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INNOSPEC INC.

FORM 10-K
(Annual Report)

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Sector	Basic Materials
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2019

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to
Commission file number 1-13879

INNOSPEC INC.

(Exact name of registrant as specified in its charter)

DELAWARE State or other jurisdiction of incorporation or organization	**98-0181725** (I.R.S. Employer Identification No.)
8310 South Valley Highway **Suite 350** **Englewood** **Colorado** (Address of principal executive offices)	**80112** (Zip Code)

Registrant's telephone number, including area code: **(303) 792 5554**

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	IOSP	NASDAQ

Securities registered pursuant to Section 12(g) of the Act:

Title of each class	Name of each exchange on which registered
N/A	**N/A**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial standards provided pursuant to Section 13(a) of the Exchange Act.

☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of the most recently completed second fiscal quarter (June 30, 2019) was approximately $1,133 million, based on the closing price of the common shares on the NASDAQ on June 30, 2019. Shares of common stock held by each officer and director and by each beneficial owner who owns 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

As of February 12, 2020, 24,507,080 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Innospec Inc.'s Proxy Statement for the Annual Meeting of Stockholders to be held on May 6, 2020 are incorporated by reference into Part III of this Form 10-K.

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CAUTIONARY STATEMENT RELATIVE TO FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS

This Form 10-K contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included or incorporated herein may constitute forward-looking statements. Such forward-looking statements include statements (covered by words like “expects,” “estimates,” “anticipates,” “may,” “believes,” “feels,” “plan,” “intend” or similar words or expressions, for example,) which relate to earnings, growth potential, operating performance, events or developments that we expect or anticipate will or may occur in the future. Although forward-looking statements are believed by management to be reasonable when made, they are subject to certain risks, uncertainties and assumptions, and our actual performance or results may differ materially from these forward-looking statements. You are urged to review our discussion of risks and uncertainties that could cause actual results to differ from forward-looking statements under the heading “Risk Factors.” Innospec undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

Item 1 Business

When we use the terms “Innospec,” “the Corporation,” “the Company,” “Registrant,” “we,” “us” and “our,” we are referring to Innospec Inc. and its consolidated subsidiaries unless otherwise indicated or the context otherwise requires.

General

Innospec develops, manufactures, blends, markets and supplies specialty chemicals for use as fuel additives, ingredients for personal care, home care, agrochemical, metal extraction and other applications and oilfield chemicals. Our products are sold primarily to oil and gas exploration and production companies, oil refiners, fuel manufacturers and users, formulators of personal care, home care, agrochemical and metal extraction formulations, and other chemical and industrial companies throughout the world. Our fuel additives help improve fuel efficiency, boost engine performance and reduce harmful emissions. Our performance chemicals provide effective technology-based solutions for our customers’ processes or products focused in the Personal Care, Home Care, Agrochemical and Metal Extraction markets. Our Oilfield Services business supplies drilling, completion and production chemicals which make exploration and production more effective, costefficient and environmentally friendly. Our Octane Additives business manufactures a fuel additive for use in automotive gasoline.

Segment Information

The Company reports its financial performance based on the four reportable segments described as follows:

- Fuel Specialties
- Performance Chemicals
- Oilfield Services
- Octane Additives

The Fuel Specialties, Performance Chemicals and Oilfield Services segments operate in markets where we actively seek growth opportunities although their ultimate customers are different. The Octane Additives segment revenues may conclude in the early part of 2020 as our one remaining refinery customer transitions to unleaded fuel.

For financial information about each of our segments, see Note 3 of the Notes to the Consolidated Financial Statements.

Fuel Specialties

Our Fuel Specialties segment develops, manufactures, blends, markets and supplies a range of specialty chemical products used as additives to a wide range of fuels. These fuel additive

products help improve fuel efficiency, boost engine performance and reduce harmful emissions; and are used in the efficient operation of automotive, marine and aviation engines, power station generators, and heating oil.

The segment has grown organically through our development of new products to address what we believe are the key drivers in demand for fuel additives. These drivers include increased demand for fuel, focus on fuel economy, changing engine technology and legislative developments. We have also devoted substantial resources towards the development of new and improved products that may be used to improve combustion efficiency.

Our customers in this segment include national oil companies, multinational oil companies and fuel retailers.

Performance Chemicals

Our Performance Chemicals segment provides effective technology-based solutions for our customers' processes or products focused in the Personal Care, Home Care, Agrochemical and Metal Extraction markets.

This segment has grown through acquisitions, and the development and marketing of innovative products. The focus for our Performance Chemicals segment is to develop high performance products from its technology base in a number of targeted markets.

Our customers in this segment include large multinational companies, manufacturers of personal care and household products and specialty chemical manufacturers operating in agrochemical, metal extraction and other industrial applications.

Oilfield Services

Our Oilfield Services segment develops and markets products to prevent loss of mud in drilling operations, chemical solutions for fracturing, stimulation and completion operations and products for oil and gas production which aid flow assurance and maintain asset integrity.

This segment has been growing strongly in recent years, driven by increased customer activity as the industry has been supported by stable oil prices.

Our customers in this segment include multinational public and independent companies operating currently principally in the Americas.

Octane Additives

Our Octane Additives segment, which we believe is the world's only producer of tetra ethyl lead ("TEL"), comprises sales of TEL for use in automotive gasoline and provides services in respect of environmental remediation. We are continuing to responsibly manage the decline in the demand for TEL for use in automotive gasoline in line with the transition plans to unleaded gasoline for our one remaining refinery customer. Cost improvement measures continue to be taken to respond to declining market demand. We expect the possible conclusion of revenues from our Octane Additives segment in the early part of 2020.

Sales of TEL for use in automotive gasoline are principally made to state-owned refineries located in North Africa. Our environmental remediation business manages the cleanup of redundant TEL facilities as refineries complete the transition to unleaded gasoline.

Strategy

Our strategy is to develop new and improved products and technologies to continue to strengthen and increase our market positions within our Fuel Specialties, Performance Chemicals and Oilfield Services segments. We also actively continue to assess potential strategic acquisitions, partnerships and other opportunities that would enhance and expand our customer offering. We focus on opportunities that would extend our technology base, geographical coverage or product portfolio. We believe that focusing on the Fuel Specialties, Performance Chemicals and Oilfield Services segments, in which the Company has existing experience, expertise and knowledge, provides opportunities for positive returns on investment with reduced operating risk. We also continue to develop our geographical footprint, consistent with the development of global markets.

Geographical Area Information

Financial information with respect to our domestic and foreign operations is contained in Note 3 of the Notes to the Consolidated Financial Statements.

Working Capital

The nature of our customers' businesses generally requires us to hold appropriate amounts of inventory in order to be able to respond quickly to customers' needs. We therefore require corresponding amounts of working capital for normal operations. We do not believe that this is materially different to what our competitors do, with the exception of cetane number improvers, in which case we maintain high enough levels of inventory, as required, to retain our position as market leader in sales of these products.

The purchase of large amounts of certain raw materials across all our segments can create some variations in working capital requirements, but these are planned and managed by the business.

We do not believe that our terms of sale, or purchase, differ markedly from those of our competitors.

Raw Materials and Product Supply

We use a variety of raw materials and chemicals in our manufacturing and blending processes and believe that sources for these are adequate for our current operations. Our major purchases are oleochemicals and derivatives, cetane number improvers, ethylene, various solvents, amines, alcohols, olefin and polyacrylamides.

These purchases account for a substantial portion of the Company's variable manufacturing costs. These materials are, with the exception of ethylene for our operations in Germany,

readily available from more than one source. Although ethylene is, in theory, available from several sources, it is not permissible to transport ethylene by road in Germany. As a result, we source ethylene for our German operations via a direct pipeline from a neighboring site, making it effectively a single source. Ethylene is used as a primary raw material for our German operations in products representing approximately 4% of Innospec's sales.

We use long-term contracts (generally with fixed or formula-based costs) and advance bulk purchases to help ensure availability and continuity of supply, and to manage the risk of cost increases. From time to time, for some raw materials, the risk of cost increases is managed with commodity swaps.

We continue to monitor the situation and adjust our procurement strategies as we deem appropriate. The Company forecasts its raw material requirements substantially in advance, and seeks to build long-term relationships and contractual positions with supply partners to safeguard its raw material positions. In addition, the Company operates an extensive risk management program which seeks to source key raw materials from multiple sources and to develop suitable contingency plans.

Intellectual Property

Our intellectual property, including trademarks, patents and licenses, forms a significant part of the Company's competitive advantage, particularly in the Fuel Specialties, Oilfield Specialties and Performance Chemicals segments. The Company does not, however, consider its business as a whole to be dependent on any one trademark, patent or license.

The Company has a portfolio of trademarks and patents, both granted and in the application stage, covering products and processes in several jurisdictions. The majority of these patents were developed by the Company and, subject to maintenance obligations including the payment of renewal fees, have at least 10 years life remaining.

The trademark "Innospec and the Innospec device" in Classes 1, 2 and 4 of the "International Classification of Goods and Services for the Purposes of the Registration of Marks" are registered in all jurisdictions in which the Company has a significant market presence. The Company also has trademark registrations for certain product names in all jurisdictions in which it has a significant market presence.

We actively protect our inventions, new technologies, and product developments by filing patent applications and maintaining trade secrets. In addition, we vigorously participate in patent opposition proceedings around the world where necessary to secure a technology base free from infringement of intellectual property.

Competition

Certain markets in which the Company operates are subject to significant competition. The Company competes on the basis of a number of factors including, but not limited to, product quality and performance, specialized product lines, customer relationships and service, and regulatory expertize.

Fuel Specialties: Fuel Specialties is generally characterized by a small number of competitors, none of which hold a dominant position. We consider our competitive edge to be our proven technical development capacity, independence from major oil companies and strong long-term customer relationships.

Performance Chemicals: Within the Performance Chemicals segment we operate in the Personal Care, Home Care, Agrochemical and Metal Extraction markets which are highly fragmented, and the Company experiences substantial competition from a large number of multinational and specialty chemical suppliers in each geographical market. Our competitive position in these markets is based on us supplying a superior, diverse product portfolio which solves particular customer problems or enhances the performance of new or existing products. In a number of specialty chemicals markets, we also supply niche product lines, where we enjoy market-leading positions.

Oilfield Services: Our Oilfield Services segment is very fragmented and although there are a small number of very large competitors, there are also a large number of smaller players focused on specific technologies or regions. Our competitive strength is our proven technology, broad regional coverage and strong customer relationships.

Octane Additives: We believe our Octane Additives segment is the world’s only producer of TEL and accordingly is the only supplier of TEL for use in automotive gasoline. The segment therefore competes with marketers of products and processes that provide alternative ways of enhancing octane performance in automotive gasoline.

Research, Development, Testing and Technical Support

Research, product/application development and technical support (“R&D”) provide the basis for the growth of our Fuel Specialties, Performance Chemicals and Oilfield Services segments. Accordingly, the Company’s R&D activity has been, and will continue to be, focused on the development of new products and formulations. Our R&D department provides technical support for all of our reporting segments. Expenditures to support R&D services were $35.4 million, $33.4 million and $31.4 million in 2019, 2018 and 2017, respectively.

We believe that our proven technical capabilities provide us with a significant competitive advantage. In the last five years, the Fuel Specialties segment has developed new detergents, cold flow improvers, stabilizers, lubricity and combustion improver products, in addition to the introduction of many new cost effective fuel additive packages and products for dealing with the dangers of low conductivity. This proven technical capability has also facilitated the development of our leading edge isethionate and taurate product ranges in Performance Chemicals.

Health, Safety and Environmental Matters

We are subject to environmental laws in the countries in which we operate and conduct business. Management believes that the Company is in material compliance with applicable environmental laws and has made the necessary provisions for the continued costs of compliance with environmental laws.

Our principal site giving rise to environmental remediation liabilities is our Ellesmere Port manufacturing site in the United Kingdom. There are also environmental remediation liabilities on a much smaller scale in respect of our other manufacturing sites in the U.S. and Europe. At Ellesmere Port there is a continuing asset retirement program related to certain manufacturing units that have been closed.

We recognize environmental remediation liabilities when they are probable and costs can be reasonably estimated, and asset retirement obligations when there is a legal obligation and costs can be reasonably estimated. This involves anticipating the program of work and the associated future expected costs, and so involves the exercise of judgment by management. We regularly review the future expected costs of remediation and the current estimate is reflected in Note 12 of the Notes to the Consolidated Financial Statements.

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

Employees

The Company had approximately 2000 employees in 24 countries as at December 31, 2019.

Available Information

Our corporate web site is www.innospecinc.com. We make available, free of charge, on or through this web site our annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the U.S. Securities and Exchange Commission ("SEC"). In addition, the SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements, and other information that we file electronically with the SEC and state the address of that site.

The Company routinely posts important information for investors on its web site (under Investor Relations). The Company uses this web site as a means of disclosing material, non-public information and for complying with its disclosure obligations under SEC Regulation FD ("Fair Disclosure"). Accordingly, investors should monitor the Investor Relations portion of the Company's web site, in addition to following the Company's press releases, SEC filings, public conference calls, presentations and webcasts.

Item 1A Risk Factors

The factors described below represent the principal risks associated with our business.

Trends in oil and gas prices affect the level of exploration, development and production activity of our customers, and the demand for our services and products, which could have a material adverse impact on our business.

Demand for our services and products in our Oilfield Services business is particularly sensitive to the level of exploration, development and production activity of, and the corresponding capital spending by, oil and gas companies. The level of exploration, development and production activity is directly affected by trends in demand for and prices of oil and gas, which historically have been volatile and are likely to continue to be volatile. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty, and a variety of other economic and political factors that are beyond our control. Even the perception of longer-term lower oil and gas prices by oil and gas companies can similarly reduce or defer major expenditures given the long-term nature of many large-scale development projects. Factors affecting the prices of oil and gas include the level of supply and demand for oil and gas, governmental regulations, including the policies of governments regarding the exploration for and production and development of their oil and gas reserves, weather conditions and natural disasters, worldwide political, military, and economic conditions, the level of oil and gas production by non-OPEC ("Organization of the Petroleum Exporting Countries") countries and the available excess production capacity within OPEC, the cost of producing and delivering oil and gas and potential acceleration of the development of alternative power generation, fuels and engine technologies. Any prolonged reduction in oil and gas prices will depress the immediate levels of exploration, development, and production activity which could have a material adverse impact on our results of operations, financial position and cash flows.

