

Innospec Limited

Annual report and financial statements
for the year ended 31 December 2021

Registered number 00344359



Contents

	Page
Directors and advisers.....	1
Strategic report.....	2
Directors' report	7
Statement of directors' responsibilities in respect of the financial statements	9
Independent auditors' report to the members of Innospec Limited	10
Statement of comprehensive income	14
Balance sheet	15
Statement of changes in equity	16
Statement of accounting policies	17
Notes to the financial statements	22

Directors and advisers for the year ended 31 December 2021

Directors

Ian Philip Cleminson
Philip John Boon
Brian Robert Watt (Company Secretary also, resigned 15 January 2021)
Graeme Thomas Blair (Company Secretary also, appointed 15 January 2021)
Graeme Kay
Christopher John Parsons
Keri Louise Tither

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Hardman Square
Manchester
M3 3EB

Solicitors

Mayer Brown International LLP
201 Bishopsgate
London
EC2M 3AF

Gibson Dunn & Crutcher
Telephone House
2 - 4 Temple Avenue
London
EC4Y 0HB

Bankers

Barclays Bank Plc.
48B – 50 Lord Street
Liverpool
L2 1TD

Registered office

Innospec Manufacturing Park
Oil Sites Road
Ellesmere Port
Cheshire
CH65 4EY

Registered number

00344359

Strategic report for the year ended 31 December 2021

Principal activities

The principal activity of Innospec Limited ('the Company') during the year remained that of the manufacture and sale of specialty chemicals. The Company has branches in Germany, Spain, Italy, France, Cyprus, Sweden, Russia and Singapore. Additionally, the Company maintains rep offices in India, Dubai and Hungary.

The entire share capital is owned by Innospec Trading Limited and the ultimate holding company is Innospec Inc..

Business review

The Company manufactures and sells specialty chemicals and is part of the Innospec Inc. Group. For the year ended 31 December 2021 Innospec Limited divided its activities into three business segments: Fuel Specialties, Oilfield Services and Performance Chemicals. All business segments operate on an integrated regional model focusing on three world areas: Americas, Asia Pacific and EMEA (Europe, Middle East and Africa). The Octane Additives segment ceased trading from 1 July 2020 with the end of sales of leaded fuel for use in motor gasoline. Remaining sales of leaded fuel for use in aviation fuel continue to be reported within Fuel Specialties, consistent with the disclosure in the consolidated Group financial statements. The cost of the expected activities to clean up redundant manufacturing facilities were provided for in 2020.

The statement of comprehensive income for the year is set out on page 14. The Company has generated a profit in the year ended 31 December 2021. The profit for the financial year was £10,906,000 (2020: profit of £26,361,000).

Key performance indicators used by the Company are as follows:

	2021	2020	Definition
Sales trend	+8.2%	-17.1%	Year on year turnover growth expressed as a percentage
Gross margin	21.8%	18.2%	Gross profit expressed as a percentage of turnover
Operating margin	5.0%	0.2%	Operating profit expressed as a percentage of turnover

The overall sales increase of 8.2% is mostly driven by Fuel Specialties, with this segment being the largest sector. Fuel Specialties sales rose by £17.7m or 7%, followed by Performance Chemicals sales increasing by £8m or 24%. Oilfields Specialties sales on the other hand fell by £0.7m or 4%. Consequently gross profit increased by £16.6m with gross margins rising from 18.2% in 2020 to 21.8% in the reporting period. Administrative and distribution expenses reduced by £3.9m year on year. The above factors led to additional operating income of £16.0m, rising from £0.5m in 2020 to £16.5m in 2021. The Company received lower dividends from group undertakings, which in 2021 amounted to £4,000 (2020: £26.7m) and additionally was in a higher net interest payable position of £5.0m in 2021 compared to £3.7m in 2020.

The Company has no external bank debt but is party to overall debt funding through other members of the Innospec Inc. Group (referred to as "Group" from now on).

Strategy

The Company strategy is to develop new and improved products and technologies to continue to strengthen and increase our market positions within our Fuel Specialties, Oilfield Services and Performance Chemicals segments.

The Company focuses on opportunities that would extend its technology base, geographical coverage or product portfolio. By focusing on the Fuel Specialties, Oilfield Services and Performance Chemicals segments, in which the Company has existing experience, expertise and knowledge, this provides opportunities for positive returns on investment with reduced operating risk.

Strategic report for the year ended 31 December 2021 (continued)

Future developments

The directors expect a continuation of the recovery seen in 2021, following the downturn in results due to the outbreak of the COVID-19 pandemic which heavily impacted 2020. The directors remain confident of the long-term prospects of the Company.

Principal risks and uncertainties

The principal risks and uncertainties of the Company are integrated with the principal risks and uncertainties of the Group and are not managed separately. The Group has an extensive risk management structure in place which is designed to identify, manage and mitigate business risk.

The principal risks and uncertainties are recorded on page 11 of the Form 10-K for the year ended 31 December 2021 of the ultimate parent company, Innospec Inc., a copy of which is available from the Company website www.innospec.com.

The following sections on REACH, Brexit, Covid-19 and Companies Act 2006 S172 have been worded from a Group perspective, but also apply to the Company.

REACH

The European Union ("E.U.") legislation known as the Registration, Evaluation and Authorization of Chemical Substances Regulations ("REACH") requires most of the substances in the Company's products to be registered with the European Chemicals Agency. Under this legislation the Company has to demonstrate that the substances it uses in its products are safe for use and appropriate for their intended purposes in the E.U.. During this registration and continual evaluation process, the Company incurs expense to test and register substances it manufactures or imports in the E.U..

Following the end of the Brexit transition process, on 1 January 2021 the United Kingdom ("U.K.") government introduced U.K. REACH with the same registration requirements for substances produced in or imported into the U.K.. Furthermore, globally, similar regulatory regimes to the E.U. and U.K. REACH are also entering into force or are being proposed in several other countries. These registration based regulatory regimes will result in increasing test expenses and registration fees to ensure Innospec products remain compliant with the appropriate regulations and can continue to be sold in these markets.

Brexit

The U.K. ceased to be a member of the E.U. on 31 January 2020 ("Brexit"). During a prescribed period, certain transitional arrangements were in effect, such that the U.K. continued to be treated, in most respects, as if it were still a member of the E.U., and generally remained subject to E.U. law. On 24 December 2020, the E.U. and the U.K. reached an agreement in principle on the terms of certain agreements and declarations governing the ongoing relationship between the E.U. and the U.K., including the E.U.-U.K. Trade and Cooperation Agreement (the "Agreement"). The Agreement itself is limited in its scope to primarily the trade of goods, transport, energy links and fishing, and uncertainties remain relating to certain aspects of the U.K.'s future economic, trading and legal relationships with the E.U. and with other countries. The departure of the U.K. from the E.U. Single Market and Customs Union (as well as all E.U. policies and international agreements) has ended free movement of goods between the U.K. and the E.U., creating non-tariff and quota barriers (such as customs checks at the borders between the E.U. and the U.K.) to trade in goods, resulting in increased disruption and cost to businesses and requiring adjustments to integrated E.U.-U.K. supply chains. Moreover, the free movement of persons, services and capital between the U.K. and the E.U. ended on 1 January 2021, which has meant the loss for U.K. suppliers of services of their automatic right to offer such services across the E.U..

