.

Strategy and future developments

The directors' strategy during the year was one of organic profitable growth focusing on the existing business areas.

The company is well placed to consolidate the improvements made in the year and, therefore, the directors expect to see the performance maintained in 2013.

Principal risks and uncertainties

Emtelle UK Limited's corporate governance structure is designed to oversee the management of the risks inherent in conducting business. Internal processes, systems, structures and procedures are designed to manage these risks to ensure financial integrity, and legislative compliance.

The directors have identified a number of principal risks and uncertainties:

- Uncertain economic climate - addressed by continuing to focus on gross margins and the tight controls on overheads.
- Competition - this is addressed through an on-going program of innovation and product improvement combined with increased attention to quality and customer service.
- Dependence on major contracts - addressed by strong on-going customer relationships and continuing to decrease our individual customer dependency.

Financial risk management:

- Raw material price inflation - addressed by back to back contracts whenever possible and regular reviews of sales prices.
- Credit risk - addressed by tight credit control procedures. This includes: credit reports and regular updates being obtained for each customer; the setting of tight credit limits, any exception to this has to be approved by a senior manager; overdue accounts are immediately followed up; and regular reports are produced by the credit controller to brief senior management on problem accounts.
- Foreign currency risk - the company works with the rest of the group to match incoming and outgoing foreign currency as far as possible. Occasionally surpluses are built up which are sold on the spot market to redress the balance.

EMTELLE UK LIMITED

For the year ended 31 December 2012

Directors' report - continued

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

Disclosure of information to the auditors

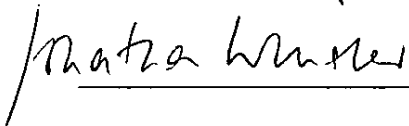
As far as each of the directors at the time the report is approved are aware:

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

Directors' indemnities

The Company maintains liability insurance for its directors and officers. This includes a qualifying third party indemnity provision as defined by section 234 of the Companies Act 2006.

On behalf of the board

 11/7/2013

Jonathan Whisker
Director

EMTELLE UK LIMITED
For the year ended 31 December 2012
Independent auditors' report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EMTELLE UK LIMITED

We have audited the financial statements of Emtelle UK Limited for the year ended 31 December 2012 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 4 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.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give a 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. 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 2012 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.



Bill Macleod (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne

Date 11 July 2013

EMTELLE UK LIMITED

For the year ended 31 December 2012

Profit and loss account

	Notes	2012		2011	
		£	£	£	£
Turnover	2		64,196,688		64,523,759
Cost of sales			(47,005,639)		(49,703,625)
Gross profit			17,191,049		14,820,134
Distribution costs		(3,323,132)		(3,819,638)	
Administration expenses		(7,564,334)		(7,192,301)	
Operating profit	5		6,303,583		3,808,195
Interest receivable and similar income	6	260,931		69,662	
Interest payable and similar charges	6	(78,523)		(66,362)	
Other finance income/(costs)	17		12,000		(33,000)
Profit on ordinary activities before taxation			6,497,991		3,778,495
Taxation on profit on ordinary activities	7		(1,816,822)		(869,849)
Profit for the financial year	14		4,681,169		2,908,646

Statement of total recognised gains and losses

	Notes	2012	2011
		£	£
Profit for the financial year		4,681,169	2,908,646
Pension actuarial gains/(losses)	17	226,000	(473,000)
Corporation taxation on the STRGL		(132,300)	-
Deferred taxation on the STRGL		(203,093)	134,081
Total recognised gains relating to the year		4,571,776	2,569,727

There are no differences in the profit on ordinary activities before taxation and the profit for the financial year stated above and its historical cost equivalent.

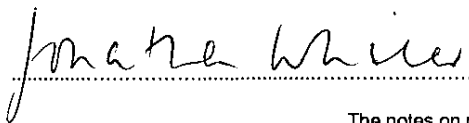
All activities of the company are classed as continuing.

The notes on pages 8 to 16 form part of these financial statements.

