

Innospec Widnes Limited
Annual report and financial statements
for the year ended 31 December 2009

Registered number 04178371

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Innospec Widnes Limited

Annual report and financial statements for the year ended 31 December 2009

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Innospec Widnes Limited

Directors and advisors for the year ended 31 December 2009

Directors

A Hartley

I P Cleminson

M A Bracewell (appointed 11 May 2009)

P W Jennings (resigned 20 March 2009)

Company secretary

A Hartley

Independent auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

101 Barbirolli Square

Lower Mosley Street

Manchester

M2 3PW

Solicitors

Mayer Brown International LLP

11 Pilgrim Street

London

EC4V 6RW

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

Innospec Widnes Limited

Directors' report for the year ended 31 December 2009

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2009

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

	2009	2008	Definition
Sales trend (%)	37%	10%	Year on year turnover trend expressed as a percentage
Gross margin (%)	29%	8%	Gross profit expressed as a percentage of turnover
Operating margin (%)	20%	(1)%	Operating profit expressed as a percentage of turnover

Turnover in the year increased by £8,380,000 (37%) due to volume growth and improved pricing thus increasing the overall gross margin by 21 percentage points, from 8% to 29% Gross profit at £9,152,000 was higher than 2008 by £7,247,000 Selling expenses were comparable to prior year and administrative expenses were increased by £785,000 (42%), principally due to foreign exchange losses, giving an operating profit for the year of £6,205,000 compared with a 2008 loss of £286,000

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 2009 of the ultimate parent company, Innospec Inc , and updated where necessary in the Form 10-Q for the three months ended 31 March 2010 Copies of both are 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 price 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 prices of raw materials

Innospec Widnes Limited

Directors' report for the year ended 31 December 2009 (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

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 monitor 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 6

A dividend of £nil was paid in respect of the year ended 31 December 2009 (2008: £nil)

The profit for the financial year was £4,301,000 (2008: loss of £533,000) which 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 provided 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 (2008: £nil)

Research and development

Research and development provide the basis for the growth of the business. Activity has been, and will continue to be, focused on the development of new products. All development expenditure has been expensed, the amounts being £192,000 (2008: £229,000)

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 2009 was 32 days (2008: 53 days)

Innospec Widnes Limited

Directors' report for the year ended 31 December 2009 (continued)

Statement of directors' responsibilities

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

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

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 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.

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

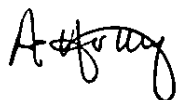
- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's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

Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the annual general meeting.

By order of the board



A Hartley
Company secretary
28 June 2010

Innospec Widnes Limited

Independent auditors' report to the members of Innospec Widnes Limited

We have audited the financial statements of Innospec Widnes Limited for the year ended 31 December 2009 which comprise the profit and loss account, the balance sheet, the statement of accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit for the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

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 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Richard Bunter (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
28 June 2010

Innospec Widnes Limited

Profit and loss account for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Turnover	1	31,090	22,710
Cost of sales		(21,938)	(20,805)
Gross profit		9,152	1,905
Administrative expenses		(2,634)	(1,849)
Distribution costs		(313)	(342)
Operating profit/(loss)	2	6,205	(286)
Interest receivable and similar income	5	71	105
Interest payable and similar charges	6	(291)	(585)
Profit/(loss) on ordinary activities before taxation		5,985	(766)
Tax on profit/(loss) on ordinary activities	7	(1,684)	233
Profit/(loss) for the financial year	16, 17	4,301	(533)

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/(loss) on ordinary activities before taxation and the profit/(loss) for the financial years stated above and their historical cost equivalents

Innospec Widnes Limited

Balance sheet as at 31 December 2009

	Note	2009 £'000	2008 £'000
Fixed assets			
Intangible assets	8	(4,949)	(6,208)
Tangible assets	9	7,538	9,282
		2,589	3,074
Current assets			
Stocks	10	6,547	6,283
Debtors	11	7,902	3,740
Cash at bank and in hand		221	177
		14,670	10,200
Creditors' amounts falling due within one year	12	(6,282)	(7,136)
Net current assets		8,388	3,064
Total assets less current liabilities		10,977	6,138
Creditors' amounts falling due after more than one year	13	(7)	(40)
Provisions for liabilities	14	(719)	(223)
Net assets		10,251	5,875
Capital and reserves			
Called up share capital	15	129	129
Share premium account	16	106	106
Capital redemption reserve	16	65	65
Share option reserve	16	198	123
Profit and loss account	16	9,753	5,452
Total shareholders' funds	17	10,251	5,875

The financial statements on pages 6 to 19 were approved by the board of directors on 28 June 2010 and were signed on its behalf by



I P Cleminson
Director

Innospec Widnes Limited

Statement of accounting policies for the year ended 31 December 2009

Basis of accounting

The financial statements have been prepared in accordance with the Companies Act 2006 and applicable Accounting Standards in the United Kingdom. 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.

