Innospec Widnes Limited
Annual report and financial statements
for the year ended 31 December 2013

Registered number 04178371

Contents

Directors and advisers for the year ended 31 December 2013

Directors
Ian Philip Cleminson
Mark Andrew Bracewell (resigned 31 January 2014)
Brian Robert Watt (also company secretary)
Philip John Boon
Philip Andrew Curran (appointed 1 February 2014)

Independent auditor
KPMG Audit Plc
St James' Square
Manchester
M2 6DS

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
04178371

Strategic report for the year ended 31 December 2013

Principal activity
The principal activity of the company during the year remained that of the manufacture and sale of synthetic organic chemicals.

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

Business review
The company manufactures and sells synthetic organic chemicals and is a member of the Innospec Inc. group.

Key performance indicators used by the company are as follows:

	2013	2012	**Definition**
Sales trend	**9%**	(2)%	Year on year turnover growth expressed as a percentage
Gross margin	**22%**	27%	Gross profit expressed as a percentage of turnover
Operating margin	**16%**	24%	Operating profit expressed as a percentage of turnover

Turnover rose by £3.3 million to £42.6 million though gross profit fell by £1.4 million to £9.2 million. Selling costs year on year remained static and administration costs increased by £1.0 million primarily due to additional corporate costs of £0.8 million and foreign exchange losses of £0.2 million. As a result operating profit decreased by £2.5 million to £6.8 million.

The company has no external bank debt but is party to overall debt funding through other members of the Innospec Inc. group.

Future developments
Both the level of business and the year end financial position were satisfactory, and the directors expect that the present level of activity will be sustained for the foreseeable future. The directors remain confident of the long term prospects for 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 10 of the Form 10-K for the year ended 31 December 2013 of the ultimate parent company, Innospec Inc., a copy of which is available from the company website www.innospecinc.com.

By order of the board

Brian Robert Watt
Company secretary
9-6-14

Directors' report for the year ended 31 December 2013

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

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

Price risk
The company offers fixed prices for some long-term sales contracts.

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

Concentration risk
Two key customers account for approximately half the company's turnover. This risk is managed by ongoing dialogue with these customers to determine their anticipated needs and respond accordingly.

Liquidity risk
The company has no bank 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.

Market risk
Market risk is managed at a group level using derivatives, including interest rate swaps, commodity swaps and foreign currency forward exchange contracts, in the normal course of business, to manage market risks. 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.

Foreign exchange risk
The primary foreign currencies in which the group has exchange rate fluctuation exposure are the European Union euro, US dollar and Swiss franc. 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.

Results and dividends
The profit and loss account for the year is set out on page 8.

The profit for the financial year was £5,422,000 (2012: profit of £7,452,000). No dividend was paid or declared in respect of the year ended 31 December 2013 (2012: £nil) and therefore the profit for the year will be transferred to reserves.

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 all exceptions noted.

Qualifying third party indemnity
The company maintains liability insurance for its directors and officers. The company has also continued to provide an indemnity for its directors and secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

Directors' report for the year ended 31 December 2013 (continued)

Political and charitable donations
During the year, the company made no political donations.

During the year, the company made charitable donations of £500 (2012: £500)..

There were no individual charitable donations of over £200.

Research and development
Research and development provide the basis for the growth of the business. Activity has been, and will continue to be, focussed on the development of new products and formulations. All development expenditure has been expensed, the amount being £134,000 (2012: £140,000).

Disclosure of information to the auditor
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 auditor is 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 auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditors
Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

By order of the board

Brian Robert Watt
Company secretary
9-6-14

Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements

The directors are responsible for preparing the strategic report, 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG Audit Plc

St James' Square
Manchester
M2 6DS
United Kingdom

Independent auditor's report to the members of Innospec Widnes Limited

We have audited the financial statements of Innospec Widnes Limited for the period ended 31 December 2013 set out on pages 8 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 5 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with UK 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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Innospec Widnes Limited (continued)

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.