EMTELLE UK LIMITED
For the year ended 31 December 2012
Balance sheet

	Notes	2012	2011
		£	£
Fixed assets			
Tangible assets	8	6,220,643	7,244,889
Long term loans to group companies		9,289,586	-
Current assets			
Stocks	9	3,119,796	2,719,210
Debtors	10	9,237,873	11,345,594
Cash at bank and in hand		4,210,097	4,166,462
		<u>16,567,766</u>	<u>18,231,266</u>
Creditors			
Amounts falling due within one year	11	<u>(10,383,136)</u>	<u>(7,830,151)</u>
		<u>(10,383,136)</u>	<u>(7,830,151)</u>
Net current assets		<u>6,184,630</u>	<u>10,401,115</u>
Total assets less current liabilities		<u>21,694,859</u>	<u>17,646,004</u>
Creditors			
Amounts falling due after more than one year	12	(1,128,120)	(1,367,274)
Provisions for liabilities	13	<u>(964,372)</u>	<u>(673,232)</u>
Net assets excluding pension liability		<u>19,602,367</u>	<u>15,605,498</u>
Pension liability (net of deferred tax)	17	<u>(330,176)</u>	<u>(905,083)</u>
Net assets including pension liability		<u>19,272,191</u>	<u>14,700,415</u>
Capital and reserves			
Called up share capital		1,254,489	1,254,489
Profit and loss account		18,017,702	13,445,926
Total shareholders' funds	14	<u>19,272,191</u>	<u>14,700,415</u>

The financial statements were authorised for issue by the board of directors on and were signed on its behalf by:

 Director (J. Whisker) on 11.7.13

The notes on pages 8 to 16 form part of these financial statements.

EMTELLE UK LIMITED
For the year ended 31 December 2012
Notes to the financial statements

1. Principal accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the principal accounting policies, which have been applied consistently, is set out below.

Basis of accounting

These financial statements are prepared on the going concern basis, under the historical cost convention, and 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.

Turnover

Turnover represents the sale of products and services rendered to third parties, net of general price reductions, sales taxes and VAT. Sales are recognised in the profit and loss account at the moment the significant risks and rewards of ownership of the goods have been transferred to the buyer.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided on all fixed assets at rates calculated to write off the cost, less estimated residual value of each asset evenly over its expected useful life as follows:-

Buildings	25	years
Plant and machinery	3 - 10	years
Furniture and fittings	3 - 10	years

No depreciation is provided on heritable land.

Stocks

Stocks are valued on a FIFO basis at the lower of costs and net realisable value in the ordinary course of business, as follows:

Raw materials and consumables	- purchase cost
Work in progress/finished goods and goods for resale	- cost of direct materials and labour plus all production overheads.

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

Provisions have been made for slow moving and defective stock.

Foreign currency translation

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

Government grants

Capital grants are released to the profit and loss account over the expected useful life of the asset to which they relate.

Leases and hire purchase contracts

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the leases.

Leasing agreements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. These assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the useful lives of equivalent owned assets.

Deferred taxation

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

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

EMTELLE UK LIMITED
For the year ended 31 December 2012
Notes to the financial statements

1. Principal accounting policies (continued)

Deferred taxation (continued)

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Pensions

The company operates a defined benefit pension scheme and a defined contribution pension scheme. Contributions to the defined contribution scheme are charged to the profit and loss account in the period in which they fall due. The assets of this scheme are held separately from those of the company in separately administered funds.

The company recognises the pension deficit on the defined benefit scheme in the balance sheet. The deficit is the fair value of the scheme's assets less the present value of the accrued defined benefit obligations. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality, long-dated corporate bonds that are denominated in the currency in which the benefits are paid.

Any current service costs, past service costs, gains and losses on settlements and curtailments, and the interest cost on plan liabilities net of expected return on plan assets are charged to the profit and loss account. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Related party transactions

The company has taken advantage of Financial Reporting Standard 8 which exempts the company from disclosing transactions with entities that are part of the group on the grounds that it is a wholly owned subsidiary.

During the year an interest free loan of £7,000 was made to one of the directors (2011 £0). It was fully paid during the year.

Cashflow statement

The company is a wholly owned subsidiary company of a group headed by Emtelle Holdings BV, and is included in the consolidated accounts of that company, which are publicly available. Consequently, the company has taken advantage of the exemption within FRS 1 'Cash flow statements (revised 1996)' from preparing a cash flow statement.

