

Houghton plc
Annual report and accounts
for the year ended 31 December 2009

Registered number 63827

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Houghton plc

Annual report and accounts

for the year ended 31 December 2009

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Houghton plc

Directors and advisors for the year ended 31 December 2009

Directors

S M Taylor
D S P Little
H Markwick
S Mayo

Company secretary

H Markwick

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
101 Barbirolli Square
Lower Mosley Street
Manchester
M2 3PW

Registered office

Beacon Road
Trafford Park
Manchester
M17 1AF

Houghton plc

Directors' report for the year ended 31 December 2009

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

Principal activities

The principal activities of the Company during the year was the manufacture and marketing of a wide range of industrial chemicals and lubricants, metal working products, hydraulic fluids and cleaners. The Company also supports customers in managing the use of these products by means of individually structured contracts, including undertaking lubrication engineering and the supply of lubrication and other equipment and the provision of waste treatment and disposal solutions and general facilities management services.

Review of business and future developments

In December 2007 the ultimate parent Houghton International Inc, was acquired by AEA Investors LP – a New York based private equity investor. Their intention to grow the business globally was demonstrated in September 2008 when the entire share capital of the DA Stuart Company, a successful lubricant company of over 100 years standing, was acquired. The business of DA Stuart Ltd, the UK part of the DA Stuart Company, was subsequently merged into that of Houghton plc with effect from 1 February 2009 and has since been fully integrated into Houghton's UK operations.

As in previous years the key challenges facing the Company are the continued contraction of the market in which we operate and rising raw material prices driven both by the price of major feedstocks such as crude oil and consolidation of some of our major suppliers. Plant closures and reduced operating hours affected many of our customers and resulted in loss of revenue, which we consider to be at a level in line with losses incurred by our competitors over the prior year. However, the 2009 results have been encouraging despite the fact that the general recovery from the recession in the UK is slow and protracted and the automotive business is still relatively weak.

Early in the year the Board implemented a robust response to these issues. Cost saving initiatives, the subsequent closure of the DA Stuart manufacturing plant, coupled with a stringent and disciplined cost management program has generated significant cost savings across all expense categories.

The amalgamation of the DA Stuart business within the Company has strengthened our position in the market. In addition, the continued focus on implementing new strategies for the development of new products, plus entering new markets for established products, has resulted in genuine growth in the business. An increase in new business in core markets and demand pick up from our existing customer base has resulted more recently in an improvement in our volume.

The Board continues to focus on strengthening the balance sheet in order to increase the Company financial flexibility and maximise cash flow generation.

External factors notwithstanding, the Board continues to be confident that the tough measures taken in recent years together with our initiatives in new markets and a highly focused approach to the business will lead to continuing improvement in the results through 2010.

Results and dividends

The directors do not propose a dividend for the year (2008: £nil). The profit for the year, after tax, is £127,707 (2008: £843,563) which will be transferred to reserves.

Houghton plc

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

Directors

The directors who held office during the year and up to the date of signing the financial statements are given below

M A Bishop	(Resigned 1 October 2009)
P T G Miller	(Resigned 24 March 2009)
H Markwick	
A Turnock	(Resigned 31 October 2009)
S Mayo	
S M Taylor	(Appointed 1 October 2009)
D S P Little	(Appointed 1 October 2009)

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in debt market prices, credit risk, liquidity risk and interest rate risk. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs.

Price risk

The Company is exposed to commodity price risk as a result of its operations. However, given the size of the Company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The Company has no exposure to equity securities price risk as it holds no listed or other equity investments.

Credit risk

The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed periodically by the board.

Liquidity risk

The exposure to liquidity risk is considered to be not material. If required debt finance is provided by the European holding company, Houghton Europe NV.

Interest rate and cash flow risk

The Company has very few interest bearing assets and interest bearing liabilities. Interest bearing assets include only cash balances, which earn interest at fixed rate. The Company has a policy of maintaining debt at fixed rate to ensure certainty of future interest cash flows. The Company does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied.

The directors will revisit the appropriateness of these policies should the Company's operations change in size or nature.

Houghton plc

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

Charitable and political contributions

The Company has made donations during the year for charitable purposes in the UK totalling £150 (2008 £1,847)

No donations for political purposes were made during the year (2008 £nil)

Disabled employees

The Company operates a policy of giving disabled people full and fair consideration for all job vacancies for which they present themselves as suitable applicants having due regard for their particular aptitudes and abilities. Whenever feasible the Company endeavours to retain any member of staff who develops a disability during his employment.