The actual or potential consequences of the Agreement, and the associated uncertainty, could adversely affect economic and market conditions in the U.K., in the E.U. and its member states and elsewhere, and could contribute to instability in global financial markets. Until the long-term level of disruption and additional cost to trading in goods and services and to the movement of persons and capital between the U.K. and the E.U. can be properly evaluated, it is not possible for us to determine the impact that the departure of the U.K. from the E.U. Single Market and Customs Union may have on us.

These developments may adversely impact our results of operations, financial position and cash flows.

Strategic report for the year ended 31 December 2021 (continued)

Covid-19

We have been closely monitoring the impact of the COVID-19 pandemic on all aspects of our business, including how it has and will impact our customers, employees, supply chain, and distribution network. The effects of COVID-19 on the global economic environment have impacted, and may continue to impact, the results of the Company significantly, particularly with respect to reduced demand within our Fuel Specialties and Oilfield Services segments, and we are unable to predict the ultimate impact that it may have on our business, future results of operations, financial position or cash flows. The further extent to which our operations may be impacted by the COVID-19 pandemic will depend largely on future developments, which are highly uncertain and cannot be accurately predicted. These include, but are not limited to, the availability and productivity of our employees, the duration and severity of the pandemic; government restrictions on businesses and individuals; the impact of the pandemic on our customers' businesses and the resulting demand for our products; the impact on our suppliers and supply chain network; the impact on global economies, including the possibility of recession, depression and inflation, and the timing and rate of economic recovery; the development and acceptance of treatments and vaccines; the rise of new variants and the effect of treatments and vaccines on new variants; and the potential adverse effects on the financial markets.

The impact of COVID-19, as well as future pandemics or resurgences from new variants, may also exacerbate other risks within the Company, any of which could have a material effect on us. This situation is changing rapidly and additional impacts that may occur are currently unknown.

The directors have assessed the impact of COVID-19 on future cash flow forecasts, including the impact of a severe but plausible downside scenario and are comfortable there is no impact on the adoption of the going concern assumption.

Companies Act 2006 S172

Consequences of any decisions in the long term

Consideration is given to the impact of any decisions in the long term. At the core, this involves promoting the Company's success whilst also having regard to the interests of the Company's stakeholders.

Interests of Employees

Consultation with employees and their representatives continues at all levels, with the aim of ensuring that employees' views, regarding decisions that are likely to affect their interests, are taken into account and that all employees are aware of the financial and economic performance of the business units in which they are employed, and of the Company as a whole. Communication with employees continues through newsletters and briefing Groups.

Business relationships with suppliers, customers and others and Standards of business conduct

The Company is committed to fair dealings with its suppliers, customers, partners and other stakeholders. In order to achieve this, employees are required and expected to run the Company's business in accordance with its Code of Conduct, are required to complete regular related training and to certify compliance with the Code.

Impact of operations on the community and the environment

Monitoring and measuring the impact on the environment has been a long-standing core element of the Company's sustainability strategy. The Company is committed to using resources as efficiently as possible and minimizing the impact of our operations on the environment. Advancing technologies and processes are continuously reviewed, so we can actively seek out opportunities to improve our performance. The Company understands the important role of our business in the social and economic development of the communities in which we are based. Supporting our employees to participate in community and fundraising activities is a core business value that benefits everyone involved. Further details of our sustainability strategy, focus areas and activities can be found in Innospec Inc.'s latest Responsible Business Report, which is available on our web site.

Strategic report for the year ended 31 December 2021 (continued)

Health, safety and environment

Innospec is committed to the protection of the environment, the safe supply of its products and the health and safety of its employees and others who may be affected by the Company's activities. This is achieved by the provision and maintenance, as far as is reasonably practicable, of safe plant, Group policies, procedures and systems at work. The company seeks to use resources as efficiently as possible and to minimize the impact of its operations on the environment, with a particular focus on: reducing Greenhouse Gas (GHG) emissions, energy use, water use, waste generation and safe chemical management. The company ensures that there are effective methods of consultation and communication of health, safety and environmental issues with employees across the organisation. Innospec is committed to legal compliance as a minimum acceptable standard while striving to achieve best industry practices, and to continuous improvement of its support systems and the quality of their application.

Streamlined Energy and Carbon Reporting

Manufacturing (Scope 1 and 2)	2021	2020	2019
Scope 1 (tonnes CO _{2eq})	10,367	10,995	11,682
Scope 2 (tonnes CO _{2eq})	0	0	5,213
Total scope 1 & 2 (tonnes CO_{2eq})	10,367	10,995	16,895
Scope 3 (tonnes CO _{2eq}) (Employee travel only)	26	36	63
Intensity ratio (tonnes CO_{2eq} per tonne of production)	0.236	0.234	0.304
Total energy (kWh)	75,518,889	80,256,944	82,898,333

Methodology

- Innospec calculates its emissions using the reporting year's UK DEFRA and IEA emission conversion factors for greenhouse gas reporting. The reporting of scope 1 and 2 emissions is in line with the GHG Protocol Standard.
- Scope 1 covers direct combustion of fuels, fugitive emissions and on-site transport. Emissions linked to our minimal use of refrigerants is predominantly in air conditioning units and are considered to not to be material.
- Scope 2 covers emissions from electricity purchased for own use. Emission factors in line with the GHG Protocols Scope 2 Guidance for Market Based reporting have been used for the reported years. In 2020 and 2021, the company procured 100% renewable electricity resulting in a declaration of no scope 2 emissions for the reporting year. No steam was purchased for own use in the reported years.
- Emissions associated with fuel used in company, personal and hire car use for business use have been listed in Scope 3. No other scope 3 emissions have been reported. Data is not available for the 2018 base line reporting year.
- For manufacturing we have used an intensity ratio based on production (per tonne of product produced). This aligns with our long-standing reporting of manufacturing performance emissions.
- Energy consumption data is captured through utility billing and employee mileage claims.
- Our approach is assured to AA1000 by an independent third party; Jacobs. Our assurance statement can be found in our Corporate Annual Responsible Business Report <https://innospecsustainability.com/>.

Energy Efficiency narrative 2021

Energy efficiency has been a long-standing focus of Innospec's manufacturing facilities. Our total energy consumption has decreased by 15% since our baseline SECR reporting year of 2018. The intensity ratio has decreased by 27% for the same period.

Strategic report for the year ended 31 December 2021 (continued)

Streamlined Energy and Carbon Reporting (continued)

Energy Efficiency narrative 2021 (continued)

From 1 January 2020, all Innospec manufacturing facilities switched to the purchase of 100% renewable electricity. This has reduced the Innospec Limited's total Scope 1 and 2 emissions in 2021 by 29%.

During 2021, a range of energy reduction and efficiency projects have been implemented by the Company. This included the upgrade of a number of substations to improve energy efficiency on site, reducing electricity consumption by 68,000 kWh a year. Diesel vans used on site were also replaced with electric equivalents which will reduce gasoil consumption on site by 3,800 litres per annum. In 2021, investment in a new energy centre was approved. The new facility will initially include a natural gas fired combined heat and power (CHP) plant which will be used to generate power for the site, steam, for process operations and hot water for space heating and ISO tank heating. The plant will be hydrogen compatible with the aim of switching to hydrogen firing as soon as this becomes practical. Planning permission has been approved with the target for completion and start up in 2023. Innospec Limited also maintained its ISO 50001:2011 certification of its energy management system in the reporting year.

Financial risk management

The Company's operations expose it to a variety of financial risks that include price risk, credit risk, liquidity risk, market risk and foreign exchange risk.