We face risks related to our foreign operations that may adversely affect our business.

We serve global markets and operate in certain countries with political and economic instability, including the Middle East, Northern Africa, Asia-Pacific, Eastern Europe and South American regions. Our international operations are subject to numerous international business risks including, but not limited to, geopolitical and economic conditions, risk of expropriation, import and export restrictions, trade wars, exchange controls, national and regional labor strikes, high or unexpected taxes, government royalties and restrictions on repatriation of earnings or proceeds from liquidated assets of overseas subsidiaries. Any of these could have a material adverse impact on our results of operations, financial position and cash flows.

We are subject to extensive regulation of our international operations that could adversely affect our business and results of operations.

Due to our global operations, we are subject to many laws governing international commercial activity, conduct and relations, including those that prohibit improper payments to government

officials, restrict where and with whom we can do business, and limit the products, software and technology that we can supply to certain countries and customers. These laws include, but are not limited to, the U.S. Foreign Corrupt Practices Act and United Kingdom Bribery Act, sanctions and assets control programs administered by the U.S. Department of the Treasury and/or the European Union from time to time, and the U.S. export control laws such as the regulations under the U.S. Export Administration Act, as well as similar laws and regulations in other countries relevant to our business operations. Violations of any of these laws or regulations, which are often complex in their application, may result in criminal or civil penalties that could have a material adverse effect on our results of operations, financial position and cash flows.

We may not be able to consummate, finance or successfully integrate future acquisitions, partnerships or other opportunities into our business, which could hinder our strategy or result in unanticipated expenses and losses.

Part of our strategy is to pursue strategic acquisitions, partnerships and other opportunities to complement and expand our existing business. The success of these transactions depends on our ability to efficiently complete transactions, integrate assets and personnel acquired in these transactions and apply our internal control processes to these acquired businesses. Consummating acquisitions, partnerships or other opportunities and integrating acquisitions involves considerable expense, resources and management time commitments, and our failure to manage these as intended could result in unanticipated expenses and losses. Post-acquisition integration may result in unforeseen difficulties and may deplete significant financial and management resources that could otherwise be available for the ongoing development or expansion of existing operations. Furthermore, we may not realize the benefits of an acquisition in the way we anticipated when we first entered the transaction. Any of these risks could adversely impact our results of operations, financial position and cash flows.

Competition and market conditions may adversely affect our operating results.

In certain markets, our competitors are larger than us and may have greater access to financial, technological and other resources. As a result, competitors may be better able to adapt to changes in conditions in our industries, fluctuations in the costs of raw materials or changes in global economic conditions. Competitors may also be able to introduce new products with enhanced features that may cause a decline in the demand and sales of our products. Consolidation of customers or competitors, or economic problems of customers in our markets could cause a loss of market share for our products, place downward pressure on prices, result in payment delays or non-payment, or declining plant utilization rates. These risks could adversely impact our results of operations, financial position and cash flows.

Political developments may adversely affect our business

On June 23, 2016, the United Kingdom (U.K.) held a referendum in which voters approved an exit from the European Union (E.U.), commonly referred to as “Brexit”. Subsequently, the U.K. parliament passed the European Union (Notification of Withdrawal) Act 2017, which

conferred power on the U.K. government to give notice to the European Council, under Article 50(2) of the Treaty on European Union, of the U.K.'s intention to withdraw from the European Union. The U.K. submitted this notice to the European Council on March 29, 2017. The U.K. left the E.U. on January 31, 2020. A transition period now exists until December 31, 2020, during which businesses in the U.K. will trade on essentially very similar if not the same terms as before and E.U. law will continue to apply in the U.K. while the detailed legal agreement on the future relationship between the U.K. and the E.U. is being negotiated. If a future trading relationship is not agreed between the U.K. and the E.U. before the end of the transition period then there are likely to be greater restrictions on imports and exports between the U.K. and E.U. member states and increased regulatory complexities for businesses trading goods and services between those jurisdictions. For example, during the proposed transition period, goods first lawfully put on the market in the E.U. or in the U.K. prior to the end of the transition period can circulate between the two markets before they reach the end user, but following the end of the transition period or in a No Deal scenario, they may not be able to do so without complying with additional requirements first.

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

We could be adversely affected by technological changes in our industry.

Our ability to maintain or enhance our technological capabilities, develop and market products and applications that meet changing customer requirements, and successfully anticipate or respond to technological changes in a cost effective and timely manner will likely impact our future business success. We compete on a number of fronts including, but not limited to, product quality and performance. In the case of some of our products, our competitors are larger than us and may have greater access to financial, technological and other resources. Technological changes include, but are not limited to, the development of electric and hybrid vehicles, and the subsequent impact on the demand for gasoline and diesel. Our inability to maintain a technological edge, innovate and improve our products could cause a decline in the demand and sales of our products, and adversely impact our results of operations, financial position and cash flows.

Having a small number of significant customers may have a material adverse impact on our results of operations.

Our principal customers are oil and gas exploration and production companies, oil refineries, personal care companies, and other chemical and industrial companies. These industries are characterized by a concentration of a few large participants. The loss of a significant customer, a material reduction in demand by a significant customer or termination or non-renewal of a significant customer contract could adversely impact our results of operations, financial position and cash flows.

Our United Kingdom defined benefit pension plan could adversely impact our financial condition, results of operations and cash flows.

Movements in the underlying plan asset value and Projected Benefit Obligation ("PBO") of our United Kingdom defined benefit pension plan are dependent on actual return on investments as well as our assumptions in respect of the discount rate, annual member mortality rates, future return on assets and future inflation. A change in any one of these assumptions could impact the plan asset value, PBO and pension credit recognized in the income statement. If future plan investment returns prove insufficient to meet future obligations, or should future obligations increase due to actuarial factors or changes in pension legislation, then we may be required to make additional cash contributions. These events could adversely impact our results of operations, financial position and cash flows.

We may have additional tax liabilities.

We are subject to income and other taxes in the U.S. and other jurisdictions. Tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. Significant judgment is required in estimating our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our tax estimates are reasonable, any final determination pursuant to tax audits and any related litigation could be materially different to what is reflected in our consolidated financial statements. Should any tax authority disagree with our estimates and determine any additional tax liabilities, including interest and penalties for us, this could adversely impact our results of operations, financial position and cash flows.

Our success depends on our management team and other key personnel, the loss of any of whom could disrupt our business operations.

Our future success will depend in substantial part on the continued services of our senior management. The loss of the services of one or more of our key executive personnel could affect the implementation of our business plan and result in reduced profitability. Our future success also depends on the continued ability to attract, develop, retain and motivate highly-qualified technical, sales and support staff. We cannot guarantee that we will be able to retain our key personnel or attract or retain qualified personnel in the future. If we are unsuccessful in our efforts in this regard, this could adversely impact our results of operations, financial position and cash flows.

Continuing adverse global economic conditions could materially affect our current and future businesses.

Global economic factors affecting our business include, but are not limited to, geopolitical instability in some markets, miles driven by passenger and commercial vehicles, legislation to control fuel quality, impact of alternative propulsion systems, consumer demand for premium personal care and cosmetic products, and oil and gas drilling and production rates. The availability, cost and terms of credit have been, and may continue to be, adversely affected by

the foregoing factors and these circumstances have produced, and may in the future result in, illiquid markets and wider credit spreads, which may make it difficult or more expensive for us to obtain credit. Continuing uncertainties in the U.S. and international markets and economies leading to a decline in business and consumer spending could adversely impact our results of operations, financial position and cash flows.

An information technology system failure may adversely affect our business.

We rely on information technology systems to transact our business. Like other global companies, we have, from time to time, experienced threats to our data and systems. Although we have implemented administrative and technical controls and take protective actions to reduce the risk of cyber incidents and breaches of our information technology, and we endeavor to modify such procedures as circumstances warrant, such measures may be insufficient to prevent physical and electronic break-ins, cyber-attacks or other security breaches to our computer systems.

As we have disclosed in the second quarter of 2019, we experienced a network security incident that prevented access to certain information technology systems and data within our network. Even after our remediation efforts, our systems, processes, software and network may be vulnerable to internal or external security breaches, computer viruses, malware or other malicious code or cyber-attack, catastrophic events, power interruptions, hardware failures, fire, natural disasters, human error, system failures and disruptions, and other events that could have security consequences. An information technology failure or disruption could prevent us from being able to process transactions with our customers, operate our manufacturing facilities, and properly report those transactions in a timely manner.

Whilst we have insurance coverage in place that may, subject to policy terms and conditions, cover certain aspects of cyber risks, this insurance coverage is subject to certain limitations and may not be applicable to a particular incident or otherwise be sufficient to cover all our losses beyond any coverage limitations. Furthermore, a significant or protracted information technology system failure may result in a material adverse effect on our results of operations, financial position and cash flows.

Decline in our TEL business

The remaining sales of the Octane Additives business are now concentrated to one remaining refinery customer. When this customer chooses to cease using TEL as an octane enhancer then the Company’s future operating income and cash flows from operating activities will be materially impacted. While we cannot be certain, we expect the possible conclusion of revenues from our Octane Additives segment in the early part of 2020.

The sales of the AvTel product line are recorded within our Fuel Specialties business. The piston aviation industry has been, and is currently, researching a safe replacement fuel to replace leaded fuel. While we expect that at some point in the future a replacement fuel will be identified, trialed and supplied to the industry, there is no currently known replacement. In addition, there is no clear timescale on the legislation of a replacement product. If a suitable

product is identified and the use of leaded fuel is prohibited in piston aviation the Company's future operating income and cash flows from operating activities would be adversely impacted.

We are exposed to fluctuations in foreign currency exchange rates, which may adversely affect our results of operations.

We generate a portion of our revenues and incur some operating costs in currencies other than the U.S. dollar. In addition, the financial position and results of operations of some of our overseas subsidiaries are reported in the relevant local currency and then translated to U.S. dollars at the applicable currency exchange rates for inclusion in our consolidated financial statements. Fluctuations in these currency exchange rates affect the recorded levels of our assets and liabilities, results of operations and cash flows.

The primary exchange rate fluctuation exposures we have are with the European Union euro, British pound sterling and Brazilian real. Exchange rates between these currencies and the U.S. dollar have fluctuated in recent years and may continue to do so. We cannot accurately predict future exchange rate variability among these currencies or relative to the U.S. dollar. While we take steps to manage currency exchange rate exposure, including entering into hedging transactions, we cannot eliminate all exposure to future exchange rate variability. These exchange risks could adversely impact our results of operations, financial position and cash flows.

Sharp and unexpected fluctuations in the cost of our raw materials and energy could adversely affect our profit margins.

We use a variety of raw materials, chemicals and energy in our manufacturing and blending processes. Many of these raw materials are derived from petrochemical-based and vegetable-based feedstocks which can be subject to periods of rapid and significant cost instability. These fluctuations in cost can be caused by political instability in oil producing nations and elsewhere, weather conditions or other factors influencing global supply and demand of these materials, over which we have little or no control. We use long-term contracts (generally with fixed or formula-based costs) and advance bulk purchases to help ensure availability and continuity of supply, and to manage the risk of cost increases. From time to time, we have entered into hedging arrangements for certain utilities and raw materials, but do not typically enter into hedging arrangements for all raw materials, chemicals or energy costs. If the costs of raw materials, chemicals or energy increase, and we are not able to pass on these cost increases to our customers, then profit margins and cash flows from operating activities would be adversely impacted. If raw material costs increase significantly, then our need for working capital could increase. Any of these risks could adversely impact our results of operations, financial position and cash flows.

A disruption in the supply of raw materials or transportation services would have a material adverse impact on our results of operations.

Although we try to anticipate problems with supplies of raw materials or transportation services by building certain inventories of strategic importance, transport operations are

exposed to various risks such as extreme weather conditions, natural disasters, technological problems, work stoppages as well as transportation regulations. If the Company experiences transportation problems, or if there are significant changes in the cost of these services, the Company may not be able to arrange efficient alternatives and timely means to obtain raw materials or ship finished products, which could adversely impact our results of operations, financial position and cash flows.

A high concentration of significant stockholders may have a material adverse impact on our stock price.

Approximately 48% of our common stock is held by five stockholders. A decision by any of these, or other substantial, stockholders to sell all or a significant part of its holding, or a sudden or unexpected disposition of our stock, could result in a significant decline in our stock price which could in turn adversely impact our ability to access equity markets which in turn could adversely impact our results of operations, financial position and cash flows.

Failure to protect our intellectual property rights could adversely affect our future performance and cash flows.

Failure to maintain or protect our intellectual property rights may result in the loss of valuable technologies, or us having to pay other companies for infringing on their intellectual property rights. Measures taken by us to protect our intellectual property may be challenged, invalidated, circumvented or rendered unenforceable. In addition, international intellectual property laws may be more restrictive or may offer lower levels of protection than under U.S. law. We may also face patent infringement claims from our competitors which may result in substantial litigation costs, claims for damages or a tarnishing of our reputation even if we are successful in defending against these claims, which may cause our customers to switch to our competitors. Any of these events could adversely impact our results of operations, financial position and cash flows.

Our products are subject to extensive government scrutiny and regulation.

We are subject to regulation by federal, state, local and foreign government authorities. In some cases, we need government approval of our products, manufacturing processes and facilities before we may sell certain products. Many products are required to be registered with the U.S. Environmental Protection Agency (EPA), with the European Chemicals Agency (ECHA) and with comparable government agencies elsewhere. We are also subject to ongoing reviews of our products, manufacturing processes and facilities by government authorities, and must also produce product data and comply with detailed regulatory requirements.