Provisions

Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

2. Turnover

All turnover originates within the United Kingdom.

The analysis of turnover by geographical destination is as follows:

	2012 £	2011 £
United Kingdom	38,347,577	33,326,764
Rest of Europe	13,964,138	15,994,327
Rest of World	11,884,973	15,202,668
	<u>64,196,688</u>	<u>64,523,759</u>

The directors have not reported a split between ducting products and blown fibre telecommunications systems because there is no clear distinction between these two sectors.

3. Staff numbers and costs

The average monthly number of employees of the company during the year including directors:

	2012 Number	2011 Number
Manufacturing	155	133
Sales, office and management	47	49
	<u>202</u>	<u>182</u>

The aggregate remuneration and associated costs of the company's employees were:

	2012 £	2011 £
Wages and salaries	5,802,433	5,894,231
Social security costs	558,299	544,010
Other pension costs (see note 17)	365,759	344,835
	<u>6,726,491</u>	<u>6,783,076</u>

EMTELLE UK LIMITED
For the year ended 31 December 2012
Notes to the financial statements

4. Directors' remuneration

	2012	2011
	£	£
Emoluments	247,092	937,269
Compensation for loss of office	30,000	-
Pension scheme contributions to the defined contribution scheme	24,965	28,600
	<u>302,057</u>	<u>965,869</u>

Retirement benefits

Retirement benefits are accruing to 2 (2011: 4) directors under defined benefit scheme at 31 December 2012. Retirement benefits are accruing to 2 (2011: 2) directors under the defined contribution scheme at 31st December 2012.

During the year an interest free loan of £7,000 was made to one of the directors (2011 £0). It was fully paid during the year.

Highest paid director

	2012	2011
	£	£
Emoluments	136,686	442,827
Pension scheme contributions to the defined contribution scheme	15,528	-
	<u>152,214</u>	<u>442,827</u>

5. Operating profit

	2012	2011
	£	£
Operating profit is stated after charging/(crediting):		
Depreciation of owned fixed assets	1,141,074	1,256,032
Depreciation of fixed assets held under finance leases	187,297	137,967
Amortisation of capital grants	(84,000)	(84,000)
Loss on fixed asset sales	-	8,978
Exchange loss/(gain) on foreign currency	141,134	40,505
Auditors' remuneration (including expenses)	68,000	30,000
Fees paid to auditors for taxation and other services	110,721	121,734
Rental of buildings	103,845	103,845
Rentals under operating leases for cars, office equipment and production equipment	243,640	394,666

Emtelle UK Limited has borne the audit fee for Emtelle Holdings (2007) Limited of £2,000 (2011: £2,000).

6. Interest and similar charges

Interest receivable and similar charges

	2012	2011
	£	£
External interest received	29,890	135
Interest received on loan made to the ultimate holding company	231,041	69,527
	<u>260,931</u>	<u>69,662</u>

Interest payable and similar charges:

	2012	2011
	£	£
Interest on bank overdrafts	-	20,386
Interest on bank loans	-	-
Interest on finance leases	19,445	-
Discount allowed	29,565	31,882
Other interest charges	29,513	14,094
	<u>78,523</u>	<u>66,362</u>

Other finance (income)/charges:

	2012	2011
	£	£
Interest (income)/charge on DB pension scheme (FRS17 adjustment)	(12,000)	33,000
	<u>(12,000)</u>	<u>33,000</u>

EMTELLE UK LIMITED
For the year ended 31 December 2012
Notes to the financial statements

7. Taxation on profit on ordinary activities

	2012	2011
	£	£
Corporation tax rate	24.50%	26.49%
UK corporation tax on ordinary activities for the year	1,916,419	689,614
Adjustment in respect of previous years	84,837	83,054
	<u>2,001,256</u>	<u>772,668</u>
Deferred tax charge/(credit) - see note 13	(184,434)	97,181
	<u>1,816,822</u>	<u>869,849</u>

The difference between the tax assessed for the year and the standard rate of corporation tax is detailed below:

	2012	2011
	£	£
Profit on ordinary activities before tax	6,497,991	3,778,495
Profit on ordinary activities at the standard rate of tax	1,592,008	1,000,923
Expenses not deductible for tax purposes	81,724	107,461
Capital allowances in excess of depreciation	90,572	13,065
Movement in short term timing differences	(165,777)	(85,230)
Group relief not paid for	-	(344,083)
Adjustments to tax charge in respect of previous periods	84,837	83,054
Other timing differences	317,892	(2,522)
Current tax charge for the year	<u>2,001,256</u>	<u>772,668</u>

The standard rate of corporation tax in the UK reduced to 23% with effect from 1 April 2013. As this rate had been substantively enacted at the year end, deferred tax has been recognised at this rate. Further changes are proposed to reduce the rate to 21% from 1 April 2014 and 20% from 1 April 2015. The effect of a change in rate from 23% to 20% would decrease the deferred tax asset by £14,000.

8. Tangible assets

	Heritable Land & Buildings	Plant & Machinery	Furniture & Fittings	Total
	£	£	£	£
Cost				
At 1 January 2012	6,899,174	11,813,480	262,409	18,975,063
Additions	-	293,052	11,073	304,125
Disposals	(204,016)	(932,387)	(89,171)	(1,225,574)
At 31 December 2012	<u>6,695,158</u>	<u>11,174,145</u>	<u>184,311</u>	<u>18,053,614</u>
Accumulated depreciation				
At 1 January 2012	3,161,888	8,392,700	175,586	11,730,174
Charge for the year	325,001	951,509	51,861	1,328,371
Disposal	(204,016)	(932,387)	(89,171)	(1,225,574)
At 31 December 2012	<u>3,282,873</u>	<u>8,411,822</u>	<u>138,276</u>	<u>11,832,971</u>
Net book value				
At 31 December 2012	<u>3,412,285</u>	<u>2,762,323</u>	<u>46,035</u>	<u>6,220,643</u>
At 31 December 2011	<u>3,737,286</u>	<u>3,420,780</u>	<u>86,823</u>	<u>7,244,889</u>

The net book value of fixed assets held under finance leases is £487,792 (2011: £675,089).

9. Stocks

	2012	2011
	£	£
Raw materials and consumables	1,130,956	856,429
Work in progress	138,696	53,589
Finished goods and goods for resale	1,850,144	1,809,192
	<u>3,119,796</u>	<u>2,719,210</u>

EMTELLE UK LIMITED
For the year ended 31 December 2012
Notes to the financial statements

10. Debtors	2012	2011
	£	£
Trade debtors	8,702,591	8,784,125
Amounts owed by group undertakings	460,151	2,221,394
Other debtors	63,929	303,115
Prepayments and accrued income	-	36,960
Deferred tax (note 13)	11,202	-
	<u>9,237,873</u>	<u>11,345,594</u>

11. Creditors: amounts falling due within one year	2012	2011
	£	£
Trade creditors	4,838,600	5,090,224
Amounts owed to group undertakings	1,672,543	950,314
Other creditors	775,439	365,146
Other taxation and social security	346,443	-
Accruals and deferred income	1,057,396	668,127
Corporation tax	1,541,307	498,224
Finance leases	151,408	258,116
	<u>10,383,136</u>	<u>7,830,151</u>

Security granted

There are standard securities in respect of the bank overdraft facility over the company's land and buildings. A bond and floating charge covers all the heritable and moveable assets of the company. There is a fixed charge over the sales ledger.

12. Creditors: amounts falling due after more than one year	2012	2011
	£	£
Capital grants	1,071,700	1,155,700
Finance leases	56,420	211,574
Total	<u>1,128,120</u>	<u>1,367,274</u>

Capital grants:	2012	2011
	£	£
Scottish Enterprise Borders grants		
Balance at 1 January	1,155,700	1,239,700
Released in year	(84,000)	(84,000)
Balance at 31 December	<u>1,071,700</u>	<u>1,155,700</u>

Capital grant

If the factory at Haughhead, Hawick is sold then part of the profit on sale may be payable to Scottish Enterprise Borders.

Future minimum payments under finance leases are due as follows:

	2012	2011
	£	£
Within one year	156,672	278,972
In one to five years	57,240	215,823
Total gross payments	<u>213,912</u>	<u>494,795</u>
Less finance charges included above	(6,084)	(25,105)
Total net payments	<u>207,828</u>	<u>469,690</u>

Security granted

There are standard securities in respect of the bank borrowings over the company's land and buildings. A bond and floating charge covers all the heritable and moveable assets of the company. There is a fixed charge over the sales ledger.