Price risk

The Company offers fixed prices for some long-term sales contracts. As manufacturing and raw materials costs are subject to variability the Company uses commodity swaps from time to time to hedge the cost of some raw materials to reduce the volatility on earnings and cash flows, although none have been used in the financial year or held at the year end. The derivatives are considered risk management tools and are not used for trading purposes. The Company's objective is to manage its exposure to fluctuating costs of raw materials.

Credit risk

Credit limits, ongoing credit evaluation and account monitoring procedures are used to minimise bad debt risk. Collateral is not generally required.

Liquidity risk

The Company has no external debt. Liquidity risk is managed at Innospec Inc. Group level with a mixture of long-term and short-term debt designed to ensure that all Group companies have sufficient funds available for operations if debt is required.

Market risk

Market risk is managed at Group level using derivatives, including foreign currency forward exchange contracts, in the normal course of business. The derivatives used in hedging activities are considered risk management tools and are not used for trading purposes. In addition, the Group enters into derivative instruments with a diversified Group of major financial institutions in order to manage the exposure to non-performance of such instruments. The Company does not hold any derivative instruments.

Foreign exchange risk

The primary foreign currencies in which the Group and the Company, has exchange rate fluctuation exposure are the European Union euro and US dollar. There is, to a degree, an inherent hedge in that the Group has cash inflows and outflows in these currencies. Where exposures are identified the Group puts in place hedging transactions between Group companies, the Group exposure being hedged with third party financial institutions.

By order of the board



Graeme Thomas Blair

Company secretary

Date: 28 June 2022

Directors' report for the year ended 31 December 2021

The directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2021.

Dividends

An interim dividend of £35,052,000 was paid on 30 April to Innospec Trading Limited in respect of the year ended 31 December 2021 (2020: £50,771,000). The directors do not recommend a final dividend (2020: £nil).

Directors

The directors set out on page 1 have held office throughout the year and up to the date of signing the financial statements, with any exceptions noted.

Post balance sheet events

The Company maintains a defined benefit pension plan covering certain current and former employees in the United Kingdom (the "UK Plan"). The UK Plan is closed to future service accrual and has a large number of deferred and current pensioners. On 11 May 2022, the Trustees of the UK Plan entered into an agreement with Legal and General Assurance Society Limited to acquire an insurance policy that operates as an investment asset, with the intent of matching the remaining uninsured part of the UK Plan's future cash flow arising from the accrued pension liabilities of members. Such an arrangement is commonly termed as a "buy-in". The buy-in reduces the UK Plan's value at risk in relation to key risks associated with improved longevity, inflation and interest rate movements whilst improving the security to the UK Plan and its members. The Company consequently benefits from the buy-in as it reduces the UK Plan's potential reliance on the Company for future cash funding requirements.

Qualifying third party indemnity

The Company has maintained a liability insurance for its directors and officers during the year and up to the date of signing the financial statements. The Company has also continued to provide an indemnity for its directors and secretary during the year and up to the date of signing the financial statements, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

Political donations

During the year, the Company made no political donations (2020: £nil).

Research and development

Research and development provide the basis for the growth of the Performance Chemicals, Fuel Specialties and Oilfield Services businesses. Activity has been, and will continue to be, focused on the development of new products and formulations for these. All development expenditure has been expensed, the amount being £16.2m in 2021 (2020: £13.4m).

Employees

Consultation with employees and their representatives continues at all levels, with the aim of ensuring that employees' views, regarding decisions that are likely to affect their interests, are taken into account and that all employees are aware of the financial and economic performance of the business units in which they are employed, and of the Company as a whole. Communication with employees continues through newsletters and briefing Groups.

The Company is an equal opportunities employer. The Company's policies seek to promote an environment free from discrimination, harassment and victimisation, and to ensure that no employee is treated less favourably on the grounds of gender, marital status, race, colour, nationality or national origin, disability or sexual orientation, or is disadvantaged by conditions or requirements, including age limits, which cannot objectively be justified. Entry into, and progression within, the Company is determined solely on the basis of work criteria and individual merit.

Directors' report for the year ended 31 December 2021 (continued)

Employees (continued)

It is the Company's policy to apply best practice in the employment of disabled people. The Company seeks to find alternative work and arranges appropriate training for any of its employees who may be disabled by injury or by the onset of an adverse medical condition. Full and fair consideration is given to every application for employment from disabled persons whose aptitude and skills can be utilised in the business, and to their subsequent training and career development. Appropriate medical advice is considered where necessary.

We also encourage employee involvement in the Company's performance through Group-wide employee share and bonus schemes.

As per the employee information section set out in note 5, the average number of persons employed by the Company (including directors) during the year was 574 (2020: 573).

Companies Act 2006 S172

The Company aims to foster fair and honest relationships with its employees, suppliers, customers and other stakeholders. Reference is made to the Strategic Report for further details on these matters.

Financial Instruments

Details of financing and treasury policies, along with the management of treasury risk, interest rate and foreign exchange risk can be found in the Strategic Report.

Future Developments

An indication of the likely future developments in the business of the Company can be found in the Strategic Report.

Independent Auditors

PricewaterhouseCoopers LLP indicated their willingness to continue in office and a resolution that they be reappointed as auditors will be proposed at the annual general meeting.

Disclosure of information to the auditors

Each person who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the board



Graeme Thomas Blair
Company secretary
Date: 28 June 2022

Innospec Limited
Innospec Manufacturing Park
Oil Sites Road, Ellesmere Port
Cheshire,
CH65 4EY

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

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.

Independent auditors' report to the members of Innospec Limited

Report on the audit of the financial statements

Opinion

In our opinion, Innospec Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2021; the Statement of comprehensive income, the Statement of changes in equity for the year then ended; the Statement of accounting policies for the year ended 31 December 2021; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to regulations which govern the preparation of financial statements, taxation and environmental regulation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results and potential management bias in the selection and application of significant accounting judgements and estimates. Audit procedures performed by the engagement team included:

- reviewing financial statement disclosures and agreeing to supporting documentation to assess compliance with applicable laws and regulations;
- discussions with management and internal legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- reviewing minutes of meetings of those charged with governance;
- challenging assumptions and judgements made by management in their significant accounting estimates; and
- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, or by unusual users.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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. This description forms part of our auditors' report.

Use of this report

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.

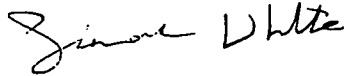
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

A handwritten signature in black ink, appearing to read 'Simon White'.

Simon White (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
28 June 2022

Statement of comprehensive income for the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Turnover	2	329,835	304,871
Cost of sales		(257,852)	(249,453)
Gross profit		71,983	55,418
Distribution costs		(27,367)	(25,648)
Administrative expenses		(47,234)	(52,860)
Other operating income		19,143	23,584
Operating profit	3	16,525	494
Income from shares in Group undertakings	6	4	26,660
Other interest receivable and similar income	7	182,137	229,723
Other interest payable and similar expenses	8	(187,130)	(233,446)
Profit before taxation		11,536	23,431
Tax on profit	9	(630)	2,930
Profit for the financial year		10,906	26,361
Total comprehensive income			
Remeasurement of the net defined benefit liability	19	5,700	5,500
Deferred tax on total comprehensive income	14	(1,425)	(779)
Total comprehensive income for the financial year, net of income tax		4,275	4,721
Profit and total comprehensive income for the financial year		15,181	31,082

The accounting policies and notes on pages 17 to 41 form part of these financial statements.

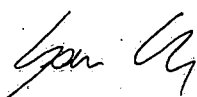
All of the activities during the year relate to continuing operations.