In order to obtain regulatory approval of certain new products we must, among other things, demonstrate that the product is appropriate and effective for its intended uses, that the product has been appropriately tested for safety and that we are capable of manufacturing the product in accordance with applicable regulations. This approval process can be costly, time consuming, and subject to unanticipated and significant delays. We cannot be sure that necessary approvals will be granted on a timely basis or at all. Any delay in obtaining, or any

failure to obtain or maintain, these approvals would adversely affect our ability to introduce new products and to generate income from those products. New or stricter laws and regulations may be introduced that could result in additional compliance costs and prevent or inhibit the development, manufacture, distribution and sale of our products. Such outcomes could adversely impact our results of operations, financial position and cash flows.

Legal proceedings and other claims could impose substantial costs on us.

We are from time to time involved in legal proceedings that result from, and are incidental to, the conduct of our business, including employee and product liability claims. Although we maintain insurance to protect us against a variety of claims, if our insurance coverage is not adequate to cover such claims, then we may be required to pay directly for such liabilities. Such outcomes could adversely impact our results of operations, financial position and cash flows.

Environmental liabilities and compliance costs could have a substantial adverse impact on our results of operations.

We operate a number of manufacturing sites and are subject to extensive federal, state, local and foreign environmental, health and safety laws and regulations, including those relating to emissions to the air, discharges to land and water, and the generation, handling, treatment and disposal of hazardous waste and other materials on these sites. We operate under numerous environmental permits and licenses, many of which require periodic notification and renewal, which is not automatic. New or stricter laws and regulations could increase our compliance burden or costs and adversely affect our ability to develop, manufacture, blend, market and supply products.

Our operations, and the operations of prior owners of our sites, pose the risk of environmental contamination which may result in fines or criminal sanctions being imposed or require significant amounts in remediation payments.

We anticipate that certain manufacturing sites may cease production over time and on closure, will require safely decommissioning and some environmental remediation. The extent of our obligations will depend on the future use of the sites that are affected and the environmental laws in effect at the time. We currently have made a decommissioning and remediation provision in our consolidated financial statements based on current known obligations, anticipated plans for sites and existing environmental laws. If there were to be unexpected or unknown contamination at these sites, or future plans for the sites or environmental laws change, then current provisions may prove inadequate, which could adversely impact our results of operations, financial position and cash flows.

The inability of counterparties to meet their contractual obligations could have a substantial adverse impact on our results of operations.

We sell products to oil companies, oil and gas exploration and production companies and chemical companies throughout the world. Credit limits, ongoing credit evaluation and

account monitoring procedures are used to minimize bad debt risk. Collateral is not generally required. We have in place a credit facility with a syndicate of banks. From time to time, we use derivatives, including interest rate swaps, commodity swaps and foreign currency forward exchange contracts, in the normal course of business to manage market risks. We enter into derivative instruments with a diversified group of major financial institutions in order to manage the exposure to non-performance of such instruments.

We remain subject to market and credit risks including the ability of counterparties to meet their contractual obligations and the potential non-performance of counterparties to deliver contracted commodities or services at the contracted price. The inability of counterparties to meet their contractual obligations could have an adverse impact on our results of operations, financial position and cash flows.

The provisions of our revolving credit facility may restrict our ability to incur additional indebtedness or to otherwise expand our business.

Our revolving credit facility contains restrictive clauses which may limit our activities, and operational and financial flexibility. We may not be able to borrow under the revolving credit facility if an event of default under the terms of the facility occurs. An event of default under the credit facility includes a material adverse change to our assets, operations or financial condition, and certain other events. The revolving credit facility also contains a number of restrictions that limit our ability, among other things, and subject to certain limited exceptions, to incur additional indebtedness, pledge our assets as security, guarantee obligations of third parties, make investments, undergo a merger or consolidation, dispose of assets or materially change our line of business.

In addition, the revolving credit facility requires us to meet certain financial ratios, including ratios based on net debt to earnings before income tax, depreciation and amortization (“EBITDA”) and net interest expense to EBITDA. Net debt, net interest expense and EBITDA are non-GAAP measures of liquidity defined in the credit facility. Our ability to meet these financial covenants depends upon the future successful operating performance of the business. If we fail to comply with financial covenants, we would be in default under the revolving credit facility and the maturity of our outstanding debt could be accelerated unless we were able to obtain waivers from our lenders. If we were found to be in default under the revolving credit facility, it could adversely impact our results of operations, financial position and cash flows.

Our business is subject to the risk of manufacturing disruptions, the occurrence of which would adversely affect our results of operations.

We are subject to hazards which are common to chemical manufacturing, blending, storage, handling and transportation. These hazards include fires, explosions, remediation, chemical spills and the release or discharge of toxic or hazardous substances together with the more generic risks of labor strikes or slowdowns, mechanical failure in scheduled downtime, extreme weather or transportation interruptions. These hazards could result in loss of life,

severe injury, property damage, environmental contamination and temporary or permanent manufacturing cessation. Any of these factors could adversely impact our results of operations, financial position and cash flows.

Domestic or international natural disasters, pandemics or terrorist attacks may disrupt our operations, decrease the demand for our products or otherwise have an adverse impact on our business.

Chemical related assets, and U.S. corporations such as us, may be at greater risk of future terrorist attacks than other possible targets in the U.S., the United Kingdom and throughout the world. Extraordinary events such as natural disasters and pandemics may negatively affect local economies, including those of our customers or suppliers. The occurrence and consequences of such events cannot be predicted, but they can adversely impact economic conditions in general and in our specific markets. The resulting damage from such events could include loss of life, severe injury and property damage or site closure. Any of these matters could adversely impact our results of operations, financial position and cash flows.

While Innospec maintains business continuity plans that are intended to allow it to continue operations or mitigate the effects of events that could disrupt its business, Innospec cannot provide assurances that its plans would fully protect it from all such events. In addition, insurance maintained by Innospec to protect against property damage, loss of business and other related consequences resulting from catastrophic events is subject to coverage limitations, depending on the nature of the risk insured. This insurance may not be sufficient to cover all of Innospec's damages or damages to others in the event of a catastrophe. In addition, insurance related to these types of risks may not be available now or, if available, may not be available in the future at commercially reasonable rates.

We may be exposed to certain regulatory and financial risks related to climate change

The outcome of new or potential legislation or regulation in the U.S. and other jurisdictions in which we operate may result in new or additional requirements, additional charges to fund energy efficiency activities, fees or restrictions on certain activities. Compliance with these initiatives may also result in additional costs to us, including, among other things, increased production costs, additional taxes, reduced emission allowances or additional restrictions on production or operations. Any adopted future climate change regulations could also negatively impact our ability to compete with companies situated in areas not subject to such limitations. Even without such regulation, increased public awareness and adverse publicity about potential impacts on climate change emanating from us or our industry could harm us. We may not be able to recover the cost of compliance with new or more stringent laws and regulations, which could adversely affect our business and negatively impact our growth. Furthermore, the potential impacts of climate change and related regulation on our customers are highly uncertain and may adversely affect us.

Item 1B Unresolved Staff Comments

None.

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Item 2 Properties

A summary of the Company's principal properties is shown in the following table. Each of these properties is owned by the Company except where otherwise noted:

Location	*Reporting Segment*	*Operations*
Englewood, Colorado [(1)]	Fuel Specialties and Performance Chemicals	Corporate Headquarters Business Teams Sales/Administration
Newark, Delaware [(1)]	Fuel Specialties	Research & Development
Herne, Germany	Fuel Specialties	Sales/Manufacturing/Administration Research & Development
Vernon, France	Fuel Specialties	Sales/Manufacturing/Administration Research & Development
Moscow, Russia [(1)]	Fuel Specialties	Sales/Administration
Leuna, Germany	Fuel Specialties	Sales/Manufacturing/Administration Research & Development
Ellesmere Port, United Kingdom	Fuel Specialties, Performance Chemicals and Octane Additives	European Headquarters Business Teams Sales/Manufacturing/Administration Research & Development Fuel Technology Center
Beijing, China [(1)]	Fuel Specialties and Performance Chemicals	Sales/Administration
Singapore [(1)]	Fuel Specialties and Performance Chemicals	Asia-Pacific Headquarters Business Teams Sales/Administration
Milan, Italy [(1)]	Fuel Specialties and Performance Chemicals	Sales/Administration
Rio de Janeiro, Brazil [(1)]	Fuel Specialties, Performance Chemicals and Oilfield Services	Sales/Administration
High Point, North Carolina	Performance Chemicals	Manufacturing/Administration Research & Development
Salisbury, North Carolina	Performance Chemicals	Manufacturing/Administration Research & Development
Chatsworth, California [(1)]	Performance Chemicals	Sales/Manufacturing/Administration
Saint Mihiel, France	Performance Chemicals	Manufacturing/Administration/Research & Development
Castiglione, Italy	Performance Chemicals	Manufacturing/Administration/Research & Development
Barcelona, Spain [(1)]	Performance Chemicals	Manufacturing/Administration/Research & Development
Oklahoma City, Oklahoma	Oilfield Services	Sales/Manufacturing/Administration
Midland, Texas	Oilfield Services	Sales/Manufacturing/Administration
Pleasanton, Texas	Oilfield Services	Sales/Manufacturing/Administration

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Location	Reporting Segment	Operations
Sugar Land, Texas [1]	Oilfield Services	Sales/Administration/Research & Development
The Woodlands, Houston, Texas [1]	Oilfield Services	Sales/Administration/Research & Development
Williston, North Dakota	Oilfield Services	Sales/Warehouse
Casper, Wyoming [1]	Oilfield Services	Warehouse
Zug, Switzerland [1]	Octane Additives	Sales/Administration

(1) *Leased property*

Manufacturing Capacity

We believe that our plants and supply agreements are sufficient to meet current sales levels. Operating rates of the plants are generally flexible and varied with product mix and normal sales demand swings. We believe that all of our facilities are maintained to appropriate levels and in sufficient operating condition though there remains an ongoing need for maintenance and capital investment.

Item 3 Legal Proceedings

Legal matters

While we are involved from time to time in claims and legal proceedings that result from, and are incidental to, the conduct of our business including business and commercial litigation, employee and product liability claims, there are no material pending legal proceedings to which the Company or any of its subsidiaries is a party, or of which any of the Company’s property is subject. It is possible, however, that an adverse resolution of an unexpectedly large number of such individual claims or proceedings could in the aggregate have a material adverse effect on results of operations for a particular year or quarter.

Item 4 Mine Safety Disclosures

Not applicable.

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PART II

Item 5 Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Holders

The Company's common stock is listed on the NASDAQ under the symbol "IOSP." As of February 12, 2020 there were 793 registered holders of the common stock.

Unregistered Sales of Equity Securities

There were no unregistered sales of equity securities during the fourth quarter of 2019.

Issuer Purchases of Equity Securities

During 2019 the Company made no open market repurchases of our common stock.

On November 6, 2018 the Company announced that its board of directors had approved a share repurchase program for the repurchase of up to $100 million of Innospec's common stock over the following three years. During the year ended December 31, 2019, no shares of our common stock were repurchased by the Company under this share repurchase program.

During the quarter ended December 31, 2019 the company has purchased its common stock in connection with the exercising of stock options by employees. The following table provides information about our repurchases of equity securities in the period.

Issuer Purchases of Equity Securities

Period	Total number of shares purchased	Average price paid per share
November 1, 2019 through November 30, 2019	2,820	$ 99.31
Total	2,820	$ 99.31

Stock Price Performance Graph

The graph below compares the cumulative total return to stockholders on the common stock of the Corporation, S&P 500 Index, NASDAQ Composite Index and Russell 2000 Index since December 31, 2014, assuming a $100 investment and the re-investment of any dividends thereafter.

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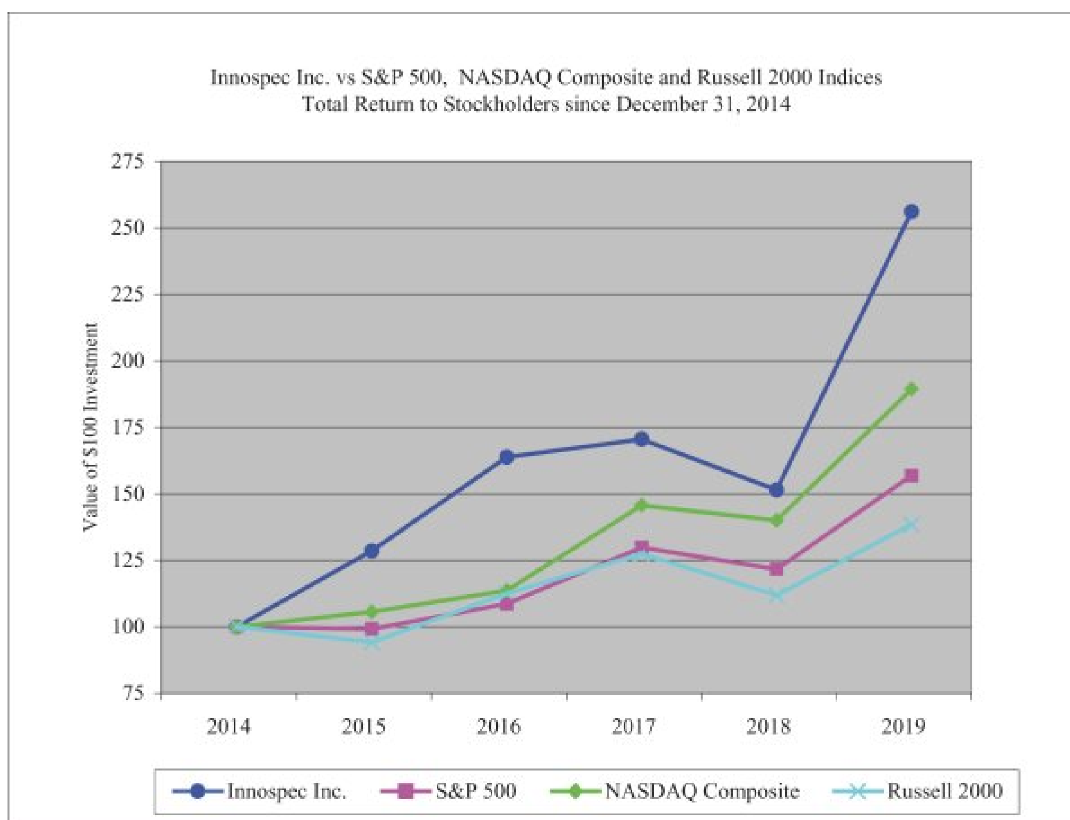

Value of $100 Investment made December 31, 2014*

	2014	2015	2016	2017	2018	2019
Innospec Inc.	$ 100.00	$ 128.62	$ 163.81	$ 170.67	$ 151.45	$ 256.17
S&P 500 Index	100.00	99.27	108.74	129.86	121.76	156.93
NASDAQ Composite Index	100.00	105.73	113.66	145.76	140.10	189.46
Russell 2000 Index	$ 100.00	$ 94.29	$ 112.65	$ 127.46	$ 111.94	$ 138.46

* Excludes purchase commissions.