Training and career development opportunities are made available to all employees.

Employee participation

A policy is maintained for providing information to employees aimed at achieving a common awareness of the financial and economic factors affecting the Company and its operations and is accomplished through regular informal meetings. Employee involvement is actively encouraged at all levels.

Policy and practice on payment of creditors

It is the company's policy to agree terms and conditions for its business transactions with its suppliers. The company seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions.

Trade creditor days of the Company at 31 December 2009 were 62 days (2008 42 days). This represents the ratio, expressed in days, between the amounts invoiced to the company by its suppliers in the year and the amounts due, at the end of the year, to trade creditors within one year.

Key performance indicators (KPIs)

The directors consider the KPIs of the business to be Turnover and Operating Profit which are disclosed on page 8 of the financial statements.

Directors' responsibilities statement in respect of the financial statements

The directors are responsible for preparing 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). The financial statements are required by law to give a true and fair view of the state of affairs of the company and Company and of the profit or loss of the Company for that period.

Houghton plc

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

Directors' responsibilities statement in respect of the financial statements (continued)

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and 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, in which case there should be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the Company and to 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 the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

For each person who is a director at the time of approval of this report

So far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

He or she has taken all the steps they ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

The 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



H Markwick
Secretary
8 July 2010

Houghton plc

Independent auditors' report to the members of Houghton plc

We have audited the financial statements of Houghton plc for the year ended 31 December 2009 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Balance sheet, the Statement of accounting policies, and the notes to the financial statements. 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 Directors' Responsibilities Statement set out on pages 5 and 6, 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 of 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.



Benjamin Parrott (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
8 July 2010

Houghton plc

Profit and loss account for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Turnover	1	36,101	32,361
Cost of sales		(27,327)	(24,403)
Gross profit		8,774	7,958
Distribution costs (including selling and technology costs)		(4,000)	(3,544)
Administrative expenses		(4,380)	(3,643)
Operating profit	4	394	771
Net interest (payable)/receivable	5	(4)	9
Other finance (costs) – pension scheme	18	(639)	(95)
Dividends receivable		496	388
Profit on ordinary activities before taxation		247	1,073
Tax on profit on ordinary activities	6	(119)	(229)
Profit for the financial year	15	128	844

The results for 2009 and 2008 are wholly for continuing operations

There is no material difference between the profit for the year and prior year and the historical cost equivalent

Statement of total recognised gains and losses for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Profit for the financial year		128	844
Actuarial loss on pension scheme	18	(623)	(3,015)
Deferred tax	13	174	844
Total recognised losses relating to the year and recognised since last annual report		(321)	(1,327)

The accounting policies and notes on pages 10 to 28 form an integral part of these accounts

Houghton plc

Balance sheet as at 31 December 2009

	Note	2009 £'000	2008 £'000
Fixed assets			
Tangible assets	7	1,379	1,505
Investments			
Subsidiaries	8	527	527
Other	9	6	6
		1,912	2,038
Current assets			
Stocks and work in progress	10	3,819	3,024
Debtors	11	9,742	6,965
Debtors: amounts due after more than one year	13	506	509
Debtors		10,248	7,474
Bank and cash balances		1,803	1,049
		15,870	11,547
Creditors: amounts falling due within one year	12	(9,313)	(5,466)
Net current assets		6,557	6,081
Total assets less current liabilities		8,469	8,119
Net assets excluding pension liability		8,469	8,119
Pension liability	18	(5,861)	(5,190)
Net assets including pension liability		2,608	2,929
Capital and reserves			
Called up share capital	14	1,850	1,850
Profit and loss account	15	758	1,079
Total shareholders' funds	16	2,608	2,929

The accounting policies and notes on pages 10 to 28 form an integral part of these accounts

The financial statements on pages 8 to 28 were approved by the Board of directors on 8 July 2010 and were signed on its behalf by



H Markwick
Director

Houghton plc

Statement of accounting policies

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

Consolidation

The financial statements contain information about Houghton plc as an individual undertaking and do not contain consolidated financial information as the parent of a group.

The company has taken advantage of the exemption under section 248 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as the company's results are included in the results of the ultimate parent company's consolidated financial statements which are publically available (see note 19).