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 reassessed periodically in the light of experience.

Straight line annual rates of depreciation most widely used are as follows:

Freehold property	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.

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.

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.

Innospec Widnes Limited

Statement of accounting policies for the year ended 31 December 2009 (continued)

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.

Corporation 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 financial statements 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.

Share based payments

The company participates in a group equity settled share based payment programme. Share options in Innospec Inc are granted to employees which 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 is calculated using the Black-Scholes 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.

Innospec Widnes Limited

Notes to the financial statements for the year ended 31 December 2009

1 Turnover

Turnover is attributable to one continuing activity, the manufacture and sale of synthetic organic chemicals

An analysis of turnover by geographical market is given below

	2009 £'000	2008 £'000
Americas	12,969	11,256
Europe, Middle East & Africa	11,304	7,539
Asia Pacific	6,817	3,915
	31,090	22,710

2 Operating profit/(loss)

	2009 £'000	2008 £'000
Operating profit/(loss) is stated after charging/(crediting):		
Research and development expenditure	192	229
Depreciation of owned fixed assets	2,028	1,993
Release of negative goodwill	(1,259)	(1,259)
Operating lease rentals – other	26	24
Foreign exchange gains	(748)	(201)
Government grant income	(8)	(15)

Auditors' remuneration for the years ended 31 December 2009 and 2008 has been borne by another group undertaking. The total audit fee for the companies audited in the UK was £475,000 (2008 £543,000)

Innospec Widnes Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

3 Directors' emoluments

The directors received no remuneration for services to the company (2008 £nil) No compensation for loss of office was paid by the company for the director who resigned during the year

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	2009 Number	2008 Number
Manufacturing	55	51
Selling	4	4
Administrative	9	14
	68	69

Staff costs (for the above persons)	£'000	£'000
Wages and salaries	3,000	2,943
Social security costs	284	307
Other pension costs	145	163
Share based payment charge (note 18)	75	79
	3,504	3,492

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 (2008 £nil)

5 Interest receivable and similar income

	2009 £'000	2008 £'000
Bank interest receivable	5	42
Other interest receivable	-	4
Interest receivable from group undertakings	66	59
Total interest receivable and similar income	71	105

Innospec Widnes Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

6 Interest payable and similar charges

	2009 £'000	2008 £'000
Interest payable to group undertakings	(114)	(342)
Foreign exchange losses related to loans	(177)	(243)
Total interest payable and similar charges	(291)	(585)

7 Tax on profit/(loss) on ordinary activities

	2009 £'000	2008 £'000
The charge/(credit) for corporation tax comprises:		
Current corporation tax at 28.0% (2008: 28.5%)		
United Kingdom	1,791	(154)
Adjustments in respect of prior years	(3)	(14)
Total current tax	1,788	(168)
Deferred tax		
Deferred taxation	(111)	(70)
Adjustments in respect of prior years	7	5
Total deferred tax (note 14)	(104)	(65)
Total tax charge/(credit)	1,684	(233)

The 2008 tax rate of 28.5% is a blended rate reflecting the change from 30% to 28% during 2008

Innospec Widnes Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

7 Tax on profit/(loss) on ordinary activities (continued)

The tax assessed for the year is higher (2008 higher) than the standard rate of corporation tax in the UK of 28.0% (2008 28.5%). The differences are explained below

	2009 £'000	2008 £'000
Profit/(loss) on ordinary activities before taxation	5,985	(766)
Profit/(loss) on ordinary activities multiplied by the standard rate of UK corporation tax of 28.0% (2008 28.5%)	1,676	(218)
Effects of		
Disallowed expenses and non-taxable income	4	8
Capital allowances in excess of depreciation	111	70
Other	-	(14)
Adjustments in respect of prior years	(3)	(14)
Current tax charge/(credit)	1,788	(168)

Factors that may affect future tax charge:

Based on current capital investment plans the company expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year

8 Intangible assets

	Goodwill £'000
Cost	
At 1 January and 31 December 2009	(16,400)
Accumulated amortisation	
At 1 January 2009	10,192
Charge for the year	1,259
At 31 December 2009	11,451
Net book amount	
At 31 December 2009	(4,949)
At 31 December 2008	(6,208)

Innospec Widnes Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

9 Tangible assets

	Freehold land and buildings	Plant and machinery	Total
	£'000	£'000	£'000
Cost			
At 1 January 2009	2,097	19,658	21,755
Additions	-	284	284
At 31 December 2009	2,097	19,942	22,039
Accumulated depreciation			
At 1 January 2009	14	12,459	12,473
Charge for the year	2	2,026	2,028
At 31 December 2009	16	14,485	14,501
Net book amount			
At 31 December 2009	2,081	5,457	7,538
At 31 December 2008	2,083	7,199	9,282