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Item 6 Selected Financial Data

FINANCIAL HIGHLIGHTS

(in millions, except financial ratios, share and per share data)	2019	2018	2017	2016	2015
Summary of performance:					
Net sales	$1,513.3	$1,476.9	$1,306.8	$ 883.4	$1,012.3
Operating income	149.9	133.5	125.0	98.2	156.3
Income before income taxes	150.4	131.6	128.1	103.1	152.3
Income taxes	(38.2)	(46.6)	(66.3)	(21.8)	(32.8)
Net income	112.2	85.0	61.8	81.3	119.5
Net income attributable to Innospec Inc.	112.2	85.0	61.8	81.3	119.5
Net cash provided by operating activities	$ 161.6	$ 104.9	$ 82.7	$ 105.5	$ 118.2
Financial position at year end:					
Total assets	$1,468.8	$1,473.4	$1,410.2	$1,181.4	$1,028.6
Long-term debt including finance leases (including current portion)	60.1	210.9	224.3	273.3	134.7
Cash, cash equivalents, and short-term investments	75.7	123.1	90.2	101.9	141.7
Total equity	$ 918.9	$ 825.5	$ 794.3	$ 653.8	$ 605.3
Financial ratios:					
Net income attributable to Innospec Inc. as a percentage of net sales	7.4	5.8	4.7	9.2	11.8
Effective tax rate as a percentage [(1)]	25.4	35.4	51.8	21.1	21.5
Current ratio [(2)]	2.1	2.2	2.1	2.4	2.2
Share data:					
Earnings per share attributable to Innospec Inc.					
– Basic	$ 4.58	$ 3.48	$ 2.56	$ 3.39	$ 4.96
– Diluted	$ 4.54	$ 3.45	$ 2.52	$ 3.33	$ 4.86
Dividend paid per share	$ 1.02	$ 0.89	$ 0.77	$ 0.67	$ 0.61
Shares outstanding (basic, thousands)					
– At year end	24,507	24,434	24,350	24,071	24,101
– Average during year	24,482	24,401	24,148	23,998	24,107

(1) *The effective tax rate is calculated as income taxes as a percentage of income before income taxes. Income taxes are impacted in 2017 by the provisional estimates recorded in respect of the Tax Cuts and Jobs Act of 2017 ("Tax Act"), and in 2018 by the finalization and recording of additional taxes due as a consequence of the Tax Act. Income taxes in 2019 are calculated under the new legislation of the Tax Act.*

(2) *Current ratio is defined as current assets divided by current liabilities.*

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QUARTERLY SUMMARY

(in millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2019				
Net sales	$388.3	$362.4	$371.9	$390.7
Gross profit	117.8	111.1	119.1	118.2
Operating income	36.2	31.7	38.2	43.8
Net income	28.7	22.3	30.1	31.1
Net cash provided by operating activities	$ 13.2	$ 50.0	$ 40.0	$ 58.4
Per common share:				
Earnings – basic	$ 1.17	$ 0.91	$ 1.23	$ 1.27
– diluted	$ 1.17	$ 0.90	$ 1.22	$ 1.26
2018				
Net sales	$360.7	$358.1	$363.1	$395.0
Gross profit	104.5	102.8	111.0	116.7
Operating income	28.9	28.3	33.4	42.9
Net income	22.2	21.8	20.6	20.4
Net cash (used in)/provided by operating activities	$ (2.0)	$ 0.3	$ 35.1	$ 71.5
Per common share:				
Earnings – basic	$ 0.91	$ 0.89	$ 0.84	$ 0.84
– diluted	$ 0.90	$ 0.89	$ 0.84	$ 0.83

Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with our consolidated financial statements and the notes thereto.

EXECUTIVE OVERVIEW

In 2019, we continued to focus on the organic growth of our portfolio and this delivered in line with our expectations. Sales revenue growth across the group has been driven by new product development and customer adoption of the strong product portfolio in our strategic businesses.

Octane Additives continued to supply the one remaining customer in motor gasoline, albeit at reduced levels, consistent with the customer's transition to unleaded fuel.

CRITICAL ACCOUNTING ESTIMATES

Note 2 of the Notes to the Consolidated Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of the consolidated financial statements.

Environmental Liabilities

We are subject to environmental laws in the countries in which we conduct business. Our principal site giving rise to environmental remediation liabilities is the Octane Additives manufacturing site at Ellesmere Port in the United Kingdom. There are also environmental remediation liabilities on a much smaller scale in respect of our other manufacturing sites in the U.S. and Europe. At Ellesmere Port there is a continuing asset retirement program related to certain manufacturing units that have been closed.

Remediation provisions at December 31, 2019 amounted to $49.3 million and relate principally to our Ellesmere Port site in the United Kingdom. We recognize environmental liabilities when they are probable and costs can be reasonably estimated, and asset retirement obligations when there is a legal obligation and costs can be reasonably estimated. The Company has to anticipate the program of work required and the associated future expected costs, and comply with environmental legislation in the countries in which it operates or has operated in. We develop these assumptions utilizing the latest information available together with recent costs. While we believe our assumptions for environmental liabilities are reasonable, they are subjective judgements and it is possible that variations in any of the assumptions will result in materially different calculations to the liabilities we have reported.

Income Taxes

We are subject to income and other taxes in the U.S. and other jurisdictions. Tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied.

The calculation of our tax liabilities involves evaluating uncertainties in the application of accounting principles and complex tax regulations. We recognize liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes will be required. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary.

We also recognize tax benefits to the extent that it is more likely than not that our positions will be sustained, based on technical merits of the position, when challenged by the taxing authorities. To the extent that we prevail in matters for which liabilities have been established, or are required to pay amounts in excess of our liabilities, our effective tax rate in a given period may be materially affected. An unfavourable tax settlement may require cash payments and result in an increase in our effective tax rate in the year of resolution. We report interest and penalties related to uncertain tax positions as income taxes. For additional information regarding uncertain income tax positions, see Note 10 of the Notes to the Consolidated Financial Statements.

Pensions

The Company maintains a defined benefit pension plan covering a number of its current and former employees in the United Kingdom. The Company also has other smaller pension arrangements in the U.S. and overseas as disclosed in Note 9 of the Notes to the Consolidated Financial Statements. The United Kingdom plan is closed to future service accrual, but has a large number of deferred and current pensioners.

Movements in the underlying plan asset value and Projected Benefit Obligation (“PBO”) are dependent on actual return on investments as well as our assumptions in respect of the discount rate, annual member mortality rates, future return on assets and future inflation. A change in any one of these assumptions could impact the plan asset value, PBO and pension charge recognized in the income statement. Such changes could adversely impact our results of operations and financial position. For example, a 0.25% change in the discount rate assumption would change the PBO by approximately $24 million while the net pension credit for 2020 would change by approximately $0.1 million. A 0.25% change in the level of price inflation assumption would change the PBO by approximately $18 million and the net pension credit for 2020 would change by approximately $1.1 million.

Further information is provided in Note 9 of the Notes to the Consolidated Financial Statements.

Goodwill

The Company’s reporting units, the level at which goodwill is assessed for potential impairment, are consistent with the reportable segments. The components in each segment (including products, markets and competitors) have similar economic characteristics and the segments, therefore, reflect the lowest level at which operations and cash flows can be sufficiently distinguished, operationally and for financial reporting purposes, from the rest of the Company.

To test for impairment the Company performs a qualitative assessment to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a segment is less than the carrying amount prior to performing the quantitative goodwill impairment test. Factors utilized in the qualitative assessment process include macroeconomic conditions; industry and market considerations; cost factors; overall financial performance; and Company specific events.

If a quantitative test is required, we assess the fair value based on projected post-tax cash flows discounted at the Company's weighted average cost of capital. These fair value techniques require management judgment and estimates including revenue growth rates, projected operating margins, changes in working capital and discount rates. We would develop these assumptions by considering recent financial performance and trends and industry growth estimates. While we believe our assumptions for impairment assessments are reasonable, they are subjective judgments, and it is possible that variations in any of the assumptions will result in materially different calculations of any potential impairment charges.

At December 31, 2019 we had $363.0 million of goodwill relating to our Fuel Specialties, Performance Chemicals and Oilfield Services segments. Our impairment assessment concluded that there had been no impairment of goodwill in respect of those reporting segments.

Property, Plant and Equipment and Other Intangible Assets (Net of Depreciation and Amortization, respectively)

As at December 31, 2019 we had $198.7 million of property, plant and equipment and $113.5 million of other intangible assets (net of depreciation and amortization, respectively), that are discussed in Notes 5 and 8 of the Notes to the Consolidated Financial Statements, respectively. These long-lived assets relate to all of our reporting segments and are being amortized or depreciated straight-line over periods of up to 17 years in respect of the other intangible assets and up to 25 years in respect of the property, plant and equipment.

We continually assess the markets and products related to these long-lived assets, as well as their specific carrying values, and have concluded that these carrying values, and amortization and depreciation periods, remain appropriate.

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RESULTS OF OPERATIONS

The following table provides operating income by reporting segment:

(in millions)	2019	2018	2017
Net sales:			
Fuel Specialties	$ 583.7	$ 574.5	$ 523.8
Performance Chemicals	428.7	468.1	419.5
Oilfield Services	479.9	400.6	304.4
Octane Additives	21.0	33.7	59.1
	$1,513.3	$1,476.9	$1,306.8
Gross profit:			
Fuel Specialties	$ 204.5	$ 195.0	$ 188.2
Performance Chemicals	100.1	97.5	75.8
Oilfield Services	159.9	130.4	109.3
Octane Additives	1.7	12.1	30.0
	$ 466.2	$ 435.0	$ 403.3
Operating income:			
Fuel Specialties	$ 116.6	$ 116.3	$ 107.7
Performance Chemicals	48.7	44.7	32.6
Oilfield Services	39.7	22.1	9.5
Octane Additives	(0.7)	9.9	26.7
Corporate costs	(54.4)	(52.4)	(48.8)
Restructuring charge	0.0	(7.1)	0.0
Loss on disposal of subsidiary	0.0	0.0	(0.9)
Foreign exchange loss on liquidation of subsidiary	0.0	0.0	(1.8)
Total operating income	$ 149.9	$ 133.5	$ 125.0
Other income, net	$ 5.3	$ 5.0	$ 11.3
Interest expense, net	(4.8)	(6.9)	(8.2)
Income before income taxes	150.4	131.6	128.1
Income taxes	(38.2)	(46.6)	(66.3)
Net income	$ 112.2	$ 85.0	$ 61.8

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Results of Operations – Fiscal 2019 compared to Fiscal 2018:

(in millions, except ratios)	2019	2018	Change	
Net sales:				
Fuel Specialties	$ 583.7	$ 574.5	$ 9.2	+2%
Performance Chemicals	428.7	468.1	(39.4)	-8%
Oilfield Services	479.9	400.6	79.3	+20%
Octane Additives	21.0	33.7	(12.7)	-38%
	$1,513.3	$1,476.9	$ 36.4	+2%
Gross profit:				
Fuel Specialties	$ 204.5	$ 195.0	$ 9.5	+5%
Performance Chemicals	100.1	97.5	2.6	+3%
Oilfield Services	159.9	130.4	29.5	+23%
Octane Additives	1.7	12.1	(10.4)	-86%
	$ 466.2	$ 435.0	$ 31.2	+7%
Gross margin (%):				
Fuel Specialties	*35.0*	*33.9*	*+1.1*	
Performance Chemicals	*23.3*	*20.8*	*+2.5*	
Oilfield Services	*33.3*	*32.6*	*+0.7*	
Octane Additives	*8.1*	*35.9*	*-27.8*	
Aggregate	***30.8***	***29.5***	***+1.3***	
Operating expenses:				
Fuel Specialties	$ (87.9)	$ (78.7)	$ (9.2)	+12%
Performance Chemicals	(51.4)	(52.8)	1.4	-3%
Oilfield Services	(120.2)	(108.3)	(11.9)	+11%
Octane Additives	(2.4)	(2.2)	(0.2)	+9%
Corporate costs	(54.4)	(52.4)	(2.0)	+4%
Restructuring charge	0.0	(7.1)	7.1	-100%
	$ (316.3)	$ (301.5)	$(14.8)	+5%

Financial information with respect to our domestic and foreign operations is contained in Note 3 of the Notes to the Consolidated Financial Statements.