Turnover

Turnover comprises the invoiced value of goods despatched and services supplied during the year exclusive of value added tax. Revenue is recognised when goods are despatched or service is provided.

Tangible assets

Tangible assets are valued at cost less any provision for impairment. Freehold land is not depreciated. The cost of other fixed assets is written off over their expected useful lives as follows:

Freehold buildings	2% on cost or valuation
Leasehold improvements	shorter of remaining life of the lease and asset life
Plant, machinery, fixtures and fittings	15% on written down value
Motor vehicles	25% on cost
Computer equipment	20% on cost
Fluid management contract plant	over the life of the contract

Investments

Investments held as fixed assets are stated at cost less provision for any impairment. Current account balances due to and from subsidiaries are now included within current debtors and creditors.

Stocks

Stocks are valued at the lower of cost or net realisable value on a first in first out basis after making due allowance for any obsolete or slow moving items. Cost comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads.

Deferred taxation

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

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

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

Houghton plc

Statement of accounting policies (continued)

Foreign currency

Transactions in foreign currencies are translated into sterling at the rates of exchange prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities in the balance sheet are translated into sterling at the rates of exchange ruling at the end of the year. Resulting exchange gains and losses are taken to the profit and loss account.

Leases

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

Pension costs

The Company contributes to various defined contribution and state schemes in respect of its overseas subsidiaries. The principal fund is that in the United Kingdom where the company operates a pension scheme providing benefits based on final pensionable salary. The scheme is funded with the assets being held by the Trustees separately from the assets of the Company.

The most recent valuation was as at 30 September 2007 and updated to 31 December 2009. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. Pension assets are measured at their year end market values. The cost of benefits accruing during the year in respect of current and past service is charged in arriving at operating profit.

The expected return on the schemes' assets and the increase in the present value of the schemes' liabilities arising from the passage of time, are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Cash flow statement

The company is a wholly owned subsidiary of a parent whose financial statements are publicly available. Consequently, the company is exempt under the terms of FRS 1 "Cash flow Statements" from publishing a cash flow statement.

Related party transactions

In accordance with the exemption allowed by paragraph 3(c) of FRS8 "Related party disclosures", no disclosure is made of transactions with other member companies of the Houghton International Inc. Company and other related parties of the Company.

Research and development

Research and development costs are written off to the profit and loss account as they are incurred.

Houghton plc

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

1 Turnover

Turnover comprises the invoice value of goods and services supplied exclusive of value added tax. The Company continues to trade in a single class of business being the manufacture and service of industrial chemicals and lubricants. Turnover may be analysed as follows:

Geographical analysis of turnover by destination	2009 £'000	2008 £'000
United Kingdom	26,819	26,181
Europe	7,420	4,745
Rest of the world	1,862	1,435
	36,101	32,361

2 Directors information

	2009 £'000	2008 £'000
Emoluments (excluding pension contributions)	826	646
Compensation in respect of loss of office	247	-
Company contributions to money purchase arrangements	51	50

	Number	Number
Number of directors who are members of a defined benefit pension scheme	4	3
Number of directors who receive contributions to money purchase arrangements	3	2
	£'000	£'000

Highest paid directors' emoluments		
Aggregate of emoluments (excluding pension contributions)	175	207
Compensation in respect of loss of office	247	-
Company contributions to money purchase arrangements	22	28

The amount of accrued pension of the highest paid director at 31 December 2009 is £nil (2008: £nil)

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

3 Staff information

	2009 Number	2008 Number
Production and other direct labour	182	195
Selling, distribution and technology	85	78
Administration	29	28
	296	301

	2009 £'000	2008 £'000
Staff costs during the year (including directors)		
Wages and salaries	8,288	7,345
Social security costs	507	516
Pension costs (note 18)	301	424
	9,096	8,285

Houghton plc

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

4 Operating profit

	2009 £'000	2008 £'000
Operating profit is after charging/(crediting):		
Depreciation and amortisation		
Owned assets	284	332
Rentals under operating leases		
Hire of plant and machinery	570	385
Hire of other	22	42
(Gain)/Loss on disposal of tangible assets	(4)	89
(Recovery)/Charge for bad and doubtful debts	(45)	59
Auditors' remuneration for		
Statutory audit services	56	47
Non-audit services	27	-
Relocation and redundancy costs	247	-

