

Innospec Widnes Limited
Annual report and financial statements
for the year ended 31 December 2011

Registered number 04178371

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Contents

	Page
Directors and advisers	1
Directors' report	2
Statement of directors' responsibilities in respect of the directors' report and the financial statements	5
Independent auditor's report to the members of Innospec Widnes Limited	6
Profit and loss account	8
Balance sheet	9
Statement of accounting policies	10
Notes to the financial statements	13

Directors and advisers for the year ended 31 December 2011

Directors

A Hartley (resigned 31 December 2011)
I P Cleminson
M A Bracewell
B R Watt (appointed 18 January 2012)
P J Boon (appointed 13 February 2012)

Company secretary

A Hartley (resigned 31 December 2011)
B R Watt (appointed 31 December 2011)

Independent auditors

KPMG Audit Plc
St James' Square
Manchester
M2 6DS

Solicitors

Mayer Brown International LLP
201 Bishopsgate
London
EC3M 3AF

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

Directors' report for the year ended 31 December 2011

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2011

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

Review of business

The company manufactures and sells synthetic organic chemicals and is part of the Innospec Inc group

Key performance indicators used by the company are as follows

	2011	2010	Definition
Sales trend	11%	16%	Year on year turnover trend expressed as a percentage
Gross margin	27%	23%	Gross profit expressed as a percentage of turnover
Operating margin	24%	20%	Operating profit expressed as a percentage of turnover

Turnover in the year increased by £3.8 million (11%) due to volume growth and increased pricing driven by rising raw material costs. Gross profit increased by £2.4 million to £10.7 million representing an increase of 28%. Selling costs were comparable to the prior year and administrative expenses increased by £0.1 million principally due to reduced foreign exchange gains compared to prior year. Therefore operating profit rose from £7.3 million in 2010 to £9.5 million in 2011.

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 9 of the Form 10-K for the year ended 31 December 2011 of the ultimate parent company, Innospec Inc, a copy of which is available from the company website www.innospecinc.com

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 to hedge the cost of some raw materials to reduce the volatility on earnings and cash flows. The derivatives are considered risk management tools and are not used for trading purposes. The company's objective is to manage the exposure to fluctuating costs of raw materials.

Directors' report for the year ended 31 December 2011 (continued)

Financial risk management (continued)

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 and the US dollar. There is 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 parties.

Results and dividends

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

The profit for the financial year was £7,270,000 (2010 profit of £5,306,000). From this a dividend of £nil was paid in respect of the year ended 31 December 2011 (2010 £nil) and the balance 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 except where stated.

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.

Political and charitable donations

During the year no donations were made (2010 £nil).

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 £241,000 (2010 £232,000).

Directors' report for the year ended 31 December 2011 (continued)

Payments to suppliers

The company agrees the terms and conditions under which business transactions with its suppliers are conducted. It is policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions. The average age of creditors at 31 December 2011 was 28 days (2010: 18 days).

Statement on disclosure of information to the independent auditors

Each of the persons 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.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditors

KPMG Audit Plc were appointed as auditors during the year.

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

By order of the board



B R Watt
Company secretary
22 June 2012

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law 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 year ended 31 December 2011 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 (APB'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 APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

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 2011 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

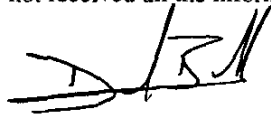
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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



25 June 2012

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

Profit and loss account for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Turnover	1	39,983	36,163
Cost of sales		(29,323)	(27,854)
Gross profit		10,660	8,309
Administrative expenses		(754)	(680)
Distribution costs		(365)	(317)
Operating profit	2	9,541	7,312
Interest receivable and similar income	5	381	81
Interest payable and similar charges	6	(138)	(90)
Profit on ordinary activities before taxation		9,784	7,303
Tax on profit on ordinary activities	7	(2,514)	(1,997)
Profit for the financial year	15, 16	7,270	5,306

The notes on pages 13 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

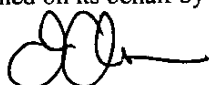
There is no material difference between the profit on ordinary activities before taxation and the profit for the financial years stated above and their historical cost equivalents

Balance sheet as at 31 December 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Intangible assets	8	(2,433)	(3,691)
Tangible assets	9	4,693	6,120
		2,260	2,429
Current assets			
Stocks	10	9,258	5,427
Debtors	11	20,696	16,271
Cash at bank and in hand		8	63
		29,962	21,761
Creditors: amounts falling due within one year	12	(9,433)	(8,493)
Net current assets		20,529	13,268
Total assets less current liabilities		22,789	15,697
Provisions for liabilities	13	(57)	(317)
Net assets		22,732	15,380
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	103	21
Profit and loss account	15	22,329	15,059
Total shareholders' funds	16	22,732	15,380

The notes on pages 13 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 on 22 June 2012 and were signed on its behalf by



I P Cleminson
Director

Statement of accounting policies for the year ended 31 December 2011

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 Directors' 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.

Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to the profit and loss account over the expected useful economic lives of the relevant assets by equal annual instalments. Grants of a revenue nature are credited to the profit and loss account so as to match them with the expenditure to which they relate.

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. Cost, in the case of manufactured process stocks and finished products, comprises raw materials, direct labour, depreciation and appropriate manufacturing overheads.

Statement of accounting policies for the year ended 31 December 2011 (continued)

Stocks (continued)

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

Provision is made where necessary for obsolete, slow moving and defective stocks

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

Deferred income

Income received from the rental of land which has been received prior to the period end and relates to future periods is treated as deferred income

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 cost charge disclosed represents 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

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 2011 (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 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. The fair value of these options is calculated using a Monte Carlo model.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of shares that are expected to vest. At each balance sheet date, the company revises its estimates of the number of share options that are expected to vest. It recognises the impact of the revision to original assumptions, if any, in the profit and loss account with a corresponding adjustment to reserves.

Notes to the financial statements for the year ended 31 December 2011

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

	2011 £'000	2010 £'000
Europe, Middle East and Africa	15,778	12,909
Americas	14,718	15,773
Asia Pacific	9,487	7,481
	39,983	36,163

2 Operating profit

	2011 £'000	2010 £'000
Operating profit is stated after charging/(crediting):		
Research and development expenditure	241	232
Depreciation of owned tangible fixed assets	1,894	2,022
Release of negative goodwill	(1,258)	(1,258)
Operating lease charges – other	30	33
Foreign exchange gains	(176)	(248)
Government grant income	-	(7)

Auditor's remuneration for the years ended 31 December 2011 and 2010 has been borne by another group undertaking. The total audit fee for the companies audited in the UK was £225,000 (2010: £551,000).

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Directors' emoluments

The directors received no remuneration for their services to the company (2010 £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 executive directors) employed by the company during the year was

By activity	2011 No.	2010 No
Production	56	58
Selling	4	4
Administrative	8	7
	68	69

Staff costs (for the above persons)	£'000	£'000
Wages and salaries	3,572	3,319
Social security costs	345	339
Other pension costs	231	155
Share based payment charge (note 17)	91	29
	4,239	3,842

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. The unpaid contributions outstanding at the year end, included in other creditors, are £nil (2010 £nil).

5 Interest receivable and similar income

	2011 £'000	2010 £'000
Bank interest receivable	1	1
Interest receivable from group undertakings	160	80
Foreign exchange gains related to loans	220	-
Total interest receivable and similar income	381	81

Notes to the financial statements for the year ended 31 December 2011 (continued)

6 Interest payable and similar charges

	2011 £'000	2010 £'000
Interest payable to group undertakings	(138)	(38)
Foreign exchange losses related to loans	-	(52)
Total interest payable and similar charges	(138)	(90)

7 Tax on profit on ordinary activities

	2011 £'000	2010 £'000
The charge for corporation tax comprises:		
Current corporation tax at 26.5% (2010: 28.0%)		
UK corporation tax on profits for the year	2,601	2,111
UK corporation tax adjustments in respect of prior years	(36)	(26)
Total current tax	2,565	2,085
Deferred tax – origination and reversal of timing differences	(51)	(88)
Total tax charge	2,514	1,997

Notes to the financial statements for the year ended 31 December 2011 (continued)

7 Tax on profit on ordinary activities (continued)

The tax assessed for the year is lower (2010 higher) than the standard rate of corporation tax in the UK. The differences are explained below

	2011 £'000	2010 £'000
Profit on ordinary activities before taxation	9,784	7,303
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26.5% (2010 28.0%)	2,592	2,045
Effects of		
Disallowed expenses and non-taxable income	(19)	(6)
Accelerated capital allowances and other timing differences	38	90
Other	(10)	(18)
Adjustments in respect of prior years	(36)	(26)
Current tax charge	2,565	2,085

Factors that may affect future tax charge:

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 23% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 26% was substantively enacted on 29 March 2011 and was effective from 1 April 2011. The Budget on 21 March 2012 announced that the UK corporation tax rate would reduce by an additional 1 percent to 24% from April 2012 with further reductions to 23% in 2013 and 22% in 2014. The reduction in the rate from 26% to 25% with effect from 1 April 2012 was substantively enacted on 5 July 2011. The tax disclosures for the period reflect the deferred tax at the 25% substantively enacted rate. It has not yet been possible to quantify the full anticipated effect of further rate reductions, although this will further reduce the company's future tax charge and reduce the company's deferred tax assets and liabilities.