12 June 2014

David Bills (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
St James' Square
Manchester
M2 6DS

Profit and loss account for the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Turnover	1	**42,618**	39,271
Cost of sales		**(33,419)**	(28,630)
Gross profit		**9,199**	10,641
Administrative expenses		**(2,114)**	(1,117)
Distribution costs		**(287)**	(257)
Operating profit	2	**6,798**	9,267
Interest receivable and similar income	5	**505**	458
Interest payable and similar charges	6	**(240)**	(217)
Profit on ordinary activities before taxation		7,063	9,508
Tax on profit on ordinary activities	7	**(1,641)**	(2,056)
Profit for the financial year	15, 16	**5,422**	7,452

The notes on pages 10 to 24 are an integral part of these financial statements.

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

The company has no recognised gains or losses other than the results above, and therefore no separate statement of total recognised gains and losses has been presented.

Balance sheet as at 31 December 2013

	Note	2013 £'000	2012 £'000
Fixed assets			
Intangible assets	8	-	(1,174)
Tangible assets	9	**5,076**	4,896
		5,076	3,722
Current assets			
Stocks	10	**8,890**	9,427
Debtors	11	**31,902**	26,309
Cash at bank and in hand		**227**	1,059
		41,019	36,795
Creditors: amounts falling due within one year	12	**(10,330)**	(9,995)
Net current assets		**30,689**	26,800
Total assets less current liabilities		**35,765**	30,522
Provisions for liabilities	13	**(225)**	(250)
Net assets		**35,540**	30,272
Capital and reserves			
Called up share capital	14	**129**	129
Share premium account	15	**106**	106
Capital redemption reserve	15	**65**	65
Share option reserve	15	**37**	191
Profit and loss account	15	**35,203**	29,781
Total shareholders' funds	16	**35,540**	30,272

The notes on pages 10 to 24 are an integral part of these financial statements.

The financial statements on pages 8 to 24 were approved by the board of directors and were signed on its behalf by:

Philip Andrew Curran
Director
9-6-14

Statement of accounting policies for the year ended 31 December 2013

Basis of accounting
The financial statements have been prepared in accordance with the Companies Act 2006 and applicable Accounting Standards in the UK. A summary of the more important accounting policies, which have been applied consistently unless otherwise stated, is set out below.

The financial statements are prepared in accordance with the historical cost convention.

Going concern
The company's business activities, together with the factors likely to affect its future development and position, are set out in the 'Business review' section of the Strategic report on page 2.

The company is expected to continue to generate profits on its own account for the foreseeable future. The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

The directors, having assessed the responses of the directors of the company's parent Innospec Inc. to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Innospec Inc. group to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of Innospec Inc., the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Goodwill
Negative goodwill relating to the acquisition of the business represents the excess of the fair value of the identifiable net assets acquired over the fair value of the consideration paid and is amortised through the profit and loss account on a straight line basis over its useful economic life. The directors have assessed the useful economic life of this negative goodwill at 12 years, based on the strength of the underlying business and projected future market growth.

Tangible fixed assets
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 calculated to write off the cost of tangible fixed assets, less their residual values, over their expected useful economic lives using the straight line basis. The expected useful economic lives of the assets to the business are re-assessed periodically in the light of experience.

Expected useful economic lives most widely used are as follows:

Freehold buildings	50 years
Plant and machinery	5 - 10 years

Freehold land is not depreciated.

Stocks
Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis, and includes inbound transport and handling costs. Cost, in the case of manufactured process stocks and finished products, comprises raw materials, direct labour, depreciation and appropriate manufacturing overheads. Where necessary, provision is made for obsolete, slow moving and defective stocks. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation.

Statement of accounting policies for the year ended 31 December 2013 (continued)

Provision for remediation costs
Liabilities for environmental remediation are recognised in full in the period in which an obligation arises.

The carrying amount of liabilities is reviewed regularly. Changes in operational assumptions, law or technology are reflected in an adjustment to the provision.

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.

Research and development
Expenditure on research and development is charged to the profit and loss account as incurred.