EMTELLE UK LIMITED
For the year ended 31 December 2012
Notes to the financial statements

13. Provisions for liabilities

	2012	2011
	£	£
Deferred tax	-	173,232
Other provisions	964,372	500,000
	<u>964,372</u>	<u>673,232</u>

Deferred tax:

	2012	2011
	£	£
Accelerated capital allowances	55,463	180,875
Short term timing differences	(66,665)	(7,643)
Total deferred tax (asset)/liability	<u>(11,202)</u>	<u>173,232</u>

Movement in deferred tax:

	2012			2011		
	Pensions	Others	Total	Pensions	Others	Total
Opening balance	301,917	(173,232)	128,685	276,480	(184,695)	91,785
Profit and loss charge	-	184,434	184,434	(108,644)	11,463	(97,181)
STRGL charge	(203,093)	-	(203,093)	134,081	-	134,081
Closing balance	<u>98,824</u>	<u>11,202</u>	<u>110,026</u>	<u>301,917</u>	<u>(173,232)</u>	<u>128,685</u>

The deferred tax asset is recognised as the directors consider it probable that this will be recoverable against future profits of the business.

The other provisions represent the estimated liability for product warranty claims.

Other Provisions

	2012	2011
	£	£
Opening provision	500,000	200,000
Increase to provision	565,702	351,739
Amount used	(101,330)	(51,739)
Closing balance	<u>964,372</u>	<u>500,000</u>

14. Share capital and reserves

	2012	2011
	£	£
Authorised share capital - Ordinary £1 shares	5,000,000	5,000,000
Allocated and fully paid share capital - Ordinary £1 shares fully paid	<u>1,254,489</u>	<u>1,254,489</u>

Reconciliation of movements in shareholders' funds

	Called up share capital £	Profit and loss account £	2012 total £	2011 total £
At 1 January	1,254,489	13,445,926	14,700,415	12,130,688
Profit for the financial year	-	4,681,169	4,681,169	2,908,646
Other recognised gains and losses	-	(109,393)	(109,393)	(338,919)
At 31 December	<u>1,254,489</u>	<u>18,017,702</u>	<u>19,272,191</u>	<u>14,700,415</u>

15. Commitments and contingent liabilities

Capital commitments

Capital expenditure contracted for, but not provided for in the financial statements, amounted to £55,528 (2011 - £0).

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15. Commitments and contingent liabilities (continued)

Operating lease commitments

At the year end the company had the following operating lease commitments for the lease of equipment and motor vehicles:

	2012	2011
	£	£
Less than 1 year	158,000	24,991
Between 1 and 5 years	116,601	381,927
After 5 years *	-	93,000
Total operating lease commitments	<u>274,601</u>	<u>499,918</u>

Bank guarantees (bonds)

At the balance sheet date the company had issued a guarantee to HMRC of £2,000 (2011 - £2,000) to cover a £96,000 duty deferment account. There were also sales guarantees outstanding of: €24,648 (2011 - €24,648) in favour of Nis A.D and £8,513 (2011 - £8,513) in favour of Middle East Telecommunications Co.

Emtelle Holdings BV, Emtelle Holdings (2007) Limited, Emtelle Holdings Limited, Emtelle UK Limited and Emtelle International Limited have cross guarantees for the group bank facilities.

16. Holding company

The immediate parent undertaking is Emtelle Holdings Limited

The smallest and largest group preparing consolidated financial statements in which the company is incorporated is Emtelle Holdings BV, a company incorporated in the Netherlands. The consolidated financial statements of Emtelle Holdings BV can be obtained from Emtelle UK Limited.

The directors recognise Mapua Investment Holding Company SARL, incorporated in Luxembourg, as the ultimate holding company and controlling party.

17. Pension cost

Pension costs and commitments

In the UK the company participates in two group pension schemes. One scheme is a defined benefit scheme, providing benefits on final pensionable pay, and the other is a defined contribution scheme.