Fuel Specialties

Net sales: the table below details the components which comprise the year on year change in net sales spread across the markets in which we operate:

Change (%)	Americas	EMEA	ASPAC	AvTel	Total
Volume	-8	+4	+3	+52	+3
Price and product mix	+6	+4	+8	-37	+3
Exchange rates	0	-8	-1	0	-4
	-2	0	+10	+15	+2

Lower volumes in the Americas were primarily driven by a specific issue in the second half of 2019 related to disruption from one supplier. Volumes in EMEA and ASPAC were higher, driven by increased demand for our products and technology. Price and product mix in the Americas, EMEA and ASPAC benefited from increased sales of higher margin products. AvTel volumes were higher than the prior year due to variations in the demand from customers, partly offset by an adverse price and product mix. EMEA and ASPAC were negatively impacted by exchange rate movements year over year, driven by a weakening of the British pound sterling and the European Union euro against the U.S. dollar.

Gross margin: the year on year increase of 1.1 percentage points benefitted from an improvement in the mix of product sales.

Operating expenses: the year on year increase of $9.2 million was driven by increased selling expenses including higher agents' commissions and higher personnel related performance-based remuneration due to increased share-based compensation accruals.

Performance Chemicals

Net sales: the table below details the components which comprise the year on year change in net sales spread across the markets in which we operate:

Change (%)	Americas	EMEA	ASPAC	Total
Volume	-3	-4	+16	-3
Price and product mix	+4	-4	-9	-2
Exchange rates	0	-5	-3	-3
	+1	-13	+4	-8

Lower volumes in the Americas and EMEA were driven by a customer taking some volume in-house. Higher volumes in ASPAC were driven by increased demand for our Personal Care products, partly offset by an adverse price and product mix. Price and product mix in the Americas benefitted from increased sales of higher margin products, while EMEA was adversely impacted by lower raw material prices driving lower selling prices for certain products. EMEA and ASPAC were negatively impacted by exchange rate movements year

over year, due to a weakening of the British pound sterling and the European Union euro against the U.S. dollar.

Gross margin: the year on year increase of 2.5 percentage points was driven by an improved sales mix, lower raw material prices and the continued benefit of several improvement projects.

Operating expenses: the year on year decrease of $1.4 million was primarily due to the benefit of a weaker European Union euro against the U.S. dollar and lower costs as a result of the closure of our operation in Belgium in the prior year.

Oilfield Services

Net sales: the year on year increase of $79.3 million, or 20 percent, was due to improved customer activity in stimulation and production driving increased demand for our technology and customer service. Sales of higher margin products have benefited the price and product mix.

Gross margin: the year on year increase of 0.7 percentage points was due to an improved customer and product mix leading to increased sales of higher margin products.

Operating expenses: the year on year increase of $11.9 million was driven by higher selling and technical support expenses required to deliver the increase in customer demand.

Octane Additives

Net sales: were $21.0 million for 2019 compared to $33.7 million in 2018. Reduced sales are in line with our expectations as the one remaining customer moves closer to completing their transition to unleaded fuel.

Gross margin: the year on year decrease of 27.8 percentage points was due to lower production volumes spread over the predominantly fixed cost of manufacturing operations.

Operating expenses: the year on year increase of $0.2 million was principally due to higher year-end provisions for personnel related performance-based remuneration.

Other Income Statement Captions

Corporate costs: the year on year increase of $2.0 million primarily relates to higher personnel related performance-based remuneration including higher share-based compensation accruals; partly offset by a reduction for the amortization of our internally developed software following the completed amortization of our first deployment to the Americas which ended in the third quarter of 2018, together with the benefit of a weakening of the British pound sterling against the U.S. dollar for our United Kingdom cost base.

Restructuring charge: there was no charge in 2019 compared to a charge of $7.1 million in the prior year related to the closure costs, including redundancies and onerous leases, for our operation in Belgium.

Other net income/(expense): for 2019 and 2018, includes the following:

(in millions)	2019	2018	Change
United Kingdom pension credit	$ 7.7	$ 6.3	$ 1.4
German pension charge	(0.5)	(0.6)	0.1
Foreign exchange losses on translation	(1.3)	(5.9)	4.6
Foreign currency forward contracts (losses)/gains	(0.6)	5.2	(5.8)
	$ 5.3	$ 5.0	$ 0.3

Interest expense, net: was $4.8 million for 2019 compared to $6.9 million in the prior year, driven by lower average net debt as the business generated cash inflows.

Income taxes: The effective tax rate was 25.4% and 35.4% in 2019 and 2018, respectively. The adjusted effective tax rate, once adjusted for the items set out in the following table, was 22.6% in 2019 compared with 23.7% in 2018. The Company believes that this adjusted effective tax rate, a non-GAAP financial measure, provides useful information to investors and may assist them in evaluating the Company's underlying performance and identifying operating trends. In addition, management uses this non-GAAP financial measure internally to evaluate the Company's operations and for planning and forecasting in subsequent periods.

(in millions, except ratios)	2019	2018
Income before income taxes	$150.4	$131.6
Adjustment for stock compensation	6.6	4.8
Indemnification asset regarding tax audit	(1.6)	(1.2)
Site closure provision	0.0	6.8
	$155.4	$142.0
Income taxes	$ 38.2	$ 46.6
Adjustment of income tax provisions	(2.5)	(1.8)
Tax on stock compensation	0.9	0.2
Tax Cuts & Jobs Act 2017 impact	0.0	(12.3)
Tax on site closure provision	(0.7)	1.9
Tax loss on distribution	1.2	0.0
Other discrete items	(2.0)	(0.9)
	$ 35.1	$ 33.7
GAAP effective tax rate	25.4%	35.4%
Adjusted effective tax rate	22.6%	23.7%

The most significant factors impacting on our effective tax rate in 2019 are explained in Note 10 of the Notes to the Consolidated Financial Statements.

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Results of Operations – Fiscal 2018 compared to Fiscal 2017:

(in millions, except ratios)	2018	2017	Change	
Net sales:				
Fuel Specialties	$ 574.5	$ 523.8	$ 50.7	+10%
Performance Chemicals	468.1	419.5	48.6	+12%
Oilfield Services	400.6	304.4	96.2	+32%
Octane Additives	33.7	59.1	(25.4)	-43%
	$1,476.9	$1,306.8	$170.1	+13%
Gross profit:				
Fuel Specialties	$ 195.0	$ 188.2	$ 6.8	+4%
Performance Chemicals	97.5	75.8	21.7	+29%
Oilfield Services	130.4	109.3	21.1	+19%
Octane Additives	12.1	30.0	(17.9)	-60%
	$ 435.0	$ 403.3	$ 31.7	+8%
Gross margin (%):				
Fuel Specialties	*33.9*	*35.9*	*-2.0*	
Performance Chemicals	*20.8*	*18.1*	*+2.7*	
Oilfield Services	*32.6*	*35.9*	*-3.3*	
Octane Additives	*35.9*	*50.8*	*-14.9*	
Aggregate	***29.5***	***30.9***	***-1.4***	
Operating expenses:				
Fuel Specialties	$ (78.7)	$ (80.5)	$ 1.8	-2%
Performance Chemicals	(52.8)	(43.2)	(9.6)	+22%
Oilfield Services	(108.3)	(99.8)	(8.5)	+9%
Octane Additives	(2.2)	(3.3)	1.1	-33%
Corporate costs	(52.4)	(48.8)	(3.6)	+7%
Restructuring charge	(7.1)	0.0	(7.1)	n/a
Loss on disposal of subsidiary	0.0	(0.9)	0.9	-100%
Foreign exchange loss on liquidation of subsidiary	0.0	(1.8)	1.8	-100%
	$ (301.5)	$ (278.3)	$ (23.2)	-8%

Financial information with respect to our domestic and foreign operations is contained in Note 3 of the Notes to the Consolidated Financial Statements.

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Fuel Specialties

Net sales: the table below details the components which comprise the year on year change in net sales spread across the markets in which we operate:

Change (%)	Americas	EMEA	ASPAC	AvTel	Total
Volume	+15	+3	+1	+1	+7
Price and product mix	+1	0	0	0	0
Exchange rates	0	+6	+1	0	+3
	+16	+9	+2	+1	+10

Volumes in all our regions were higher, driven by increased demand for our product technology and customer service. Price and product mix in the Americas benefited from increased sales of higher margin products. AvTel volumes were higher than the prior year due to variations in the timing and level of demand from customers. EMEA and ASPAC benefited from favorable exchange rate movements year over year, driven by a strengthening of the British pound sterling and the European Union euro against the U.S. dollar.

Gross margin: the year on year decrease of 2.0 percentage points was adversely affected by the mix of product sales when compared to a strong prior year comparative.

Operating expenses: the year on year decrease of $1.8 million was driven by a reduction in the provisions for doubtful debts and lower accruals for agents' commissions, partly offset by increased other expenses to support the business growth.

Performance Chemicals

Net sales: the table below details the components which comprise the year on year change in net sales spread across the markets in which we operate:

Change (%)	Americas	EMEA	ASPAC	Total
Volume	+14	+4	+9	+7
Price and product mix	+4	0	-1	+1
Exchange rates	0	+5	+2	+4
	+18	+9	+10	+12

Increased demand for Personal Care led to significantly higher volumes in the Americas, together with a favorable price and product mix from increased sales of higher margin products. EMEA benefited from higher volumes in both Personal Care and Home Care, while ASPAC volumes were higher due to increased demand for Personal Care being partly offset by lower demand for Home Care. ASPAC was impacted by adverse price and product mix due to lower sales of higher margin products. EMEA and ASPAC benefited from favorable exchange rate movements year over year, driven by a strengthening of the British pound sterling and the European Union euro against the U.S. dollar.

Gross margin: the year on year increase of 2.7 percentage points was driven by the benefit of several improvement projects and favorable manufacturing variances due to higher production volumes.

Operating expenses: the year on year increase of $9.6 million is due to additional personnel-related expenses to support the business growth, including increased performance-related compensation accruals, together with additional amortization for our new information system platform and the adverse impact of exchange rate movements year over year.

Oilfield Services

Net sales: the year on year increase of $96.2 million was due to increased customer activity in stimulation and completion, following the rise in crude oil prices in the first nine months of the year. Overall volumes increased by 26 percent year on year, together with a favorable price and product mix of 6 percent.

Gross margin: the year on year decrease of 3.3 percentage points, was due to the mix of customer activity, adverse raw material pricing and higher transportation and labor costs.

Operating expenses: the year on year increase of $8.5 million was due to higher selling and technical support expenses required to deliver the increase in customer demand partly offset by a reduction in other expenses. The reduction in other expenses is driven by lower general and administration costs due to effective cost control, together with lower amortization of acquisition related intangible assets as some of the acquired assets have become fully amortized.

Octane Additives

Net sales: decreased by $25.4 million compared to the prior year, due to the expected reduction in the demand from our one remaining refinery customer.

Gross margin: the year on year decrease of 14.9 percentage points was due to higher manufacturing costs as a result of lower production volumes to align with reduced customer demand.

Operating expenses: the year on year decrease of $1.1 million was driven by the release of historic provisions which are no longer required, either due to the settlement of disputed liabilities or to the passing of the relevant time limit under statute of limitations.

Other Income Statement Captions

Corporate costs: the year on year increase of $3.6 million relates to higher personnel-related compensation accruals including a new long-term incentive plan and higher costs for the additional corporate services required to support our enlarged group following our growth through acquisitions in recent years. There has also been the adverse effect of a stronger British pound sterling against the U.S. dollar for our United Kingdom cost base.

Restructuring charge: a charge of $7.1 million primarily relates to the closure costs including redundancies and onerous leases for our operation in Belgium.

Loss on disposal of subsidiary: there was a loss in the prior year of $0.9 million for an indemnity claim in relation to residual testing in the Aroma Chemicals business which was sold in 2015.

Foreign exchange loss on liquidation of subsidiary: the $1.8 million loss in the prior year related to the reclassification of historic foreign exchange translations of net assets from accumulated other comprehensive losses, for our captive insurance company which was liquidated. There has been no corresponding charge in the current year.

Other net income/(expense): for 2018 and 2017, includes the following:

(in millions)	2018	2017	Change
United Kingdom pension credit	$ 6.3	$ 5.3	$ 1.0
German pension charge	(0.6)	(0.6)	0.0
Foreign exchange (losses)/gains on translation	(5.9)	7.5	(13.4)
Foreign currency forward contracts gains/(losses)	5.2	(0.9)	6.1
	$ 5.0	$11.3	$ (6.3)

Interest expense, net: was $6.9 million in 2018 compared to $8.2 million in 2017 driven by lower average net debt as the business generated cash inflows.

Income taxes: The effective tax rate was 35.4% and 51.8% in 2018 and 2017, respectively. The adjusted effective tax rate, once adjusted for the items set out in the following table, was 23.7% in 2018 compared with 20.2% in 2017. The Company believes that this adjusted effective tax rate, a non-GAAP financial measure, provides useful information to investors and may assist them in evaluating the Company’s underlying performance and identifying operating trends. In addition, management uses this non-GAAP financial measure internally to evaluate the Company’s operations and for planning and forecasting in subsequent periods.

(in millions, except ratios)	2018	2017
Income before income taxes	$131.6	$128.1
Adjustment to acquisition accounting for inventory fair valuation	0.0	1.7
Loss on disposal of subsidiary	0.0	0.9
Foreign exchange loss on liquidation of subsidiary	0.0	1.8
Adjustment for stock compensation	4.8	4.0
Indemnification asset regarding tax audit	(1.2)	0.0
Site closure provision	6.8	0.0
	$142.0	$136.5
Income taxes	$ 46.6	$ 66.3
Adjustment of income tax provisions	(1.8)	0.5
Tax on stock compensation	0.2	3.1
Tax on adjustment to fair value accounting	0.0	0.3
Tax Cuts & Jobs Act 2017 impact	(12.3)	(40.6)
Tax on site closure provision	1.9	0.0
Other discrete items	(0.9)	(2.0)
	$ 33.7	$ 27.6
GAAP effective tax rate	35.4%	51.8%
Adjusted effective tax rate	23.7%	20.2%

The most significant factor impacting our effective tax rate in 2018 and 2017 is the recognized implications of the Tax Act.