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, or the rate of related forward exchange contracts where appropriate. All currency gains or losses are taken to the profit and loss account in the year in which they arise.

Current taxation
Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation
Full provision is made, on an undiscounted basis, for deferred taxation resulting from timing differences between profits computed for taxation purposes and profits stated in the financial statements to the extent that there is an obligation to pay more tax in the future as a result of those timing differences reversing. Deferred tax assets are recognised to the extent that they are more likely than not expected to be recoverable. Deferred tax is measured at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws substantively enacted at the balance sheet date.

Pensions
The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension costs disclosed represent contributions payable by the company to the fund.

Cash flow statement
The company is a wholly-owned subsidiary of Innospec Inc., a company registered in the USA, and the cash flows of the company are included in the publicly available consolidated financial statements of that company. Consequently, the company is exempt under the terms of FRS 1 "Cash flow statements (revised 1996)" from publishing a cash flow statement.

Operating leases
Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Statement of accounting policies for the year ended 31 December 2013 (continued)

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

Notes to the financial statements for the year ended 31 December 2013

1 Turnover

The whole of the company's turnover relates to one class of business, the manufacture and sale of synthetic organic chemicals, originating in the UK. An analysis of turnover by geographical market is given below:

	2013	2012
	£'000	£'000
Europe, Middle East and Africa	**14,853**	12,390
Americas	**17,132**	17,323
Asia Pacific	**10,633**	9,558
	42,618	39,271

2 Operating profit

	2013	2012
	£'000	£'000
Operating profit is stated after charging/(crediting):		
Research and development expenditure	**134**	140
Depreciation of owned tangible fixed assets	**483**	444
Restructuring charge	**-**	215
Release of negative goodwill	**(1,174)**	(1,259)
Operating lease charges – other	**36**	48
Foreign exchange losses	**135**	58

Auditor remuneration for the years ended 31 December 2013 and 2012 has been borne by another group undertaking, Innospec Limited. The total audit fee for the companies audited in the UK was £361,000 (2012: £325,000).

Notes to the financial statements for the year ended 31 December 2013 (continued)

3 Directors' emoluments

The directors received no remuneration for their services to the company (2012: £nil).

The directors are remunerated through a group undertaking, Innospec Limited. Details of their remuneration are included within the annual report of that company.

4 Employee information

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

By activity	2013 No.	2012 No.
Production	**52**	52
Selling	**4**	4
Administrative	**11**	11
	67	67

Staff costs (for the above persons excluding directors)	£'000	£'000
Wages and salaries	**3,280**	2,889
Social security costs	**322**	288
Other pension costs	**344**	277
Share based payment charge (note 17)	**93**	91
	4,039	3,545

The company operates a defined contribution pension scheme for its staff. The assets of the scheme are held separately from those of the company in an independently administered fund. There were no unpaid contributions outstanding at the year end included in other creditors (2012: £nil).

5 Interest receivable and similar income

	2013 £'000	2012 £'000
Interest receivable on bank deposits	**6**	7
Interest receivable from group undertakings	**213**	200
Foreign exchange gains related to loans	**286**	251
Total interest receivable and similar income	**505**	458

Notes to the financial statements for the year ended 31 December 2013 (continued)

6 Interest payable and similar charges

	2013	2012
	£'000	£'000
Interest payable to group undertakings	**(226)**	(140)
Foreign exchange losses related to loans	**(14)**	(77)
Total interest payable and similar charges	**(240)**	(217)

7 Tax on profit on ordinary activities

	2013	2012
The charge for corporation tax comprises:	**£'000**	£'000
Current corporation tax at 23.25% (2012: 24.5%)		
UK corporation tax on profit for the year	**1,227**	2,011
UK corporation tax adjustments in respect of prior years	**(44)**	28
Total current tax	**1,183**	2,039
Deferred tax – origination and reversal of timing differences	**458**	17
Total tax charge	**1,641**	2,056

Notes to the financial statements for the year ended 31 December 2013 (continued)