Notes to the financial statements for the year ended 31 December 2011 (continued)

8 Intangible assets

	Negative goodwill £'000
Cost	
At 1 January and 31 December 2011	(16,400)
Accumulated amortisation	
At 1 January 2011	12,709
Release for the year	1,258
At 31 December 2011	13,967
Net book amount	
At 31 December 2011	(2,433)
At 31 December 2010	(3,691)

9 Tangible assets

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 January 2011	2,097	20,546	22,643
Additions	-	467	467
At 31 December 2011	2,097	21,013	23,110
Accumulated depreciation			
At 1 January 2011	18	16,505	16,523
Charge for the year	-	1,894	1,894
At 31 December 2011	18	18,399	18,417
Net book amount			
At 31 December 2011	2,079	2,614	4,693
At 31 December 2010	2,079	4,041	6,120

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 2011 (continued)

10 Stocks

	2011 £'000	2010 £'000
Raw materials, consumables and intermediates	3,747	3,543
Finished goods	5,511	1,884
	9,258	5,427

11 Debtors

	2011 £'000	2010 £'000
Amounts falling due within one year:		
Trade debtors	5,146	5,618
Amounts owed by group undertakings	15,255	10,371
Value Added Tax	78	131
Prepayments and accrued income	197	151
Deferred tax	20	-
	20,696	16,271

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

In 2010 deferred tax was a liability and disclosed under provisions (note 13)

The deferred tax asset/(liability) comprises

	2011 £'000	2010 £'000
Accelerated capital allowances	20	(31)

Notes to the financial statements for the year ended 31 December 2011 (continued)

12 Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Trade creditors	2,288	1,346
Amounts owed to group undertakings	2,393	2,591
Corporation tax	2,602	2,111
Social security	91	93
Accruals and deferred income	2,059	2,352
	9,433	8,493

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

13 Provisions for liabilities

	Remediation £'000	Deferred tax £'000	Total £'000
At 1 January 2011	286	31	317
Transfer to the profit and loss account	-	(31)	(31)
Utilised	(229)	-	(229)
At 31 December 2011	57	-	57

In the reporting period there was a deferred tax asset (note 11)

14 Called up share capital

	2011 £'000	2010 £'000
Allotted and fully paid		
1,287,249 ordinary shares of £0.10 each (2010: 1,287,249)	129	129

Notes to the financial statements for the year ended 31 December 2011 (continued)

15 Reserves

	Share premium account £'000	Capital redemption reserve £'000	Share option reserve £'000	Profit and loss account £'000
At 1 January 2011	106	65	21	15,059
Profit for the financial year	-	-	-	7,270
Share based payments	-	-	82	-
At 31 December 2011	106	65	103	22,329

16 Reconciliation of movements in total shareholders' funds

	2011 £'000	2010 £'000
Profit for the financial year	7,270	5,306
Share based payment charge/(credit)	82	(177)
Net increase in total shareholders' funds	7,352	5,129
Opening total shareholders' funds	15,380	10,251
Closing total shareholders' funds	22,732	15,380

17 Share based payments

	2011 £'000	2010 £'000
Share based payment charge recognised in profit and loss account	91	29

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. 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.

Notes to the financial statements for the year ended 31 December 2011 (continued)

17 Share based payments (continued)

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. 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:

	2011	2010
Dividend yield	0.2%	1.0%
Expected life	5 years	5 years
Volatility	78.3%	82.3%
Risk free interest rate	1.22%	1.36%

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 1 (2010-2) plan, the Performance Related Stock Option Plan (PRSOP). The fair value of options granted during the year under the plans are as follows:

	2011	2010	2010
Grant date	18.07.2011	19.03.2010	18.10.2010
Scheme	PRSOP	PRSOP	Savings Plan
Share price at grant date	US\$ 32.91	US\$ 11.30	US\$ 16.51
Exercise price	US\$ nil	US\$ nil	US\$ 11.40
Shares under option	300	100	48,818
Vesting period	3 years	3 years	3 years
Option term	10 years	10 years	3.5 years
Fair value	US\$ 32.59	US\$ 10.67	US\$ 9.92

The weighted average fair value of options granted in the year was \$32.59 (2010: \$9.92).

Notes to the financial statements for the year ended 31 December 2011 (continued)

17 Share based payments (continued)

A reconciliation of option movements is shown below

	2011		2010	
	No.	Weighted average exercise price US\$	No.	Weighted average exercise price US\$
Outstanding 1 January	50,518	11.02	12,400	-
Granted	300	-	48,918	11.38
Exercised	(600)	-	(10,800)	-
Forfeited	(1,248)	11.40	-	-
Outstanding 31 December	48,970	11.07	50,518	11.02
Exercisable 31 December	1,000	-	1,400	-

The following table summarises information about options outstanding at 31 December 2011

Range of exercise price	US\$ 0-5	US\$ 10-15
Outstanding – number	1,400	47,570
– weighted average remaining life	6.34 years	2.3 years
– weighted average exercise price	-	US\$ 11.40
Exercisable – number	1,000	-
– weighted average remaining life	5.19 years	-
– weighted average exercise price	-	-

Notes to the financial statements for the year ended 31 December 2011 (continued)

18 Financial commitments

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

	2011	2010
	£'000	£'000
Capital commitments		
Contracted for but not provided	216	160

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

	2011	2010
	£'000	£'000
Within one year	28	28
Within one to two years	8	8
	36	36

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 2011 the net cash position of the group under the unlimited cross-guarantee arrangement amounted to US\$ 46.0 million (31 December 2010 net cash of US\$ 64.3 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 2011 (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 largest and smallest 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