Houghton plc

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

5 Net interest payable/(receivable)

	2009 £'000	2008 £'000
Interest payable		
Bank loans and overdrafts	4	11
	4	11
Interest receivable	-	(20)
	4	(9)

6 Tax on profit on ordinary activities

Analysis of charge for year	2009 £'000	2008 £'000
Current tax		
UK corporation tax on profit for the year	-	-
Adjustments in respect of prior periods	-	-
Total current tax	-	-
Deferred taxation		
Origination and reversal of timing differences (note 13) – current year charge	3	36
Pension	116	193
Total deferred tax charge	119	229
Tax on profit on ordinary activities	119	229

Houghton plc

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

6 Tax on ordinary activities (continued)

The tax assessed for the year is lower (2008 lower) than the standard rate of corporation tax in the UK of 28% (2008 28%). The differences are explained below

	2009 £'000	2008 £'000
Profit on ordinary activities before tax	247	1,072
Profit on ordinary activities multiplied by standard rate in the UK (2009, 28%, 2008 28%)	69	300
Effects of		
Income and expenses not chargeable to tax (including exceptional item)	(136)	19
Accelerated capital allowances and other timing differences	50	(35)
Utilisation/(Increase) in tax losses	119	(41)
Movement in short term timing differences	(102)	(193)
Effect of other tax rates	-	(50)
Current tax charge for the year	-	-

Houghton plc

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

7 Tangible assets

	Leasehold improvements £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2009	506	2,629	3,135
Additions	81	62	143
Transfers in from group undertakings	-	20	20
Disposals	-	(11)	(11)
At 31 December 2009	587	2,700	3,287
Accumulated depreciation			
At 1 January 2009	53	1,577	1,630
Charge for the year	39	245	284
Disposals	-	(6)	(6)
At 31 December 2009	92	1,816	1,908
Net book value			
At 31 December 2009	495	884	1,379
At 31 December 2008	453	1,052	1,505

Houghton plc

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

8 Investments – subsidiaries

	Shares £'000
Cost	
At 1 January 2009	651
Capital contribution to subsidiary undertaking	-
Capital contribution returned from subsidiary undertaking	(44)
At 31 December 2009	607
Provision for impairment	
At 1 January 2009	124
Release of provision during the year	(44)
At 31 December 2009	80
Net investment	
At 31 December 2009	527
At 31 December 2008	527

The principal subsidiaries at 31 December 2008 and 2009 are

	Year end	Proportion held ordinary shares	Country of incorporation	Status
Houghton Danmark A/S*	31 December	100%	Denmark	Trading
Houghton Sverige AB*	31 December	100%	Sweden	Trading
Houghton Oils & Chemicals (Ireland) Limited*	31 December	100%	Ireland	Trading
Houghton Oils & Chemicals (Northern Ireland) Limited*	31 December	100%	Northern Ireland	Non trading
Houghton Norge AS	31 December	100%	Norway	Trading

All trading companies are engaged in the main activities as disclosed in the directors' report

* owned directly by Houghton plc

The directors believe that the carrying value of the investments is supported by their underlying net assets

Houghton plc

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

9 Investments – other

	Company £'000	Company £'000
Cost:		
At 1 January 2009 and 31 December 2009	6	6

The directors are of the opinion that the market value of this investment is not less than cost

10 Stocks and work in progress

	2009 £'000	2008 £'000
Raw materials and consumables	1,730	1,442
Work in progress	71	33
Finished goods	2,018	1,549
	3,819	3,024

There is no significant difference between the replacement cost and the values shown for all stock categories

11 Debtors: amounts falling due within one year

	2009 £'000	2008 £'000
Trade debtors	6,584	4,765
Amounts due from subsidiary undertakings	-	26
Amounts due from fellow Group undertakings	2,560	1,391
Other debtors	83	47
Prepayments and accrued income	440	661
Corporation tax recoverable	75	75
	9,742	6,965

Interest is not charged or accrued in respect of amounts receivable from Company or subsidiary undertakings

Houghton plc

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

12 Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Trade creditors	4,495	2,673
Amounts due to subsidiary undertakings	-	389
Amounts due to Group undertakings	3,372	1,355
Other taxation and social security	116	384
Corporation tax payable	-	-
Other creditors	212	306
Accruals	1,018	359
	9,313	5,466

Interest is not charged or accrued in respect of amounts payable to the Subsidiary and Group undertakings