7 Tax on profit on ordinary activities (continued)

The tax assessed for the year is lower (2012: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2013	2012
	£'000	£'000
Profit on ordinary activities before taxation	**7,063**	9,508
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)	**1,642**	2,329
Effects of:		
Disallowed expenses and non-taxable income	**(411)**	(314)
Accelerated capital allowances and other timing differences	**(4)**	(4)
Adjustments in respect of prior years	**(44)**	28
Current tax charge	**1,183**	2,039

Factors that may affect future tax charge:

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly and reduce the deferred tax assets/liabilities at 31 December 2013 which has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

Notes to the financial statements for the year ended 31 December 2013 (continued)

8 Intangible assets

	Negative goodwill £'000
Cost	
At 1 January and 31 December 2013	**(16,400)**
Accumulated amortisation	
At 1 January 2013	15,226
Charge for the year	1,174
At 31 December 2013	**16,400**
Net book amount	
At 31 December 2013	**-**
At 31 December 2012	(1,174)

9 Tangible assets

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 January 2013	2,097	21,660	23,757
Additions	-	663	663
At 31 December 2013	**2,097**	**22,323**	**24,420**
Accumulated depreciation			
At 1 January 2013	(22)	(18,839)	(18,861)
Charge for the year	(2)	(481)	(483)
At 31 December 2013	**(24)**	**(19,320)**	**(19,344)**
Net book amount			
At 31 December 2013	**2,073**	**3,003**	**5,076**
At 31 December 2012	2,075	2,821	4,896

In the opinion of the directors, the difference between the market value and balance sheet value of land is not significant.

Notes to the financial statements for the year ended 31 December 2013 (continued)

10 Stocks

	2013	2012
	£'000	£'000
Raw materials, consumables and intermediates	**4,201**	4,304
Finished goods	**4,689**	5,123
	8,890	9,427

11 Debtors

	2013	2012
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	**6,528**	5,577
Amounts owed by group undertakings	**24,965**	20,318
Value Added Tax	**165**	190
Prepayments and accrued income	**224**	221
Other debtors	**20**	-
Deferred tax	**-**	3
	31,902	26,309

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

The movement in the deferred tax provision is:

	£'000
At 1 January 2013	3
Transfer to profit and loss account	(3)
At 31 December 2013	**-**

Notes to the financial statements for the year ended 31 December 2013 (continued)

12 Creditors: amounts falling due within one year

	2013	2012
	£'000	£'000
Trade creditors	3,441	3,332
Amounts owed to group undertakings	3,387	3,168
Corporation tax	1,187	2,011
Deferred tax	455	-
Social security	96	82
Accruals	1,764	1,402
	10,330	9,995

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 relates to depreciation in excess of accelerated capital allowances.

13 Provisions for liabilities

	Remediation
	£'000
At 1 January 2013	250
Charged to the profit and loss account	-
Utilised	(25)
At 31 December 2013	**225**

The remediation provision reflects the current best estimate of liability arising under environmental regulations. It is based on a programme of future work required and the associated costs. The provision relates to decommissioning costs associated with the closure of the site which at present the company has no intention of closing.

14 Called up share capital

	2013	2012
	£'000	£'000
Allotted and fully paid		
1,287,249 (2012: 1,287,249) ordinary shares of £0.10 each	129	129

Notes to the financial statements for the year ended 31 December 2013 (continued)

15 Reserves

	Share premium account £'000	Capital redemption reserve £'000	Share option reserve £'000	Profit and loss account £'000
At 1 January 2013	106	65	191	29,781
Profit for the financial year	-	-	-	5,422
Share based payments	-	-	(154)	-
At 31 December 2013	**106**	**65**	**37**	**35,203**

16 Reconciliation of movements in total shareholders' funds

	2013 £'000	2012 £'000
Profit for the financial year	**5,422**	7,452
Share based payments	**(154)**	88
Net increase in total shareholders' funds	**5,268**	7,540
Opening total shareholders' funds	**30,272**	22,732
Closing total shareholders' funds	**35,540**	30,272

17 Share based payments

	2013 £'000	2012 £'000
Share based payment charge recognised in profit and loss account	**93**	91

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.