Balance sheet as at 31 December 2021

	Note	2021 £'000	2020 £'000
Fixed assets			
Intangible assets	10	235	479
Goodwill	10	84	134
Tangible assets	11	22,686	19,692
Investments	12	2,804	2,803
		25,809	23,108
Current assets			
Stocks	13	69,995	57,504
Debtors	14	769,769	730,682
Cash at bank and in hand		4,824	2,854
		844,588	791,040
Creditors: amounts falling due within one year	15	(370,800)	(290,604)
Net current assets		473,788	500,436
Total assets less current liabilities		499,597	523,544
Provisions for liabilities			
Remediation provision	16	(31,673)	(33,305)
Pension deficit	19	(2,190)	(2,441)
Net assets		465,734	487,798
Capital and reserves			
Called up share capital	17	317,675	317,675
Capital redemption reserve	18	1,075	1,075
Share option reserve	20	2,116	4,309
Comprehensive income account		144,868	164,739
Total shareholders' funds		465,734	487,798

The accounting policies and notes on pages 17 to 41 form part of these financial statements.

The financial statements on pages 14 to 41 were approved by the board of directors and were signed on its behalf by:



Graeme Kay
Director
Date: 28 June 2022

Statement of changes in equity for the year ended 31 December 2021

	Called up share capital £'000	Capital redemption reserve £'000	Share option reserve £'000	Total compre- hensive income account £'000	Total £'000
As at 1 January 2020	317,675	1,075	3,512	184,428	506,690
Profit for the financial year	-	-	-	26,361	26,361
Other comprehensive income for the financial year	-	-	-	4,721	4,721
Share based payments	-	-	797	-	797
Dividends paid	-	-	-	(50,771)	(50,771)
Balance at 31 December 2020	317,675	1,075	4,309	164,739	487,798
As at 1 January 2021	317,675	1,075	4,309	164,739	487,798
Profit for the financial year	-	-	-	10,906	10,906
Other comprehensive income for the financial year	-	-	-	4,275	4,275
Share based payments	-	-	(2,193)	-	(2,193)
Dividends paid	-	-	-	(35,052)	(35,052)
Balance at 31 December 2021	317,675	1,075	2,116	144,868	465,734

The accounting policies and notes on pages 17 to 41 form part of these financial statements.

Statement of accounting policies for the year ended 31 December 2021

Innospec Limited (“the Company”) is a private company limited by shares and incorporated, domiciled and registered in England and Wales in the UK.

Basis of accounting

The financial statements were prepared in accordance with the Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (“FRS 102”) and the Companies Act 2006. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company’s ultimate parent undertaking, Innospec Inc., incorporated in the USA, includes the Company in its consolidated financial statements. The consolidated financial statements of the ultimate parent are prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States of America and are available to the public and may be obtained from the website given in note 25. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of FRS 102) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash flow statement and related notes;
- Key management personnel compensation;

As the consolidated financial statements of Innospec Inc. include the disclosures equivalent to those required by FRS 102, the Company has also taken the exemptions available in respect of the following disclosures:

- Certain disclosures required by FRS102.26 *Share Based Payments*; and,
- Certain disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare Group financial statements. These financial statements present information about the Company as an individual undertaking and not about its Group.

As the Company is a wholly owned subsidiary of Innospec Inc., incorporated in the USA, the Company has taken advantage of the exemption contained in FRS102.33.1A and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the Group.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements

Measurement convention and going concern

The financial statements are prepared on a historical cost basis. Additionally, the directors have assessed the impact of COVID-19 on future cash flow forecasts, including the impact of a severe but plausible downside scenario and are comfortable there is no impact on the adoption of the going concern assumption. Therefore the financial statements were prepared on a going concern basis.

Statement of accounting policies for the year ended 31 December 2021 (continued)

Goodwill and other intangible assets

Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or Group of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in comprehensive income as an expense as incurred.

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

The cost of intangible assets acquired in a business combination are capitalised separately from goodwill if the fair value can be measured reliably at the acquisition date.

Amortisation

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Capitalised development costs for ERP system: 5 years
- Capitalised costs for HFM reporting system: 3 years.

The basis for selecting a useful life of 5 years reflects that an upgrade to the ERP system is expected at the end of this 5 year period.

Goodwill is amortised on a straight line basis over its useful life. Goodwill has no residual value. The finite useful life of goodwill is estimated to be:

- 20 years for goodwill relating to the Fuel Specialties business.

This is based on the strengths of the underlying businesses and projected future market growth.

The Company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill and other intangible assets are tested for impairment in accordance with FRS 102, Section 27, Impairment of assets, when there is an indication that goodwill or an intangible asset may be impaired.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Assets under construction are capitalised and depreciated when available for use or the plant has been commissioned.

Statement of accounting policies for the year ended 31 December 2021 (continued)

Tangible fixed assets (continued)

The Company assesses at each reporting date whether tangible fixed assets are impaired. Depreciation is charged to comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- Buildings 25 years
- Plant and machinery 3-10 years
- Remediation costs Life of the project

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Trade and other debtors/creditors

Trade and other debtors are recognised initially at transaction price. Trade and other creditors are recognised initially at transaction price. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

Investments in subsidiaries

These are separate financial statements of the Company. Investments in subsidiaries are carried at cost less impairment.

Provisions for remediation costs

Liabilities for environmental remediation are recognised in full in the period in which an obligation arises. The amount recognised is the discounted value of estimated future expenditure based on current legal requirements and existing technology. A corresponding tangible fixed asset and depreciation reserve are also created of an amount equal to the discounted value of remediation costs of when the original asset was initially put into use. This asset and depreciation reserve are annually reviewed and adjusted where required to take account of any changes in environmental remediation costs and changes in the discount rate.

The carrying amount of liabilities is reviewed regularly. Changes in operational assumptions, law or technology are reflected in an adjustment to the provision and the fixed asset. The effect of inflation on the amount of liabilities is recorded as a finance charge.

Turnover

Turnover represents the invoiced value of goods, net of trade discounts and value added tax. Turnover is recognised on invoice when goods are despatched or upon receipt by the customer, dependent on the terms of trade.

Other operating income

The company provides administrative services and the use of intellectual property to fellow subsidiary undertakings.

Statement of accounting policies for the year ended 31 December 2021 (continued)

Research and development

Expenditure on research activities is recognised in comprehensive income as an expense as incurred.

Expenditure on development activities may be capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve design for, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in comprehensive income as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Foreign currencies

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. All currency gains or losses are taken to comprehensive income in the year in which they arise.

Taxation

Tax on the profit or loss for the year comprises current tax and deferred tax. Tax is recognised in comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in comprehensive income in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments.

Statement of accounting policies for the year ended 31 December 2021 (continued)

Defined benefit plans (continued)

The discount rate is the yield at the balance sheet date on AA credit rated bonds and having maturity dates approximating to the terms of the Company's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The Company recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee services rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit or loss.

Re-measurement of the net defined benefit liability/asset is recognised in other comprehensive income in the period in which it occurs.

Leases

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance leases are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Operating leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in comprehensive income on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in comprehensive income over the term of the lease as an integral part of the total lease expense.

Share based payments

The Company participates in a Group equity settled share based payment programme. Share options in Innospec Inc. are granted to employees and vest dependent in part on performance targets being met. The fair value of the employee services received in exchange for the grant of share options is recognised as an expense over the vesting period.