Defined contribution pension scheme

On 1 June 2004 the defined contribution scheme was opened and contributions to the scheme commenced. Contributions charged to the profit and loss account during the year totalled £365,759 (2011 - £344,835) and contributions accrued at the year end totalled £29,847 (2011 - £28,565).

Defined benefit pension scheme

In the UK the company participates in a group pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the group, being invested in unit trusts.

On the 31st May 2004 the defined benefits scheme was closed to new members and further employee contributions. Any future deficit on the scheme will be met by employers contributions.

Contributions accrued at the year end totalled £0 (2011 - £0).

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17. Pension cost (continued)

A full actuarial valuation was carried out at 30th September 2010 and updated to 31st December 2012 by a qualified independent actuary.

	2012 £000	2011 £000
<i>Change in scheme liabilities</i>		
Present value of scheme liabilities at the beginning of the year	7,967	7,813
Interest cost	368	401
Actuarial losses	180	241
Benefits paid	(275)	(488)
Present value of scheme liabilities at the end of the year	8,240	7,967
<i>Change in scheme assets</i>		
Fair value of scheme assets at the beginning of the year	6,760	6,789
Expected return on scheme assets	380	368
Actuarial gains/(losses)	406	(232)
Employer contribution	540	323
Benefits paid	(275)	(488)
Fair value of scheme assets at the end of the year	7,811	6,760
Scheme deficit	(429)	(1,207)
Related deferred tax asset	99	302
Net pension liability	(330)	(905)
<i>Components of pension expenses</i>		
	2012 £000	2011 £000
Interest cost	368	401
Expected return on scheme assets	(380)	(368)
Total pension cost recognised in the profit and loss account	(12)	33
Actuarial (gains)/losses immediately recognised	(226)	473
Total actuarial (gains)/losses recognised in the statement of total recognised gains and losses	(226)	473
Cumulative amount of actuarial losses immediately recognised	1,315	1,541

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17. Pension cost (continued)

Scheme assets

The weighted-average asset allocation at the year-end were as follows:

	2012	2011
Equities	59%	63%
Bonds	35%	31%
Real estate	5%	5%
Cash	1%	1%
	100%	100%

To develop the expected long-term rate of return on assets assumption, the company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then adjusted to allow for expenses and weighted based on the actual asset allocation to develop the expected long-term rate of return on assets assumptions for the portfolio. This resulted in the selection of the 5.52% assumption for the year ended 31 December 2012, and 4.33% for the year ended 31 December 2013.

	2012 £000	2011 £000
Actual return on scheme assets	786	136

Weighted average assumptions used to determine benefit obligations:

	2012	2011
Discount rate	4.50%	4.00%
Rate of retail price inflation (RPI)	2.95%	3.05%
Rate of deferred revaluation (CPI)	2.25%	2.35%
Rate of pension increase (CPI)	2.25%	2.35%

Weighted average assumptions used to determine net pension cost for the year:

	2012	2011
Discount rate	4.70%	5.30%
Expected long-term rate of return on plan assets	5.52%	5.48%
Rate of retail price inflation (RPI)	3.05%	3.45%
Rate of deferred revaluation (CPI)	2.35%	2.95%
Rate of pension increase (CPI)	2.35%	2.95%

Assumed life expectations on retirement at age 65:

	2012	2011
Male retiring today (member age 65)	22.7	22.6
Male retiring in 25 years (member age 40 today)	25.2	25.1
Female retiring today (member age 65)	25.6	25.5
Female retiring in 25 years (member age 40 today)	28.0	27.9

Five year history £000

	2012	2011	2010	2009	2008
Present value of scheme liabilities at the yearend	8,240	7,967	7,813	7,088	6,568
Fair value of scheme assets at yearend	7,811	6,760	6,789	5,234	4,642
Deficit	429	1,207	1,024	1,854	1,926
Difference between actual and expected return on scheme assets:					
Amount (£000)	(406)	232	(352)	(508)	1,600
Percentage of scheme assets	(5%)	3%	(5%)	(10%)	34%
Experience gains and (losses) on scheme liabilities:					
Amount (£000)	-	(508)	29	(97)	(361)
Percentage of scheme liabilities	-	(6%)	-	(1%)	(5%)

Contributions

The company expects to contribute £540,000 to its pension scheme in 2013.