Houghton plc

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

13 Deferred tax asset

Company

Deferred taxation asset	£'000
At 1 January 2009	509
Charged to profit and loss account	(3)
At 31 December 2009	506

The above amounts at 31 December 2009 are disclosed as debtors due after more than one year

The deferred tax asset comprises:

	2009 £'000	2008 £'000
Accelerated capital allowances	-	246
Other timing differences	14	-
Losses	492	263
Deferred tax asset	506	509
Deferred tax asset on pension liability (note 18)	2,279	2,221
Total deferred tax asset	2,785	2,730

The amount of unprovided deferred tax as at 31 December 2009 was £1.1m (31 December 2008: £nil) and relates to trading losses and depreciation in excess of capital allowances

Houghton plc

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

13 Deferred tax asset (continued)

	2009 £'000	2008 £'000
At 1 January	2,730	2,115
Charged to profit and loss account (note 6) - excluding pension	(3)	(36)
Charged to profit and loss account - pension	(116)	(193)
Credited to statement of total recognised gains and losses - pension	174	844
At 31 December	2,785	2,730

14 Called up share capital

	2009 £'000	2008 £'000
Authorised		
2,000,000 Ordinary shares of £1 each	2,000	2,000
Called up, allotted and fully paid		
1,850,000 (2008 1,850,000) Ordinary shares of £1 each	1,850	1,850

Houghton plc

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

15 Reserves

	2009 £'000	2008 £'000
Profit and loss account		
At 1 January	1,079	2,406
Actuarial loss (note 18)	(623)	(3,015)
Tax relating to actuarial loss (note 13)	174	844
Profit for the financial year	128	844
At 31 December (including pension liability)	758	1,079
Pension liability (note 18)	5,861	5,190
At 31 December (excluding pension liability)	6,619	6,269

16 Reconciliation of movements in shareholders' funds

	2009 £'000	2008 £'000
Profit for the financial year	128	844
Actuarial loss on pension scheme (note 18)	(623)	(3,015)
Tax relating to actuarial gain (note 13)	174	844
Net reduction in shareholders' funds	(321)	(1,327)
Opening shareholders' funds	2,929	4,256
Closing shareholders' funds	2,608	2,929

Houghton plc

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

17 Operating lease commitments

	Land and buildings		Other	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Operating lease commitments for next year				
Leases expiring				
Within one year	-	-	94	56
Within two to five years	-	-	343	268
After five years	290	284	48	48
	290	284	485	372

18 Pension scheme

The company operates a pension scheme in the United Kingdom providing benefits based on final pensionable salary. A full actuarial valuation of the scheme was carried out by independent actuaries as at 30 September 2007 and updated to 31 December 2009.

The participating employers' contributions made to the scheme during the year were £834,000 (2008 £690,000). Since 20 February 2008 the Scheme has been closed to new members. The company currently contributes 12.4% of Pensionable Salaries to the Scheme, the company contributions to the Scheme for the year beginning 1 January 2010 are expected to be 12.4% of Pensionable Salaries in respect of future accrual plus £480,000 in respect of the shortfall in funding. Members are expected to continue their contributions at the rate of 6% of Pensionable Salaries. The next full valuation of the scheme is due on 30 September 2010.

The assets and liabilities have been calculated in accordance with the requirements of FRS 17. The assets of the scheme have been taken at market value and the liabilities have been calculated using the following principal actuarial assumptions (in nominal terms):

	2009 %	2008 %	2007 %
Rate of increase of salaries	4.75	4.25	4.25
Rate of increase in pensions in payment			
Pension accrued pre April 1997 (fixed)	3.45	3.0	3.0
Pension accrued from April 1997 to April 2005 (RPI up to 5%)	3.45	3.0	3.35
Pension accrued post April 2005 (RPI up to 2.5%)	2.4	2.3	2.4
Discount rate	5.8	6.2	5.7
Inflation assumption	3.5	3.0	3.4

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

18 Pension scheme (continued)

		31 Dec 2009	31 Dec 2008
		Years	Years
Assumed life expectancies on retirement at age 65 are:			
Retiring today	Males	21.2	21.1
	Females	23.2	23.1
Retiring in 20 years	Males	23.2	23.1
	Females	24.7	24.6

The assumptions used in determining the overall return of the Scheme have been set with reference to yields available on Government Bonds and appropriate risk margins