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

10 Stocks

	2009	2008
	£'000	£'000
Raw materials, consumables and intermediates	3,491	3,397
Finished goods	3,056	2,886
	6,547	6,283

There is no material difference between the replacement costs of stock items and the balance sheet costs noted above

Innospec Widnes Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

11 Debtors

	2009	2008
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	4,720	3,167
Amounts owed by group undertakings	2,936	-
Corporation tax	-	154
Value Added Tax	72	232
Prepayments and accrued income	174	187
	7,902	3,740

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

12 Creditors: amounts falling due within one year

	2009	2008
	£'000	£'000
Trade creditors	1,950	3,004
Amounts owed to group undertakings	593	2,845
Corporation tax	1,791	-
Accruals	1,914	1,250
Current portion of deferred income	34	37
	6,282	7,136

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

Innospec Widnes Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

13 Creditors: amounts falling due after more than one year

	2009 £'000	2008 £'000
Leases	-	28
Government grants	7	12
	7	40

14 Provisions for liabilities

	Remediation £'000	Deferred tax £'000	Total £'000
At 1 January 2009	-	223	223
Charged to the profit and loss account	600	(104)	496
At 31 December 2009	600	119	719

Deferred taxation, calculated at 28% (2008 28%) is as follows

	2009 £'000	2008 £'000
Capital allowances in advance of depreciation	(119)	(232)
Other timing differences	-	9
Provision for deferred taxation	(119)	(223)

15 Called up share capital

	2009 £'000	2008 £'000
Authorised		
2,500,000 ordinary shares of £0.10 each	250	250
Allotted and fully paid		
1,287,249 ordinary shares of £0.10 each (2008 1,287,249)	129	129

Innospec Widnes Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

16 Reserves

	Share premium reserve £'000	Capital redemption reserve £'000	Share option reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2009	106	65	123	5,452	5,746
Profit for the financial year	-	-	-	4,301	4,301
Share based payment charge	-	-	75	-	75
At 31 December 2009	106	65	198	9,753	10,122

17 Reconciliation of movements in total shareholders' funds

	2009 £'000	2008 £'000
Profit/(loss) for the financial year	4,301	(533)
Share based payment (charge)/credit	75	123
Net increase/(decrease) in shareholders' funds	4,376	(410)
Opening shareholders' funds	5,875	6,285
Closing shareholders' funds	10,251	5,875

18 Share based payments

	2009 £'000	2008 £'000
Share based payment charge recognised in profit and loss account	75	79

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 stock option plans. Two of these plans provide for the grant of stock options to key 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. The fifth plan is a savings plan which provides for the grant of stock options to all Company 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.

Innospec Widnes Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

18 Share based payments (continued)

The aggregate number of shares of common stock reserved for issuance which can be granted under all five plans is 1,790,000

The fair value of these options is calculated using the Black-Scholes model. In some cases certain performance related options are dependent upon external factors such as compound growth in shareholder return and Innospec Inc.'s share 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 in the four schemes disclosed:

	2009	2008
Dividend yield	2.5%	0.5%
Expected life	5 years	4 years
Volatility	76.5%	50.1%
Risk free interest rate	1.24%	2.73%

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 Federal Reserve.

No grants were made in 2009 under any plan.

On 12 March 2008, 200 options were granted under the Performance Related Stock Option Plan. The share price at the date of the grant was \$20.46 and the fair value was \$20.45. The options have a vesting period of 3 years and an option term of 10 years.

A reconciliation of option movements is shown below:

	2009		2008	
	No.	Weighted average exercise price \$	No.	Weighted average exercise price \$
Outstanding 1 January	12,600	-	12,400	-
Granted	-	-	200	-
Forfeited	(200)	-	-	-
Outstanding 31 December	12,400	-	12,600	-
Exercisable 31 December	-	-	-	-

The options have a remaining life of 7.18 years.

Innospec Widnes Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

19 Financial commitments

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

	2009	2008
	£'000	£'000
Capital commitments		
Contracted for but not provided	509	157

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

	2009	2008
	£'000	£'000
Within one year	12	17
Within two to five years	5	1
	17	18

20 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 2009 the net cash position of the group under the unlimited cross-guarantee arrangement amounted to approximately US \$17.6 million (31 December 2008 net borrowings of US \$59.1 million).

The borrowings are secured by fixed and floating charges over all assets.

21 Related party disclosures

The company has taken advantage of the exemption under the provisions of FRS8, 'Related Party Disclosures', on the grounds that it is a wholly owned subsidiary of a group headed by Innospec Inc whose consolidated financial statements are publicly available.

22 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).