On December 22, 2017, the same date the Tax Act was enacted, SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provided guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete their accounting under ASC 740, Income Taxes. Our accounting for the impact of the Tax Act under SAB 118 is now complete.

The deemed repatriation transition tax (“Transition Tax”) is a tax on certain previously untaxed accumulated earnings and profits (“E&P”) of the Company’s non-U.S. subsidiaries. At December 31, 2017, we were able to reasonably estimate the Transition Tax and recorded a provisional Transition Tax obligation of $47.7 million. On the basis of revised E&P computations that were completed during the reporting period, we adjusted our Transition Tax estimate to $61.1 million. Net of related consequential impacts recorded in our 2017 U.S. federal income tax return, we recorded an additional $12.3 million income tax expense in the fourth quarter of 2018. Our accounting in relation to the Transition Tax is now complete.

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LIQUIDITY AND FINANCIAL CONDITION

Working Capital

The Company believes that adjusted working capital, a non-GAAP financial measure, provides useful information to investors in evaluating the Company's underlying performance and identifying operating trends. Management uses this non-GAAP financial measure internally to allocate resources and evaluate the performance of the Company's operations. Items excluded from the adjusted working capital calculation are listed in the table below and represent factors which do not fluctuate in line with the day to day working capital needs of the business.

(in millions)	2019	2018
Total current assets	$ 630.3	$ 663.9
Total current liabilities	(303.5)	(296.6)
Working capital	326.8	367.3
Less cash and cash equivalents	(75.7)	(123.1)
Less prepaid income taxes	(2.5)	(1.5)
Less other current assets	(0.8)	0.0
Add back current portion of accrued income taxes	10.3	8.6
Add back current portion of long-term debt	0.0	21.4
Add back current portion of finance leases	1.0	1.8
Add back current portion of plant closure provisions	5.6	5.9
Add back current portion of operating lease liabilities	10.6	0.0
Adjusted working capital	$ 275.3	$ 280.4

In 2019 our working capital decreased by $40.5 million, while our adjusted working capital decreased by $5.1 million. The difference is primarily due to changes in cash and cash equivalents and long-term debt, together with the exclusion of the current portion of operating lease liabilities from our adjusted working capital.

We had a $12.3 million increase in trade and other accounts receivable driven by higher sales in our Oilfield Services segment. Days' sales outstanding in our Fuel Specialties segment remained unchanged at 52 days; decreased in our Performance Chemicals segment from 65 days to 64 days; and increased from 56 days to 66 days in our Oilfield Services segment.

We had a $3.4 million decrease in inventories following the expected high demand in the fourth quarter, in particular for our Oilfield Services segment. Days' sales in inventory in our Fuel Specialties segment increased from 90 days to 97 days; increased in our Performance Chemicals segment from 59 days to 66 days; and decreased from 82 days to 71 days in our Oilfield Services segment.

Prepaid expenses increased $3.1 million, from $11.6 million to $14.7 million due to the timing of invoices received for new prepayments.

We had a $17.1 million increase in accounts payable and accrued liabilities due to the timing of supplier payments and higher accruals for share-based payments linked to the increase in the Innospec share price during the year. Creditor days (including GRNI) in our Fuel Specialties segment increased from 43 days to 52 days; increased in our Performance Chemicals segment from 52 days to 54 days; and decreased in our Oilfield Services segment from 49 days to 43 days.

Operating Cash Flows

We generated cash from operating activities of $161.6 million in 2019 compared to cash inflows of $104.9 million in 2018. Year over year cash from operating activities has benefitted from our effective control of working capital across our business, in particular our Oilfield Services segment has controlled inventory levels while sales have significantly increased year over year. There has also been a favorable cash flow from the timing of income tax payments.

Cash

At December 31, 2019 and 2018, we had cash and cash equivalents of $75.7 million and $123.1 million, respectively, of which $57.9 million and $101.4 million, respectively, were held by non-U.S. subsidiaries principally in the United Kingdom.

The decrease in cash and cash equivalents in 2019 of $47.4 million was driven by the repayment of $66.0 million of our revolving credit facility and the $82.5 million repayment of our term loan, being partly offset by our strong operating cash flows including the effective control of working capital, net of capital investment and dividend payments.

Debt

On September 26, 2019, Innospec and certain of its subsidiaries entered into a new agreement for a $250.0 million revolving credit facility until September 25, 2023 with an option to request an extension to the facility for a further year. The facility also contains an accordion feature whereby the Company may elect to increase the total available borrowings by an aggregate amount of up to $125.0 million.

On September 30, 2019 the Company repaid its pre-existing term loan and revolving credit facility that had been amended and restated on December 14, 2016, and replaced this borrowing with the new credit facility.

As a result, refinancing costs of $1.5 million were capitalized which are being amortized over the expected life of the facility.

The new revolving credit facility contains terms which, if breached, would result in it becoming repayable on demand. It requires, among other matters, compliance with the following financial covenant ratios measured on a quarterly basis: (1) our ratio of net debt to EBITDA must not be greater than 3.0:1.0 and (2) our ratio of EBITDA to net interest must not be less than 4.0:1.0 Management has determined that the Company has not breached these covenants and does not expect to breach these covenants for the next 12 months.

The current credit facility contains restrictions which may limit our activities, and operational and financial flexibility. We may not be able to borrow if an event of default is outstanding, which includes a material adverse change to our assets, operations or financial condition. The credit facility contains a number of restrictions that limit our ability, among other things, and subject to certain limited exceptions, to incur additional indebtedness, pledge our assets as security, guarantee obligations of third parties, make investments, effect a merger or consolidation, dispose of assets, or materially change our line of business.

At December 31, 2019, we had $60.0 million of debt outstanding under the revolving credit facility and $1.5 million of obligations under finance leases relating to certain fixed assets within our Fuel Specialties and Oilfield Services segments.

At December 31, 2019, our maturity profile of long-term debt and finance leases is set out below (net of deferred finance costs capitalized of $1.4 million):

(in millions)	
2020	$ 1.0
2021	0.4
2022	0.1
2023	58.6
Total debt	60.1
Current portion of long-term debt and finance leases	(1.0)
Long-term debt and finance leases, net of current portion	$59.1

Outlook

During 2019, we have focused on consolidating and strengthening our enlarged business and on several very promising organic growth projects which will support future growth.

We have continued to deliver a strong financial performance and we believe our long-term strategy is very much in line with our expectations. The current year was successful financially and, notably, we ended the year in a net cash position on our balance sheet.

Organic growth through new product development was a key feature of 2019 and we intend this to continue to be a key focus in the coming years.

While we have had a successful year, there are issues of global trade disputes which are beyond our control and give us some cause for caution when we consider the prospects for 2020. We plan on maintaining our existing strategy to grow the business based on our twin competencies of technology and customer service and our continued investment in R&D, which will require continued investment in new product development.

The latter part of 2019 suggested that market conditions will be challenging in 2020 in all our strategic businesses. However, we feel confident that our organic growth projects and potential further acquisitions will support continued growth.

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We expect the possible conclusion of revenues from our Octane Additives segment in the early part of 2020.

Contractual Commitments

The following represents contractual commitments at December 31, 2019 and the effect of those obligations on future cash flows:

(in millions)	Total	2020	2021-22	2023-24	Thereafter
Operating activities					
Remediation payments	49.3	5.6	7.8	4.2	31.7
Operating lease commitments	32.5	10.6	14.1	5.9	1.9
Raw material purchase obligations	21.3	6.3	7.3	7.7	0.0
Interest payments on debt	9.0	2.4	4.8	1.8	0.0
Investing activities					
Capital commitments	4.0	4.0	0.0	0.0	0.0
Financing activities					
Long-term debt obligations	58.6	0.0	0.0	58.6	0.0
Finance leases	1.5	1.0	0.5	0.0	0.0
Total	$176.2	$29.9	$ 34.5	$ 78.2	$ 33.6

Operating activities

Remediation payments represent those cash flows that the Company is currently obligated to pay in respect of environmental remediation of current and former facilities. It does not include any discretionary remediation costs that the Company may choose to incur.

Operating lease commitments relate primarily to right-of-use assets at third party manufacturing facilities, office space, motor vehicles and various items of computer and office equipment which are expected to be renewed and replaced in the normal course of business.

Raw material purchase obligations relate to certain long-term raw material contracts which stipulate fixed or minimum quantities to be purchased; fixed, minimum or variable cost provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancellable without penalty.

The estimated payments included in the table above reflect the variable interest charge on long-term debt obligations. Estimated commitment fees are also included and interest income is excluded.

Due to the uncertainty regarding the nature of tax audits, particularly those which are not currently underway, it is not meaningful to predict the outcome of obligations related to unrecognized tax benefits. Further disclosure is provided in Note 10 of the Notes to the Consolidated Financial Statements.

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Investing activities

Capital commitments relate to certain capital projects that the Company has committed to undertake.

Financing activities

On September 26, 2019, Innospec and certain of its subsidiaries entered into a new agreement for a $250.0 million revolving credit facility until September 25, 2023 with an option to request an extension to the facility for a further year. The facility also contains an accordion feature whereby the Company may elect to increase the total available borrowings by an aggregate amount of up to $125.0 million.

On September 30, 2019 the Company repaid its pre-existing term loan and revolving credit facility that had been amended and restated on December 14, 2016, and replaced this borrowing with the new credit facility.

Finance leases relate to the financing of certain fixed assets in our Fuel Specialties and Oilfield Services segments.

Environmental Matters and Plant Closures

Under certain environmental laws the Company is responsible for the remediation of hazardous substances or wastes at currently or formerly owned or operated properties.

As most of our manufacturing operations have been conducted outside the U.S., we expect that liability pertaining to the investigation and remediation of contaminated properties is likely to be determined under non-U.S. law.

We evaluate costs for remediation, decontamination and demolition projects on a regular basis. Full provision is made for those costs to which we are committed under environmental laws amounting to $49.3 million at December 31, 2019. Remediation expenditure utilizing these provisions was $4.4 million, $3.1 million and $2.4 million in the years 2019, 2018 and 2017, respectively.

Item 7A Quantitative and Qualitative Disclosures about Market Risk

The Company uses floating rate debt to finance its global operations. The Company is subject to business risks inherent in non-U.S. activities, including political and economic uncertainty, import and export limitations, and market risk related to changes in interest rates and foreign currency exchange rates. The political and economic risks are mitigated by the stability of the countries in which the Company's largest operations are located. Credit limits, ongoing credit evaluation and account monitoring procedures are used to minimize bad debt risk. Collateral is not generally required.

From time to time, the Company uses 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 Company enters into derivative instruments with a diversified group of major financial institutions in order to manage the exposure to non-performance of such instruments. The Company's objective in managing the exposure to changes in interest rates is to limit the impact of such changes on earnings and cash flows and to lower overall borrowing costs. The Company's objective in managing the exposure to changes in foreign currency exchange rates is to reduce volatility on earnings and cash flows associated with such changes.

The Company offers fixed prices for some long-term sales contracts. As manufacturing and raw material costs are subject to variability the Company may use commodity swaps to hedge the cost of some raw materials thus reducing 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 its exposure to fluctuating costs of raw materials.

Interest Rate Risk

From time to time, the Company uses interest rate swaps to manage interest rate exposure. As at December 31, 2019 the Company had cash and cash equivalents of $75.7 million, and long-term debt and finance leases of $60.1 million (including current portion). Long-term debt comprises a $250.0 million revolving credit facility available to the Company. The credit facilities carry an interest rate based on U.S. dollar LIBOR plus a margin of between 1.05% and 2.30% which is dependent on the Company's ratio of net debt to EBITDA. Net debt and EBITDA are non-GAAP measures of liquidity defined in the credit facility.

At December 31, 2019, $60.0 million was drawn under the revolving credit facility.

The Company previously entered into interest rate swap contracts to reduce interest rate risk on its core debt. As at December 31, 2019, there were no interest rate swaps in place with all swaps having been settled during the year. As at December 31, 2018, there were interest rate swaps with a notional value of $132.5 million in place. Interest rate swaps were in place to hedge interest rate risk on the term loan for a notional value that matched the repayment profile of the term loan.

The Company has $60.1 million long-term debt and finance leases (including the current portion) which is offset by $75.7 million cash and cash equivalents. The interest payable on long-term debt (excluding the margin) exceeds the interest receivable on positive cash balances. On a gross basis, assuming no additional interest on the cash balances and after deducting interest rate hedging, a hypothetical absolute change of 1% in U.S. base interest rates for a one-year period would impact net income and cash flows by approximately $0.6 million before tax. On a net basis, assuming additional interest on the cash balances, a hypothetical absolute change of 1% in U.S. base interest rates for a one-year period would impact net income and cash flows by approximately $0.2 million before tax.

The above does not consider the effect of interest or exchange rate changes on overall activity nor management action to mitigate such changes. As at December 31, 2019, Innospec did not have any interest rate swaps to mitigate the risk identified above.

Exchange Rate Risk

The Company generates an element of its revenues and incurs some operating costs in currencies other than the U.S. dollar. The reporting currency of the Company is the U.S. dollar.

The Company evaluates the functional currency of each reporting unit according to the economic environment in which it operates. Several major subsidiaries of the Company operating outside of the U.S. have the U.S. dollar as their functional currency due to the nature of the markets in which they operate. In addition, the financial position and results of operations of some of our overseas subsidiaries are reported in the relevant local currency and then translated to U.S. dollars at the applicable currency exchange rate for inclusion in our consolidated financial statements.

The primary foreign currencies in which we have exchange rate fluctuation exposure are the European Union euro, British pound sterling and Brazilian Real. Changes in exchange rates between these foreign currencies and the U.S. dollar will affect the recorded levels of our assets and liabilities, to the extent that such figures reflect the inclusion of foreign assets and liabilities which are translated into U.S. dollars for presentation in our consolidated financial statements, as well as our results of operations.