Long term rate of return expected as at:	31 Dec 2009	31 Dec 2008	31 Dec 2007
	%	%	%
Equities/property	7.65	7.04	7.6
Bonds	4.45	3.84	4.4

Market value as at:	31 Dec 2009	31 Dec 2008	31 Dec 2007
	£'000	£'000	£'000
Equities/property	18,927	14,491	18,153
Bonds	12,461	13,593	14,437

The following amounts at 31 December 2007, 31 December 2008, and 31 December 2009 were measured in accordance with the requirements of FRS17

	2009 £'000	2008 £'000	2007 £'000
Total market value of assets	31,388	32,590	32,590
Present value of scheme liabilities	(39,528)	(35,495)	(37,157)
Deficit in the scheme	(8,140)	(7,411)	(4,567)
Related deferred tax asset	2,279	2,221	1,570
Net deficit	(5,861)	(5,190)	(2,997)

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

18 Pension scheme (continued)

The following amounts have been recognised in the performance statements in the year to 31 December 2009 and 31 December 2008 under the requirements of FRS17

Analysis of the amount charged to operating profit	2009 £'000	2008 £'000
Current service cost	(301)	(424)
Past service costs and settlements/curtailments	-	-
Total operating charge	(301)	(424)

Analysis of the amount credited to other finance income	2009 £'000	2008 £'000
Expected return on pension scheme assets	1,518	2,001
Interest on pension scheme liabilities	(2,157)	(2,096)
Net return	(639)	(95)

Statement of total recognised gains and losses (STRGL)	2009 £'000	2008 £'000
Actual return less expected return on pension scheme assets	2,670	(6,051)
Experience gains and losses arising on the scheme liabilities	204	(569)
Changes in assumptions underlying the present value of the scheme liabilities	(3,497)	3,605
Actuarial (loss) recognised in STRGL	(623)	(3,015)

Movement in deficit during the year	2009 £'000	2008 £'000
Deficit in scheme at beginning of the year	(7,411)	(4,567)
Movement in year:		
Current service cost	(301)	(424)
Contributions	834	690
Other finance income/charges	(639)	(95)
Actuarial (loss)/gain	(623)	(3,015)
Deficit in scheme at the end of the year	(8,140)	(7,411)

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

18 Pension scheme (continued)

Reconciliation of opening and closing balances of the present value of Scheme liabilities

	2009 £'000	2008 £'000
Liabilities at beginning of the year	35,495	37,157
Current service cost	301	424
Interest cost	2,157	2,096
Contributions by Scheme participants	178	178
Actuarial loss	(3,293)	(3,036)
Benefits paid	(1,896)	(1,324)
	39,528	35,495

Reconciliation of opening and closing balances of the fair value of Scheme assets

	2009 £'000	2008 £'000
Fair value of Scheme assets at beginning of year	28,084	32,590
Expected return on Scheme assets	1,518	2,001
Actuarial loss	2,670	(6,051)
Contributions by employers	834	690
Contributions by Scheme participants	178	178
Benefits paid	(1,896)	(1,324)
	31,388	28,084

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

18 Pension scheme (continued)

History of experience gains and losses	2009	2008	2007	2006	2005
Difference between the expected and actual return on scheme assets:					
Amount (£'000s)	2,670	(6,051)	(705)	799	3,268
Percentage of scheme assets	8.5%	(21.5)%	(2)%	3%	11%
Experience gains and losses on scheme liabilities:					
Amount (£'000s)	204	(569)	(62)	659	(33)
Percentage of the present value of the scheme liabilities	0.5%	(1.6)%	0%	2%	0%
Total amount recognised in the statement of total recognised gains and losses:					
Amount (£'000s)	(623)	(3,015)	(173)	916	(694)
Percentage of the present value of the scheme liabilities	(1.6)%	(8.5)%	0%	3%	2%

19 Ultimate parent company and controlling party

On 19 December 2007 the previous ultimate parent company (Houghton International Inc) was acquired by AEA Investors LLC. As a result of the change in ownership, the ultimate parent undertaking is now HII Holding Corporation, a company incorporated in the United States of America. HII Holding Corporation is the largest and smallest Company of undertakings to consolidate these financial statements at 31 December 2009. The consolidated financial statements of HII Holding Corporation can be obtained from the Chambers of Commerce, t a v Handelsregister, Postbus 2852, 1000 CW Amsterdam.

The immediate parent undertaking is Houghton Holdings Limited, which is incorporated in the UK.