The fair value of the options is calculated using the Black-Scholes model. In some cases certain performance-related options are dependent upon external factors such as the Innospec Inc. stock price and fair value of these options is instead calculated using a Monte Carlo model.

Stock equivalent unit payments ("SEUs")

The Company participates in a Group SEU payment programme. SEUs in Innospec Inc. are granted to employees and vest dependent in part on performance targets being met. The fair value of the employee services received in exchange for the grant of SEUs is recognised as an expense and corresponding accrual over the vesting period with the accrual released on exercise of SEUs granted.

In some cases certain performance-related SEUs are dependent upon external factors such as the Innospec Inc. stock price. In such cases the fair value of the SEUs is calculated using the Monte Carlo model.

Notes to the financial statements for the year ended 31 December 2021

1 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are associated assumptions based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

With the exception of the remediation provision (note 16) and pensions (note 19), the directors do not believe that there are any accounting policies that would be likely to produce materially different results should a change be made to the underlying judgements, estimates and assumptions. In relation to the remediation provision (note 16) environmental liabilities are recognised when they are probable and costs can be reasonably estimated, and asset retirement obligations when there is a legal obligation and costs can be reasonably estimated. The Company has to anticipate the programme of work required and the associated future expected costs, and comply with local environmental legislation. Assumptions are developed utilizing the latest information available together with recent costs. While we believe our assumptions for environmental liabilities are reasonable, they are subjective judgements and it is possible that variations in any of the assumptions will result in materially different calculations to the liabilities we have reported. Regarding pensions, critical accounting judgements have been applied as outlined in note 19.

2 Turnover

The whole of the Company's turnover relates to one class of business split across four business segments, the manufacture and sale of specialty chemicals. An analysis of turnover by geographical market is given below:

	2021	2020
	£'000	£'000
Europe, Middle East and Africa	220,522	189,719
Americas	53,608	59,447
Asia Pacific	55,705	55,705
	329,835	304,871

Notes to the financial statements for the year ended 31 December 2021 (continued)

3 Operating profit

	2021 £'000	2020 £'000
Operating profit is stated after charging/(crediting):		
Value of inventory expensed to Cost of Sales	257,852	249,453
Employee costs	48,718	44,222
Research and development expenditure	16,229	13,411
Depreciation of owned tangible fixed assets	4,289	3,711
Operating lease charges	1,114	1,234
Amortisation of intangible fixed assets	287	1,885
Auditors' remuneration in respect of the audit of these financial statements	228	204
Auditors' remuneration for non-audit services	103	22
Auditors' remuneration for audit of certain other UK subsidiary companies	8	10
Auditors' remuneration in respect of tax advisory services	-	25
Restructuring	33	3,379
Loss on disposal of tangible fixed assets	-	14
Other operating income - Recoveries from Group undertakings	(19,143)	(23,584)

4 Directors' remuneration

	2021 £'000	2020 £'000
Directors' remuneration	3,009	4,023
Company contributions to money purchase pension scheme	191	221
	3,200	4,244

Six directors (2020: seven) have retirement benefits accruing under money purchase pension schemes. Four directors (2020: three) exercised share options and there are four directors (2020: seven) in respect of whose qualifying services shares are receivable under long term incentive schemes.

	2021 £'000	2020 £'000
Highest paid director		
Aggregate remuneration benefits including amounts receivable from the exercise of share options and other long-term incentive schemes	1,409	1,342
Company contributions to money purchase pension scheme	65	59
	1,474	1,401

None of the directors have pension benefits accruing under defined benefit schemes.

Notes to the financial statements for the year ended 31 December 2021 (continued)

5 Employee information

The average number of persons (including directors) employed by the Company during the year was:

	2021	2020
By activity	No.	No.
Production	152	159
Selling	174	170
Administrative	248	244
	574	573

	2021	2020
The aggregate payroll costs of these persons were as follows	£'000	£'000
Wages and salaries	37,035	31,728
Social security costs	4,235	4,466
Healthcare	1,636	1,389
Other pension costs (note 19)	4,663	4,826
Share based payment charge (note 20)	1,149	1,813
	48,718	44,222

Notes to the financial statements for the year ended 31 December 2021 (continued)

6 Income from shares in Group undertakings

	2021 £'000	2020 £'000
Income from shares in Group undertakings	4	26,660

On 28 June 2021 the company received a dividend to the value of £4,000 from Innospec Environmental Limited (2020: £105,000). No dividends were received from Innospec Leuna GmbH (2020: £24,173,000) or Innospec Plant Limited (2020: £2,382,000).

7 Other interest receivable and similar income

	2021 £'000	2020 £'000
Other interest receivable from Group undertakings	326	2,310
Foreign exchange gains related to loans	181,808	227,389
Other interest receivable	3	24
Total other interest receivable and similar income	182,137	229,723

8 Other interest payable and similar expenses

	2021 £'000	2020 £'000
Other interest payable to Group undertakings	-	21
Foreign exchange losses related to loans	186,527	232,847
Other interest payable	15	12
Unwinding of discount rate on remediation provision	588	566
Total other interest payable and similar expenses	187,130	233,446

Notes to the financial statements for the year ended 31 December 2021 (continued)

9 Tax on profit

Total tax charge/(credit) recognised in the statement of comprehensive income.	2021 £'000	2020 £'000
Current tax		
Current tax on income for the year	780	512
Adjustments in respect of prior years	251	(2,170)
Overseas tax on income for the year	255	368
Total current tax	1,286	(1,290)
Adjustments in respect of prior years for 2020 include the impact of resubmitted patent box and research & development relief claims.		
Deferred tax		
Origination and reversal of timing differences	(569)	(1,235)
Adjustments in respect of prior years	(87)	(405)
Amounts recognised in Other Comprehensive Income	1,425	779
Total deferred tax	769	(861)
Total tax	2,055	(2,151)

	2021			2020		
	Current tax £000	Deferred tax £000	Total tax £000	Current tax £000	Deferred tax £000	Total tax £000
Recognised in comprehensive income	1,286	(656)	630	(1,290)	(1,640)	(2,930)
Recognised in other comprehensive income	-	1,425	1,425	-	779	779
Total tax	1,286	769	2,055	(1,290)	(861)	(2,151)

Analysis of current tax recognised in the statement of comprehensive income	2021 £'000	2020 £'000
UK Corporation tax	1,227	(1,438)
Double taxation relief	(196)	(220)
Overseas taxation	255	368
Total current tax recognised in the statement of comprehensive income	1,286	(1,290)

Reconciliation of effective tax rate

The tax assessed for the year is lower (2020: lower) than the standard rate of corporation tax in the UK. The differences are explained overleaf.

Notes to the financial statements for the year ended 31 December 2021 (continued)

9 Tax on profit (continued)

	2021 £'000	2020 £'000
Profit for the year	10,906	26,361
Total tax charge/(credit)	630	(2,930)
Profit before taxation	11,536	23,431
Tax using the UK corporation tax rate of 19.00% (2020: 19.00%)	2,192	4,452
Effects of:		
Pension contributions	(342)	1,044
Research and development	(220)	236
Patent box relief	(882)	(1,134)
Non-taxable income	(1)	(5,065)
Other permanent items	441	188
Share based payments	(790)	(257)
Overseas taxation	255	368
Double taxation relief	(196)	(220)
Prior year adjustments	164	(2,575)
Restate opening deferred tax asset at the average rate for the year	9	33
Total tax charge/(credit) recognised in the statement of comprehensive income	630	(2,930)

Factors that may affect future tax charges

The UK corporation tax rate for the 12 month period to 31 December 2021 was 19%. On 3 March 2021, the UK Chancellor of the Exchequer announced that the UK corporation tax rate will increase from 19% to 25% from 1 April 2023, which will increase the Company's future tax charge accordingly. The legislation implementing this increase in the UK corporation rate (Finance Act 2021) was substantively enacted on 24 May 2021, and therefore it has been considered in calculating the company's deferred tax assets and liabilities.