The Company's objective in managing the exposure to foreign currency fluctuations is to reduce earnings and cash flow volatility associated with foreign currency exchange rate changes. Accordingly, the Company enters into various contracts that change in value as foreign currency exchange rates change to protect the U.S. dollar value of its existing foreign currency denominated assets, liabilities, commitments, and cash flows. The Company also uses foreign currency forward exchange contracts to offset a portion of the Company's exposure to certain foreign currency denominated revenues so that gains and losses on these contracts offset changes in the U.S. dollar value of the related foreign currency denominated revenues. The objective of the hedging program is to reduce earnings and cash flow volatility related to changes in foreign currency exchange rates.

The trading of our Fuel Specialties, Performance Chemicals and Oilfield Services segments is inherently naturally hedged and accordingly changes in exchange rates would not be material to our earnings or financial position. The cost base of our Octane Additives reporting segment and corporate costs, however, are largely denominated in British pound sterling. A 5% strengthening in the U.S. dollar against British pound sterling would increase reported operating income by approximately $2.2 million for a one-year period excluding the impact of any foreign currency forward exchange contracts. Where a 5% strengthening of the U.S. dollar has been used as an illustration, a 5% weakening would be expected to have the opposite effect on operating income.

Raw Material Cost Risk

We use a variety of raw materials, chemicals and energy in our manufacturing and blending processes. Many of the raw materials that we use are derived from petrochemical-based and vegetable-based feedstocks which can be subject to periods of rapid and significant cost instability. These fluctuations in cost can be caused by political instability in oil producing nations and elsewhere, or other factors influencing global supply and demand of these materials, over which we have no or little control. We use long-term contracts (generally with fixed or formula-based costs) and advance bulk purchases to help ensure availability and continuity of supply, and to manage the risk of cost increases. From time to time we enter into hedging arrangements for certain raw materials, but do not typically enter into hedging arrangements for all raw materials, chemicals or energy costs. Should the costs of raw materials, chemicals or energy increase, and should we not be able to pass on these cost increases to our customers, then operating margins and cash flows from operating activities would be adversely impacted. Should raw material costs increase significantly, then the Company’s need for working capital could similarly increase. Any of these risks could adversely impact our results of operations, financial position and cash flows.

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Item 8 Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Innospec Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheet of Innospec Inc. and its subsidiaries (the "Company") as of December 31, 2019, and the related consolidated statements of income, comprehensive income, equity and cash flows for the year then ended, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 **,** and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audit of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Plant Closure Provision

As described in Notes 2 and 12 to the consolidated financial statements, at December 31, 2019 there is a provision in place for $49.3 million relating to the Company's legal responsibility for the remediation of hazardous substances or wastes at currently or formerly owned or operated properties, with the principal site giving rise to environmental remediation liabilities being the manufacturing site at Ellesmere Port in the United Kingdom. The Company must comply with environmental legislation in the countries in which it operates or has operated and annually reassesses the program of work required. This included management developing estimates and assumptions relating to the cost and timing of performing the remediation work. Management used specialists to develop these estimates. Costs of future obligations are discounted to their present values using the Company's credit-adjusted risk-free rate.

The principal considerations for our determination that performing procedures relating to the plant closure provision is a critical audit matter are that there were significant estimates and assumptions made by management over the valuation of the plant closure provision. This, in turn led to a high degree of auditor judgment, subjectivity and effort in evaluating management's assumptions including (i) the program of work required and the costs of performing that work; (ii) the timing of performing the remediation work; and (iii) the credit-adjusted risk-free rate used to discount the future obligations. Professionals with specialized skill and knowledge were used to assist in performing procedures (i) and (ii) and evaluating the audit evidence obtained.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the valuation of the plant closure provision. These procedures also included, among others, (i) the use of professionals with specialized skill and knowledge to assist in testing management's process for determining the plant closure provision. This included evaluating the appropriateness of the valuation method and the reasonableness of significant assumptions, including the assessment of the program of work required, cost, and timing assumptions developed by management's specialists; (ii) evaluating the scope, competency, and objectivity of management's specialists based on the work they were engaged to perform; and (iii) evaluating the credit-adjusted risk-free rate applied to calculate the present value of the future obligations.

PricewaterhouseCoopers LLP (signed)
Manchester, United Kingdom
February 19, 2020

We have served as the Company's auditor since 2019.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Innospec Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Innospec, Inc. and subsidiaries (the Company) as of December 31, 2018, the related consolidated statements of income, comprehensive income, accumulated other comprehensive loss, cash flows and equity for the year then ended, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

KPMG LLP

Manchester, United Kingdom
February 20, 2019

We served as the Company's auditor from 2011 to 2019.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Innospec Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of income, comprehensive income, accumulated other comprehensive loss, cash flows and equity of Innospec, Inc. and subsidiaries (the Company) for the year ended December 31, 2017, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the results of the operations of the Company and its cash flows for the year ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

KPMG Audit Plc

Manchester, United Kingdom
February 15, 2018

We served as the Company's auditor from 2011 to 2018

CONSOLIDATED STATEMENTS OF INCOME
(in millions, except share and per share data)

	Years ended December 31		
	2019	2018	2017
Net sales	$ 1,513.3	$ 1,476.9	$1,306.8
Cost of goods sold	(1,047.1)	(1,041.9)	(903.5)
Gross profit	466.2	435.0	403.3
Operating expenses:			
Selling, general and administrative	(280.9)	(261.0)	(244.2)
Research and development	(35.4)	(33.4)	(31.4)
Restructuring charge	0.0	(7.1)	0.0
Loss on disposal of subsidiary	0.0	0.0	(0.9)
Foreign exchange loss on liquidation of subsidiary	0.0	0.0	(1.8)
Total operating expenses	(316.3)	(301.5)	(278.3)
Operating income	149.9	133.5	125.0
Other income, net	5.3	5.0	11.3
Interest expense, net	(4.8)	(6.9)	(8.2)
Income before income tax expense	150.4	131.6	128.1
Income tax expense	(38.2)	(46.6)	(66.3)
Net income	$ 112.2	$ 85.0	$ 61.8
Earnings per share:			
Basic	$ 4.58	$ 3.48	$ 2.56
Diluted	$ 4.54	$ 3.45	$ 2.52
Weighted average shares outstanding (in thousands):			
Basic	24,482	24,401	24,148
Diluted	24,728	24,603	24,486

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

Total comprehensive income for the years ended December 31	2019	2018	2017
Net income	$112.2	$ 85.0	$ 61.8
Changes in cumulative translation adjustment, net of tax of $(0.3) million, $2.7 million and $(3.3) million, respectively	(6.0)	(22.6)	44.0
R ealized (losses) /gains on derivative instruments, net of tax of $0.4 million, $(0.1) million and $(0.2) million, respectively	(1.5)	0.3	0.9
Amortization of prior service credit, net of tax of $0.2 million, $ 0.2 million and $0.2 million, respectively	(0.7)	(0.9)	(0.8)
Amortization of actuarial net losses, net of tax of $0.0 million, $(0.3) million and $(0.9) million, respectively	0.0	1.7	4.1
Actuarial net gains/(losses) arising during the year, net of tax of $ (2.2) million, $3.3 million and $(8.8) million, respectively	9.5	(15.7)	39.5
Total comprehensive income	$113.5	$ 47.8	$149.5

The accompanying notes are an integral part of these statements.

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CONSOLIDATED BALANCE SHEETS
(in millions, except share and per share data)

	At December 31	
	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 75.7	$ 123.1
Trade and other accounts receivable (less allowances of $3.8 million and $2.9 million, respectively)	292.0	279.7
Inventories (less allowances of $14.5 million and $13.6 million, respectively):		
Finished goods	173.9	180.2
Raw materials	70.7	67.8
Total inventories	244.6	248.0
Prepaid expenses	14.7	11.6
Prepaid income taxes	2.5	1.5
Other current assets	0.8	0.0
Total current assets	630.3	663.9
Net property, plant and equipment	198.7	196.4
Operating leases right-of-use assets	32.4	0.0
Goodwill	363.0	364.9
Other intangible assets	113.5	136.3
Deferred tax assets	9.1	8.8
Pension asset	115.9	95.9
Other non-current assets	5.9	7.2
Total assets	$1,468.8	$1,473.4
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 122.0	$ 126.8
Accrued liabilities	154.0	132.1
Current portion of long-term debt	0.0	21.4
Current portion of finance leases	1.0	1.8
Current portion of plant closure provisions	5.6	5.9
Current portion of accrued income taxes	10.3	8.6
Current portion of operating lease liabilities	10.6	0.0
Total current liabilities	303.5	296.6
Long-term debt, net of current portion	58.6	186.2
Finance leases, net of current portion	0.5	1.5
Operating lease liabilities, net of current portion	21.9	0.0
Plant closure provisions, net of current portion	43.7	43.6
Accrued income taxes, net of current portion	36.2	40.0
Unrecognized tax benefits, net of current portion	16.4	14.0
Deferred tax liabilities	49.6	48.2
Pension liabilities and post-employment benefits	17.8	15.7
Other non-current liabilities	1.7	2.1
Equity:		
Common stock, $0.01 par value, authorized 40,000,000 shares, issued 29,554,500 shares	0.3	0.3
Additional paid-in capital	330.4	324.9
Treasury stock (5,047,278 and 5,120,799 shares at cost, respectively)	(93.3)	(92.8)
Retained earnings	755.5	668.3
Accumulated other comprehensive loss	(74.4)	(75.7)
Total Innospec stockholders' equity	918.5	825.0
Non-controlling interest	0.4	0.5
Total equity	918.9	825.5
Total liabilities and equity	$1,468.8	$1,473.4

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Years ended December 31		
	2019	2018	2017
Cash Flows from Operating Activities			
Net income	$ 112.2	$ 85.0	$ 61.8
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	47.6	49.6	50.4
Loss on disposal of subsidiary	0.0	0.0	0.9
Foreign exchange loss on liquidation of subsidiary	0.0	0.0	1.8
Deferred tax (benefit)/expense	(0.8)	5.5	(6.7)
Cash contributions to defined benefit pension plans	(0.4)	(1.0)	(1.0)
Non-cash income of defined benefit pension plans	(6.1)	(4.3)	(3.6)
Stock option compensation	6.6	4.9	4.1
Changes in assets and liabilities, net of effects of acquired and divested companies:			
Trade and other accounts receivable	(18.2)	(40.1)	(83.2)
Inventories	2.4	(42.2)	(30.8)
Prepaid expenses	(3.1)	0.5	(6.8)
Accounts payable and accrued liabilities	23.2	38.4	48.6
Accrued income taxes	(2.4)	(6.1)	47.5
Plant closure provisions	0.0	3.6	3.8
Unrecognized tax benefits	2.5	11.5	(0.5)
Other assets and liabilities	(1.9)	(0.4)	(3.6)
Net cash provided by operating activities	161.6	104.9	82.7
Cash Flows from Investing Activities			
Capital expenditures	(29.9)	(28.9)	(23.3)
Business combinations, net of cash acquired	0.0	(5.4)	2.6
Acquisition of intangible asset	0.0	0.0	(4.2)
Internally developed software	(1.1)	(1.2)	(4.7)
Net cash used in investing activities	(31.0)	(35.5)	(29.6)
Cash Flows from Financing Activities			
Proceeds from revolving credit facility	105.5	10.0	10.0
Repayments of revolving credit facility	(171.5)	(5.0)	(50.0)
Repayment of term loans	(82.5)	(16.5)	(11.0)
Repayment of finance leases and term loans	(1.7)	(2.7)	(2.5)
Refinancing costs	(1.5)	0.0	0.0
Dividend paid	(25.0)	(21.7)	(18.6)
Issue of treasury stock	1.2	1.1	6.8
Repurchase of common stock	(2.4)	(1.4)	(1.1)
Net cash used in financing activities	(177.9)	(36.2)	(66.4)
Effect of foreign currency exchange rate changes on cash	(0.1)	(0.3)	1.6
Net change in cash and cash equivalents	(47.4)	32.9	(11.7)
Cash and cash equivalents at beginning of year	123.1	90.2	101.9
Cash and cash equivalents at end of year	$ 75.7	$ 123.1	$ 90.2

Amortization of deferred finance costs of $ 1.0 million (2018 – $ 0.7 million, 2017 – $ 0.6 million) for the year are included in depreciation and amortization in the cash flow statement but in interest expense in the income statement. Cash payments/receipts in respect of income taxes and interest are disclosed in Note 10 and Note 11, respectively, of the Notes to the Consolidated Financial Statements.