Innospec Inc. has five active stock option plans, two of which provide for the grant of stock options to employees, one provides for the grant of stock options to non-employee directors, and another provides for the grant of stock options to key executives on a matching basis provided they use a proportion of their annual bonus to purchase common stock in Innospec Inc. on the open market or from Innospec Inc.. The fifth plan is a savings plan which provides for the grant of stock options to all group employees provided they commit to make regular savings over a pre-defined period which can then be used to purchase common stock upon vesting of the options.

Notes to the financial statements for the year ended 31 December 2013 (continued)

17 Share based payments (continued)

The stock options have vesting periods ranging from 24 months to 6 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 of Innospec Inc. 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 2,640,000.

The fair value of the options above is calculated using the Black-Scholes model. In some cases certain performance-related options are dependent upon external factors such as Innospec Inc.'s stock price and the fair value of these options is calculated using a Monte Carlo model. The following assumptions were used to determine the fair value of options calculated using the Black-Scholes model:

	2013	2012
Dividend yield	**0.11%**	0.00%
Expected life	**5 years**	5 years
Volatility	**41.10%**	60.10%
Risk free interest rate	**0.46%**	0.43%

The expected life is the average expected period to exercise. The volatility is based on Innospec Inc. stock prices for the last three years. The risk free interest rate is as advised by the US Federal Reserve.

Grants were made under one (2012: one) plan, the Performance Related Stock Option Plan (PRSOP). The fair value of options granted during the year under the plan was as follows:

	2013	2012
Grant date	**21.10.2013**	04.07.2012
Scheme	**PRSOP**	PRSOP
Share price at grant date	**US$ 46.57**	US$ 30.73
Exercise price	**US$ nil**	US$ nil
Shares under option	**100**	200
Vesting period	**3 years**	3 years
Option term	**10 years**	10 years
Fair value	**US$ 46.57**	US$ 30.73

The weighted average fair value of options granted in the year was US$ 46.57 (2012: US$ 30.73).

Notes to the financial statements for the year ended 31 December 2013 (continued)

17 Share based payments (continued)

A reconciliation of option movements is shown below:

	2013		2012	
	No.	**Weighted average exercise price**	No.	Weighted average exercise price
		US$		US$
Outstanding 1 January	**42,823**	**11.13**	43,871	11.19
Granted	**100**	-	200	-
Exercised	**(42,023)**	**11.35**	(485)	11.40
Forfeited	**(200)**	-	(763)	11.40
Outstanding 31 December	**700**	-	42,823	11.13
Exercisable 31 December	**700**	-	400	-

The following table summarises information about options outstanding at 31 December 2013:

Range of exercise price	US$ 0-5
Outstanding – number	700
– weighted average remaining life	6.58 years
– weighted average exercise price	-
Exercisable – number	700
– weighted average remaining life	6.58 years
– weighted average exercise price	-

Notes to the financial statements for the year ended 31 December 2013 (continued)

18 Financial commitments

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

	2013	2012
	£'000	£'000
Capital commitments		
Contracted for but not provided	**262**	8

At 31 December the company had annual commitments under non-cancellable operating leases for assets other than land and buildings expiring as follows:

	2013	2012
	£'000	£'000
Within one year	**9**	9

19 Contingent liabilities

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 2013, the net debt position of the group under the unlimited cross-guarantee arrangement amounted to US$ 61.2 million (31 December 2012: net debt of US$ 2.5 million).

The arrangement is secured by a number of fixed and floating charges over certain assets which include key operating sites of the Innospec Inc. group.

20 Related party disclosures

As the company is a wholly-owned subsidiary of Innospec Inc., the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with wholly-owned subsidiaries which form part of the group.

Notes to the financial statements for the year ended 31 December 2013 (continued)

21 Ultimate parent undertaking and controlling party

The directors regard Innospec Active Chemicals 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.innospecinc.com.