**Notes to the financial statements for the year ended 31 December 2021
(continued)**

10 Intangible assets

	Goodwill	Other intangibles	Total
	£'000	£'000	£'000
Cost			
At 1 January 2021	807	23,797	24,604
Exchange rate movements	(49)	-	(49)
At 31 December 2021	758	23,797	24,555
Accumulated amortisation			
At 1 January 2021	(673)	(23,318)	(23,991)
Charge for the year	(43)	(244)	(287)
Exchange rate movements	42	-	42
At 31 December 2021	(674)	(23,562)	(24,236)
Net book amount			
At 31 December 2021	84	235	319
At 31 December 2020	134	479	613

Amortisation recognised in comprehensive income is recorded within administrative expenses.

Notes to the financial statements for the year ended 31 December 2021 (continued)

11 Tangible assets

	Remediation costs £'000	Freehold land and buildings £'000	Plant and machinery £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 1 January 2021	598	4,712	84,086	2,822	92,218
Exchange rate movements	-	(1)	(22)	-	(23)
Additions	-	-	-	7,283	7,283
Transfers	-	-	8,553	(8,553)	-
Disposals	(21)	-	-	-	(21)
At 31 December 2021	577	4,711	92,617	1,552	99,457
Accumulated depreciation					
At 1 January 2021	(598)	(3,310)	(68,618)	-	(72,526)
Exchange rate movements	-	1	22	-	23
Charge for the year	-	(12)	(4,277)	-	(4,289)
Disposals	21	-	-	-	21
At 31 December 2021	(577)	(3,321)	(72,873)	-	(76,771)
Net book amount					
At 31 December 2021	-	1,390	19,744	1,552	22,686
At 31 December 2020	-	1,402	15,468	2,822	19,692

Notes to the financial statements for the year ended 31 December 2021 (continued)

12 Investments

	£'000
Cost	
At 1 January 2021	2,803
Addition	1
At 31 December 2021	2,804
Net book amount	
At 31 December 2021	2,804
At 31 December 2020	2,803

During the year ended 31 December 2021 the Company made small scale capital injections in respect of Innospec Saudi Arabia Industry Company Limited.

The Company's subsidiary undertakings at 31 December 2021 are set out below:

Name of undertaking	Address	Percentage of ordinary shares held	Principal activity
Innospec Environmental Limited *	Innospec Manufacturing Park Oil Sites Road Ellesmere Port Cheshire CH65 4EY United Kingdom	100	In Liquidation (dissolved 4 January 2022)
Innospec Rus OOO*	Tverskaya street 9 Building 7 Moscow 125009 Russian Federation	100	Chemical sales
AK Chemie GmbH*	Amtsgericht Darmstadt Registerabteilung Großgerau 42 HRB 51028	100	Dormant
Innospec Leuna GmbH*	Am Haupttor Bau 6310 06237 Leuna Germany	100	Chemicals manufacture and sales
Societa Italiana Additivi Per Carburanti S.r.l.*	Via V. Pisani 16 20124 Milano Italy	100	Dormant
Innospec Chemicals Beijing Limited*	17/F, Ping An International Financial Center Tower B No. 1-3 Xin Yuan Nan Road Chaoyang District Beijing 100027, China	100	Chemical sales
Innospec Saudi Arabia Industry Company Limited*	P.O. Box 11693 Al-Khobar Saudi Arabia	70	Inactive
Innospec (Plant) Limited*	Innospec Manufacturing Park Oil Sites Road Ellesmere Port Cheshire CH65 4EY United Kingdom	100	Dormant

* Direct subsidiary

Notes to the financial statements for the year ended 31 December 2021 (continued)

13 Stocks

	2021 £'000	2020 £'000
Raw materials, consumables and intermediates	30,538	21,722
Finished goods	39,457	35,782
	69,995	57,504

The provision for write-down of stocks to net realisable value amounted to £5,650,000 (2020: £5,113,000).

14 Debtors

	2021 £'000	2020 £'000
Amounts falling due within one year:		
Trade debtors	57,313	44,858
Amounts owed by Group undertakings	697,483	672,701
Value Added Tax	4,369	2,355
Corporation tax	3,090	5,198
Other debtors	4,584	2,144
Deferred tax	-	731
Prepayments and accrued income	2,930	2,695
	769,769	730,682

Amounts owed by Group undertakings are unsecured and are repayable on demand and bear interest at rates of up to LIBOR plus 2%.

Trade debtors are stated after provisions for impairment of £574,000 (2020: £1,244,000).

The movement in the net deferred tax asset/(liability) (note 15) is:

	£'000
At 1 January 2021	731
Deferred tax credited to comprehensive income	656
Deferred tax charged to other comprehensive income	(1,425)
At 31 December 2021	(38)

Notes to the financial statements for the year ended 31 December 2021 (continued)

14 Debtors (continued)

The deferred tax asset comprises:

	2021	2020
	£'000	£'000
Accelerated capital allowances	-	(312)
Restructuring provisions	-	1,043
	-	731

15 Creditors: amounts falling due within one year

	2021	2020
	£'000	£'000
Trade creditors	23,934	16,148
Amounts owed to Group undertakings	306,049	244,103
Other taxation and Social security	869	974
Deferred tax	38	-
Accruals and deferred income	39,910	29,379
	370,800	290,604

Amounts owed to Group undertakings are unsecured and are repayable on demand and bear interest at rates of up to LIBOR plus 2%.

The deferred tax liability comprises:

	2021	2020
	£'000	£'000
Accelerated capital allowances	1,387	-
Restructuring provisions	(1,349)	-
	38	-

Notes to the financial statements for the year ended 31 December 2021 (continued)

16 Remediation provision

Remediation Costs	£'000
At 1 January 2021	33,305
Charged to comprehensive income	1,070
Cost escalation	828
Utilised	(3,530)
At 31 December 2021	31,673

Total costs for remediation are evaluated on an annual basis to take account of expenditure incurred and to amend the scope and cost of future activities in the light of findings from projects carried out.

The forward profile of the provision is as follows:

	2021	2020
Remediation Costs	£'000	£'000
Within one year	3,960	4,362
Later than one year and not later than five years	10,819	11,562
After five years	16,894	17,381
	31,673	33,305

The remediation provision reflects the current best estimate of liabilities arising under environmental regulations. It is based on a programme of future work required such as ongoing maintenance, monitoring and associated costs of asset retirement obligations. The costs of vacating the Ellesmere Port site are viewed as contingent as the Company has no present intention of relocating. The principal uncertainties relate to the future product life of Tetra-Ethyl Lead used in aviation fuels and to the phasing and timing of the forward programme of work.

17 Called up share capital

	2021	2020
	£'000	£'000
Allotted, called up and fully paid		
317,675,336 (2020: 317,675,336) ordinary shares of £1 each	317,675	317,675

18 Capital redemption reserve

	2021	2020
	£'000	£'000
Capital redemption reserve	1,075	1,075

Notes to the financial statements for the year ended 31 December 2021 (continued)

19 Pension deficit

The Company operates three pension schemes for employees – a defined contribution and two defined benefit schemes.

Defined contribution scheme

Payments made in respect of the defined contribution schemes were £4,663,000 (2020: £4,826,000). The assets of the scheme are held separately from those of the Company. There were no prepaid or outstanding contributions as at 31 December 2021 (2020: £nil).

Defined benefit schemes

UK

The scheme is a self-administered and funded scheme which closed to future service accrual on 31 March 2010. The assets of the scheme are held separately from those of the Company. The trustees and the Company have agreed that no contributions are required for the plan other than those required to meet the cost of ongoing expenses, as the plan was in surplus as at the most recent actuarial valuation, dated 31 December 2021.

The projections are based on an update of a preceding actuarial valuation as at 31 December 2020, thereby introducing an element of approximation relative to the result of a hypothetical full actuarial valuation at 31 December 2021 for FRS102 purposes. Having regard to the size of the assets and liabilities of the plan, uncertainties in the result are unlikely to exceed the levels of significance usually applicable to the Company's balance sheet and statement of comprehensive income.

No contributions were made in 2021 and the expected contributions for 2022 are £nil due to the Company having agreed an expense reserve and there being no fund deficit at the most recent valuation.

The plans are invested by several investment management companies in funds holding United Kingdom and overseas equities, United Kingdom and overseas fixed interest securities, index linked securities, property unit trusts and cash or cash equivalents. The trustee's investment policy is to seek to achieve specified objectives through investing in a suitable mixture of real and monetary assets. The trustees recognise that the returns on real assets, while expected to be greater over the long-term than those on monetary assets, are likely to be more volatile. A mixture across asset classes should nevertheless provide the level of returns required by the plan to meet its liabilities at an acceptable level of risk for the trustees and an acceptable level of cost to the Company.

In accordance with FRS 102 an independent funding review of the scheme was carried out by Towers Watson, consulting actuaries, as at 31 December 2021. The following information is provided for disclosure purposes only. The assumptions used by the actuary to calculate the scheme liabilities were:

	2021	2020
	%	%
Discount rate	1.84	1.36
Inflation rate	3.00	2.35
Rate of increase in salaries	N/A	N/A
Rate of increase for deferred pensioners *	2.90	2.35
Rate of increase in pensions in payment *	2.90	2.35

* In excess of any guaranteed minimum pension element.

Notes to the financial statements for the year ended 31 December 2021 (continued)

19 Pension deficit (continued)

Post-retirement mortality for all members is assumed to be in line with the SAPS 53 Series All tables. In addition, an allowance for future improvements in mortality has been built in to follow Medium Cohort improvements subject to a minimum improvement of 1.5% per annum.

Following guidance issued by the UK government during 2010, and agreement from the scheme trustees, the Company changed the inflation rate measure from the Retail Prices Index to the Consumer Prices Index.

The fair value of the plan assets and the return on those assets were as follows:

	2021 £'000	2020 £'000
Equity securities	33,556	65,783
Debt securities	388,634	429,779
Buy-in contracts	110,428	107,132
Other	77,482	23,806
Fair value of plan assets	610,100	626,500

The current investment strategy of the UK Plan is to divest equity securities and real estate in order to achieve a lower risk return on assets from debt securities and cash. No more than 5% of the plan's assets were invested in any one individual company's investment funds.

Movements in the fair value of plan assets, defined benefit obligation and deficit of the scheme during the year were:

	2021 Fair value of plan assets £'000	2021 Defined benefit obligation £'000	2021 (Deficit) /surplus £'000	2020 Fair value of plan assets £'000	2020 Defined benefit obligation £'000	2020 (Deficit) /surplus £'000
At 1 January	555,300	(555,300)	-	529,300	(529,300)	-
Operating charge	-	(5,700)	(5,700)	(1,200)	(4,300)	(5,500)
Other finance income/(costs)	8,300	(7,300)	1,000	11,400	(10,000)	1,400
Actuarial gains	10,100	31,900	42,000	47,800	(45,800)	2,000
Benefits paid	(34,800)	34,800	-	(34,100)	34,100	-
FRS 102 Section 28 restriction on actuarial (gains)/losses	(37,300)	-	(37,300)	2,100	-	2,100
At 31 December	501,600	(501,600)	-	555,300	(555,300)	-

The actual return on scheme assets in the year was £18,400,000 (2020: £59,200,000).

Notes to the financial statements for the year ended 31 December 2021 (continued)

19 Pension deficit (continued)

Amounts recognised in the statement of comprehensive income in the year were:

	2021	2020
	£'000	£'000
Administrative costs	1,800	1,200
Defined benefit costs	3,900	4,300
Cost recognised in comprehensive income	5,700	5,500

Defined benefit costs to the value of £5,700,000 (2020: £5,500,000) were included in the statement of comprehensive income in the current year, of which £3,900,000 (2020: £4,300,000) were included as part of a benefit correction exercise.

Amounts recognised in other comprehensive income in the year were:

	2021	2020
	£'000	£'000
Actual return less expected return on scheme assets	10,100	47,800
Changes in the assumptions underlying the present value of the scheme liabilities	31,900	(45,800)
Change in irrecoverable plan surplus	(36,300)	3,500
Actuarial gains recognised in other comprehensive income	5,700	5,500

Germany

The Company also maintains an unfunded defined benefit pension scheme covering a number of its current and former employees in Innospec Limited's branch in Germany. The scheme is closed to future entrants and has no assets.

The assumptions used by the actuary to calculate the scheme liabilities were:

	2021	2020
	%	%
Discount rate	0.90	0.40
Inflation rate	2.00	1.50
Rate of increase in salaries	2.75	2.75

Notes to the financial statements for the year ended 31 December 2021 (continued)

19 Pension deficit (continued)

Amounts recognised in the statement of comprehensive income in the year were:

	2021 £'000	2020 £'000
Net interest on net defined benefit asset	(9)	(18)
Administrative costs	(42)	(41)
Actuarial gain/(loss)	119	(112)
(Credit)/costs recognised in the statement of comprehensive income	68	(171)

The movements in the liabilities and deficit of the scheme during the year were:

	2021 £'000	2020 £'000
At 1 January	(2,441)	(2,179)
Service cost	(42)	(41)
Interest cost	(9)	(18)
Benefits paid	36	35
Actuarial gain/(loss)	119	(112)
Foreign exchange gains/(losses)	147	(126)
At 31 December	(2,190)	(2,441)

20 Share based payments – equity settled

	2021 £'000	2020 £'000
Share based payment charge recognised in comprehensive income	1,149	1,813

The carrying amount of the share option reserve is £2,116,000 (2020: £4,309,000).

Notes to the financial statements for the year ended 31 December 2021 (continued)

20 Share based payments – equity settled (continued)

Employee share based payment plans

Under the Innospec Inc. Group equity settled share based payment programmes, participants are granted options in the stock of the ultimate parent company, Innospec Inc..

The Company has two stock option plans, the Omnibus Long-Term Incentive Plan and the ShareSave Plan 2018 under which it currently grants awards. The stock options have vesting periods ranging from 2 to 5 years and in all cases stock options granted expire within 10 years of the date of grant. All grants are at the sole discretion of the Compensation Committee of the Board of Directors. Grants may be priced at market value or at a premium or discount. The aggregate number of shares of common stock reserved for issuance which can be granted under the plans is 2,550,000.

21 Stock Equivalent Units

	2021	2020
	£'000	£'000
Stock Equivalent Unit charge/(credit) recognised in comprehensive income	738	(373)

The carrying amount of the Stock Equivalent Unit liability is £5,784,000. (2020: £6,376,000). This is held directly in current liabilities.

Employee stock equivalent units ("SEUs")

The Company awards Stock Equivalent Units ("SEUs") from time to time as a long-term performance incentive. SEUs are cash settled equity instruments conditional on certain performance criteria and linked to the Innospec Inc. share price. SEUs have vesting periods ranging from six months to 5 years and in all cases SEUs granted expire within 10 years of the date of grant. Grants may be priced at market value or at a premium or discount. There is no limit to the number of SEUs that can be granted. The liability for SEUs is located in 'Creditors: amounts falling due within one year' in the balance sheet until they are cash settled.

The fair value of SEUs is measured at the balance sheet date using either the Black-Scholes model, or in cases where performance criteria are dependent upon external factors such as Innospec Inc.'s stock price, using a Monte Carlo model. The following assumptions were used to determine the fair value of SEUs at the balance sheet date:

	2021	2020
Dividend yield	1.28%	1.15%
Volatility	39.60%	39.90%
Risk free interest rate	0.97%	0.17%

Notes to the financial statements for the year ended 31 December 2021 (continued)

21 Stock Equivalent Units (continued)

The terms and conditions of the SEU grants in circulation are as follows:

Plan	Grant date	Settlement Method	Vesting date	Vesting conditions	Contractual life of options	Number of instruments
SEU PRSOP	20/02/2013	Cash	20/02/2016	3 years service from Grant date	10 years	500
SEU PRSOP	23/02/2015	Cash	23/02/2018	3 years service from Grant date	10 years	800
SEU PRSOP	22/02/2016	Cash	22/02/2019	3 years service from Grant date	10 years	600
SEU PRSOP	21/02/2017	Cash	21/02/2020	3 years service from Grant date	10 years	6,874
SEU PRSOP	22/02/2017	Cash	22/02/2019	2 years service from Grant date	10 years	6,000
SEU PRSOP	20/02/2018	Cash	20/02/2021	3 years service from Grant date	10 years	36,518
SEU Omnibus PRSOP	25/02/2019	Cash	25/02/2022	3 years service from Grant date	10 years	1,613
SEU Omnibus PRSOP	25/02/2019	Cash	25/02/2022	3 years service from Grant date	10 years	35,448
SEU Omnibus PRSOP	24/02/2020	Cash	24/02/2023	3 years service from Grant date	10 years	1,812
SEU Omnibus PRSOP	24/02/2020	Cash	24/02/2023	3 years service from Grant date	10 years	28,797
SEU Omnibus PRSOP	22/02/2021	Cash	22/02/2024	3 years service from Grant date	10 years	1,541
SEU Omnibus	01/05/2020	Cash	01/05/2023	3 years service from Grant date	10 years	2,000
SEU Omnibus 3 yr	25/06/2020	Cash	25/06/2023	3 years service from Grant date	10 years	1,000
SEU Omnibus 4 yr	25/06/2020	Cash	25/06/2024	4 years service from Grant date	10 years	2,000
SEU	22/02/2021	Cash	22/02/2024	3 years service from Grant date	10 years	34,298
SEU Special Award	01/12/2021	Cash	01/06/2022	6 months service from Grant date	10 years	15,628
SEU Special Award	01/12/2021	Cash	01/12/2022	1 year service from Grant date	10 years	15,628
ERP SEU 1yr 40%	01/08/2012	Cash	01/07/2013	1 year service from Grant date	10 years	900
ERP SEU 2 yr 60%	01/08/2012	Cash	01/07/2014	2 years service from Grant date	10 years	600
SEU CSOP	21/02/2017	Cash	21/02/2020	3 years service from Grant date	10 years	950
SEU CSOP	20/02/2018	Cash	20/02/2021	3 years service from Grant date	10 years	1,749
SEU Sharesave	27/09/2018	Cash	01/11/2021	3 years service from Grant date	10 years	668
TOTAL						195,924

Notes to the financial statements for the year ended 31 December 2021 (continued)

21 Stock Equivalent Units (continued)

The following table summarises information about the SEUs outstanding at 31 December:

	2021		2020	
	No	Weighted average exercise price US\$	No	Weighted average exercise price US\$
Outstanding at 1 January	159,573	4.14	156,704	3.46
Granted	69,460	2.83	40,407	4.29
Exercised	(22,169)	7.64	(30,388)	1.36
Forfeited	(10,940)	3.92	(6,150)	2.37
Transferred	-	-	(1,000)	-
Outstanding at 31 December	195,924	3.29	159,573	4.14
Exercisable at 31 December	19,641	9.49	33,787	4.15

22 Financial commitments

At 31 December the Company's capital commitments contracted for but not provided were as follows:

	2021 £'000	2020 £'000
Capital commitments		
Contracted for but not provided	8,828	2,225

At 31 December the Company had non-cancellable operating lease commitments as follows:

	2021 £'000	2020 £'000
Within 1 year	937	1,408
Later than one year and not later than five years	536	1,055
After 5 years	-	-
Total operating lease charges	1,473	2,463

Notes to the financial statements for the year ended 31 December 2021 (continued)

23 Contingent liabilities

	2021	2020
	£'000	£'000
Site remediation	9,201	8,644
Guarantees in the ordinary course of trade	3,020	2,852
	12,221	11,496

The site remediation liabilities are contingent upon the Company vacating the Ellesmere Port manufacturing site. Management has no present intention to follow this course of action.

The Company has entered into an unlimited cross-guarantee arrangement in respect of the borrowings of companies in the Innospec Inc. Group. At 31 December 2021, the net cash position of the Group under the unlimited cross-guarantee arrangement amounted to US\$ 141. million (31 December 2020: net cash of US\$ 104.7 million).

24 Related Parties

Mr David F. Landless is a director of the Company's ultimate parent undertaking and controlling party Innospec Inc.. Mr Landless is also a non-executive director of Ausurus Group Limited which owns European Metal Recycling Limited. The Company sold scrap metal to European Metal Recycling Limited in 2021 for a value of £529,000 (2020: £152,000). A tendering process is operated to select the best buyer for the scrap metal. As at 31 December 2021 European Metal Recycling Limited owed £22,000 for scrap metal purchased in the last quarter of 2021 (2020: £nil).

25 Ultimate parent undertaking and controlling party

The directors regard Innospec Trading Limited, a company registered in England, as the immediate parent undertaking.

The directors regard Innospec Inc., a company registered in the USA, as the ultimate parent undertaking and controlling party. Innospec Inc. is the parent of the smallest and largest Group of undertakings into which the Company's financial statements are consolidated.

Copies of the consolidated financial statements for the ultimate parent undertaking are available from the Company website www.innospec.com. Innospec Inc.'s office is registered at South Valley Highway, Suite 350, Englewood, Colorado USA.

26 Post balance sheet events

On 11 May 2022, the Trustees of the UK Plan entered into an agreement with Legal and General Assurance Society Limited to acquire an insurance policy that operates as an investment asset, with the intent of matching the remaining uninsured part of the UK Plan's future cash flow arising from the accrued pension liabilities of members. Such an arrangement is commonly termed as a "buy-in". The buy-in reduces the UK Plan's value at risk in relation to key risks associated with improved longevity, inflation and interest rate movements whilst improving the security to the UK Plan and its members. The Company consequently benefits from the buy-in as it reduces the UK Plan's potential reliance on the Company for future cash funding requirements.