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF EQUITY
(in millions)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interest	Total Equity
Balance at December 31, 2016	$ 0.3	$ 315.1	$ (97.5)	$ 561.8	$ (126.2)	$ 0.3	$ 653.8
Net income				61.8			61.8
Dividend paid ($0.77 per share)				(18.6)			(18.6)
Changes in cumulative translation adjustment, net of tax					44.0		44.0
Share of net income						0.1	0.1
Unrealized gains on derivative instruments, net of tax					0.9		0.9
Treasury stock re-issued		1.1	5.3				6.4
Treasury stock repurchased			(1.1)				(1.1)
Stock option compensation		4.2					4.2
Amortization of prior service credit, net of tax					(0.8)		(0.8)
Amortization of actuarial net losses, net of tax					4.1		4.1
Actuarial net gains arising during the year, net of tax					39.5		39.5
Balance at December 31, 2017	$ 0.3	$ 320.4	$ (93.3)	$ 605.0	$ (38.5)	$ 0.4	$ 794.3
Net income				85.0			85.0
Dividend paid ($0.89 per share)				(21.7)			(21.7)
Changes in cumulative translation adjustment, net of tax					(22.6)		(22.6)
Share of net income						0.1	0.1
Unrealized gains on derivative instruments, net of tax					0.3		0.3
Treasury stock re-issued		(0.4)	1.9				1.5
Treasury stock repurchased			(1.4)				(1.4)
Stock option compensation		4.9					4.9
Amortization of prior service credit, net of tax					(0.9)		(0.9)
Amortization of actuarial net losses, net of tax					1.7		1.7
Actuarial net losses arising during the year, net of tax					(15.7)		(15.7)
Balance at December 31, 2018	$ 0.3	$ 324.9	$ (92.8)	$ 668.3	$ (75.7)	$ 0.5	$ 825.5
Net income				112.2			112.2
Dividend paid ($1.02 per share)				(25.0)			(25.0)
Changes in cumulative translation adjustment, net of tax					(6.0)		(6.0)
Share of net income						(0.1)	(0.1)
Realized losses on derivative instruments, net of tax					(1.5)		(1.5)
Treasury stock re-issued		(1.1)	1.9				0.8
Treasury stock repurchased			(2.4)				(2.4)
Stock option compensation		6.6					6.6
Amortization of prior service credit, net of tax					(0.7)		(0.7)
Actuarial net gains arising during the year, net of tax					9.5		9.5
Balance at December 31, 2019	$ 0.3	$ 330.4	$ (93.3)	$ 755.5	$ (74.4)	$ 0.4	$ 918.9

The accompanying notes are an integral part of these statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Operations

Innospec develops, manufactures, blends, markets and supplies fuel additives, oilfield chemicals, personal care products and other specialty chemicals. Our products are sold primarily to oil and gas exploration and production companies, oil refineries, personal care and home care companies, formulators of agrochemical and metal extraction preparations and other chemical and industrial companies throughout the world. Our fuel additives help improve fuel efficiency, boost engine performance and reduce harmful emissions. Our Performance Chemicals business provides effective technology-based solutions for our customers' processes or products focused in the Personal Care, Home Care, Agrochemical and Metal Extraction markets. Our Oilfield Services business supplies drilling and production chemicals which make exploration and production more cost-efficient, and more environmentally friendly. Our Octane Additives business manufactures a fuel additive for use in automotive gasoline and provides services in respect of environmental remediation. Our principal reportable segments are Fuel Specialties, Performance Chemicals, Oilfield Services and Octane Additives.

Note 2. Accounting Policies

Basis of preparation: The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in the United States of America on a going concern basis and include all subsidiaries of the Company where the Company has a controlling financial interest. All significant intercompany accounts and balances have been eliminated upon consolidation. In accordance with GAAP in the United States of America, the results of operations of an acquired or disposed business are included or excluded from the consolidated financial statements from the date of acquisition or disposal.

Use of estimates: The preparation of the consolidated financial statements, in accordance with GAAP in the United States of America, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue recognition: Our revenues are primarily derived from the manufacture and sale of specialty chemicals. We recognize revenue when control of the product is transferred to our customer and for an amount that reflects the consideration we expect to collect from the customer. Control is generally transferred to the customer when title transfers (which may include physical possession by the customer), we have a right to payment from the customer, the customer has accepted the product, and the customer has assumed the risks and rewards of ownership. We have supplier managed inventory arrangements with some of our customers to facilitate on-demand product availability. In some cases, the inventory resides at a customer site, although title has not transferred, we are not entitled to payment, and we have not invoiced for the product. We have evaluated the contract terms under these arrangements and have determined that control transfers when the customer uses the product, at which time

revenue is recognized. Our contracts generally include one performance obligation, which is providing specialty chemicals. The performance obligation is satisfied at a point in time when products are shipped, delivered, or consumed by the customer, depending on the underlying contracts.

While some of our customers have payment terms beyond 30 days, we do not provide extended payment terms of a year or more, nor do our contracts include a financing component. Some of our contracts include variable consideration in the form of rebates. We record rebates at the point of sale as a reduction in sales when we can reasonably estimate the amount of the rebate. The estimates are based on our best judgment at the time of sale, which includes anticipated as well as historical performance.

Taxes assessed by a governmental authority which are concurrent with sales to our customers, including sales, use, value-added, and revenue-related excise taxes, are collected by us from the customer and are not included in net sales, but are reflected in accrued liabilities until remitted to the appropriate governmental authority. When we are responsible for shipping and handling costs after title has transferred, we account for those as fulfilment costs and include them in cost of goods sold.

Components of net sales: All amounts billed to customers relating to shipping and handling are classified as net sales. Shipping and handling costs incurred by the Company are classified as cost of goods sold.

Components of cost of goods sold: Cost of goods sold is comprised of raw material costs including inbound freight, duty and non-recoverable taxes, inbound handling costs associated with the receipt of raw materials, packaging materials, manufacturing costs including labor costs, maintenance and utility costs, plant and engineering overheads, amortization expense for certain other intangible assets, warehousing and outbound shipping costs and handling costs. Inventory losses and provisions and the costs of customer claims are also recognized in the cost of goods line item.

Components of selling, general and administrative expenses: Selling expenses comprise the costs of the direct sales force, and the sales management and customer service departments required to support them. It also comprises commission charges, the costs of sales conferences and trade shows, the cost of advertising and promotions, amortization expense for certain other intangible assets, and the cost of bad and doubtful debts. General and administrative expenses comprise the cost of support functions including accounting, human resources, information technology and the cost of group functions including corporate management, finance, tax, treasury, investor relations and legal departments. Provision of management's best estimate of legal and settlement costs for litigation in which the Company is involved is accounted for in the administrative expense line item.

Research and development expenses: Research, development and testing costs are expensed to the income statement as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Earnings per share: Basic earnings per share is based on the weighted average number of common shares outstanding during the period. Diluted earnings per share includes the effect of options that are dilutive and outstanding during the period.

Foreign currencies: The Company's policy is that foreign exchange differences arising on the translation of the balance sheets of entities that have functional currencies other than the U.S. dollar are taken to a separate equity reserve, the cumulative translation adjustment. In entities where the U.S. dollar is the functional currency no gains or losses on translation occur, and gains or losses on monetary assets relating to currencies other than the U.S. dollar are taken to the income statement in other income/(expense), net. Gains and losses on intercompany foreign currency loans which are long-term in nature, which the Company does not intend to settle in the foreseeable future, are also recorded in accumulated other comprehensive loss. Other foreign exchange gains or losses are also included in other income, net in the income statement.

Stock-based compensation plans: The Company accounts for employee stock options and stock equivalent units under the fair value method. Stock options are fair valued at the grant date and the fair value is recognized straight-line over the vesting period of the option. Stock equivalent units are fair valued at each balance sheet date and the fair value is spread over the remaining vesting period of the unit.

Business combinations: The acquisition method of accounting requires that we recognize the assets acquired and liabilities assumed at their acquisition date fair values. Goodwill is measured as the excess of consideration transferred over the acquisition date net fair values of the assets acquired and the liabilities assumed.

The determination of the fair values of certain assets and liabilities are usually based on significant estimates provided by management, such as forecast revenue or profit. In determining the fair value of intangible assets, an income approach is generally used and may incorporate the use of a discounted cash flow method. In applying the discounted cash flow method, the estimated future cash flows and residual values for each intangible asset are discounted to a present value using a discount rate appropriate to the business being acquired. These cash flow projections are based on management's estimates of economic and market conditions including revenue growth rates, operating margins, capital expenditures and working capital requirements.

Cash equivalents: Investment securities with maturities of three months or less when purchased are considered to be cash equivalents.

Trade and other accounts receivable: The Company records trade and other accounts receivable at net realizable value and maintains allowances for customers not making required payments. The Company determines the adequacy of allowances by periodically evaluating each customer receivable considering our customer's financial condition, credit history and current economic conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Inventories: Inventories are stated at the lower of cost (FIFO method) or market value. Cost includes materials, labor and an appropriate proportion of plant overheads. The Company accrues volume discounts where it is probable that the required volume will be attained and the amount can be reasonably estimated. The discounts are recorded as a reduction in the cost of materials based on projected purchases over the period of the agreement. Inventories are adjusted for estimated obsolescence and written down to market value based on estimates of future demand and market conditions.

Property, plant and equipment: Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets using the straight-line method and is allocated between cost of goods sold and operating expenses. The cost of additions and improvements are capitalized. Maintenance and repairs are charged to expenses as incurred. When assets are sold or retired the associated cost and accumulated depreciation are removed from the consolidated financial statements and any related gain or loss is included in earnings. The estimated useful lives of the major classes of depreciable assets are as follows:

Buildings	7 to 25 years
Equipment	3 to 10 years

Goodwill: Goodwill is deemed to have an indefinite life and is subject to at least annual impairment assessments at the reporting unit level. The Company considers that its reporting units are consistent with its reportable segments. The components in each segment (including products, markets and competitors) have similar economic characteristics and the segments, therefore, reflect the lowest level at which operations and cash flows can be sufficiently distinguished, operationally and for financial reporting purposes, from the rest of the Company.

Initially we perform a qualitative assessment to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a segment is less than the carrying amount prior to performing a quantitative goodwill impairment test. The annual measurement date for impairment assessment of the goodwill relating to the Fuel Specialties, Performance Chemicals and Oilfield Services segments is December 31 each year. Factors utilized in the qualitative assessment process include macroeconomic conditions, industry and market considerations, cost factors, overall financial performance and Company specific events.

If a quantitative test is required, we assess the fair value based on projected post-tax cash flows discounted at the Company’s weighted average cost of capital. These fair value techniques require management judgment and estimates including revenue growth rates, projected operating margins, changes in working capital and discount rates. We would develop these assumptions by considering recent financial performance and industry growth estimates.

Other intangible assets: Other intangible assets are deemed to have finite lives and are amortized using the straight-line method over their estimated useful lives. The Company capitalizes software development costs as intangible assets, including licenses, subsequent to the establishment of technological feasibility. These assets are tested for potential impairment when events occur or circumstances change, which suggest an impairment may have occurred.

In order to facilitate testing for potential impairment the Company groups together assets at the lowest possible level for which cash flow information is available. Undiscounted future cash flows expected to result from the asset groups are compared with the carrying value of the assets and, if such cash flows are lower, an impairment loss may be recognized. The amount of the impairment loss is the difference between the fair value and the carrying value of the assets. Fair values are determined using post-tax cash flows discounted at the Company's weighted average cost of capital. If events occur or circumstances change it may cause a reduction in the periods over which the assets are amortized, or result in a non-cash impairment of their carrying value. A reduction in the amortization periods would have no impact on cash flows.

The estimated useful lives of the major classes of assets are as follows:

Technology	10 to 17 years
Customer lists	10 to 15 years
Brand names	5 to 10 years
Product rights	9 to 10 years
Internally developed software	3 to 5 years
Marketing related	11 years

Leases: With an effective date of January 1, 2019 we have applied Accounting Standards Update (ASU) 2016-02, Revision to Lease Accounting, ASC Topic 842 which replaces ASC Topic 840, Leases. ASU 2016-02 requires lessees to recognize a right-of-use ("ROU") asset and a lease liability for all of their leases (other than leases that meet the definition of a short-term lease).

The standard was adopted using a modified retrospective transition method, with the Company electing not to adjust comparative periods. We have taken the election not to apply the requirements to short-term leases and have taken the election not to separate related non-lease components from lease components.

The standard had a material impact on our consolidated balance sheet as at December 31, 2019, but did not have an impact on our consolidated income statements. The most significant impact was the recognition of ROU assets and lease liabilities and the related deferred taxes thereon for operating leases, while our accounting for finance leases remained substantially unchanged. Operating lease liabilities recognized under the new standard are not considered to be debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We determine if an arrangement is a lease at inception. The present value of the future lease payments for operating leases is included in operating lease ROU assets, and operating lease liabilities (current and non-current) on our consolidated balance sheet at December 31, 2019. The carrying value of assets under finance leases is included in property, plant and equipment and finance lease liabilities (current and non-current) on our consolidated balance sheet at December 31, 2019.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of future lease payments over the remaining lease term. Very few of our leases have renewal options or early termination break clauses, but where they do we have assessed the term of the lease based on any options being exercised only if they are reasonably certain. As most of our leases do not provide an implicit interest rate, we use our incremental borrowing rate based on the information available at point of recognition in determining the present value of future payments.

The operating lease ROU asset excludes lease incentives and initial direct costs incurred. Lease expense for lease payments is recognized on a straight-line basis over the lease term unless payments are variable per the agreement. Where we have lease payments linked to an index or inflationary rate, this rate has been used to value the asset and liability at the inception of the lease. If the payments are not linked to a specific index or inflationary rate, but can vary during the term of the agreement, they have been included at their actual value for each future period. In some circumstances the future expected payments may be dependent on other factors, for example production volumes, in which case we have used the minimum future expected payments to value the asset.

We do not recognize a ROU asset or operating lease liability for short-term leases (with a length of one year or less), and any associated cost is recognized, as incurred, through the income statement.

Deferred finance costs: The costs relating to debt financing are capitalized, offset against long-term debt in the consolidated balance sheets and amortized using the effective interest method over the expected life of the debt financing facility. The amortization charge is included in interest expense in the income statement. See Note 11 of the Notes to the Consolidated Financial Statements.

Impairment of long-lived assets: The Company reviews the carrying value of its long-lived assets, including buildings and equipment, whenever changes in circumstances suggest that the carrying values may be impaired. In order to facilitate this test the Company groups together assets at the lowest possible level for which cash flow information is available. Undiscounted future cash flows expected to result from the asset groups are compared with the carrying value of the asset groups and if they are lower an impairment loss may be recognized. The amount of the impairment loss is the difference between the fair value and the carrying value of the asset groups. Fair values are determined using post-tax cash flows discounted at the Company's weighted average cost of capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Derivative instruments: From time to time, the Company uses various derivative instruments including forward currency contracts, options, interest rate swaps and commodity swaps to manage certain exposures. These instruments are entered into under the Company's corporate risk management policy to minimize exposure and are not for speculative trading purposes. The Company recognizes all derivatives as either current or non-current assets or liabilities in the consolidated balance sheet and measures those instruments at fair value. Changes in the fair value of derivatives that are not designated as hedges, or do not meet the requirements for hedge accounting, are recognized in earnings. Derivatives which are designated as hedges are tested for effectiveness on a quarterly basis, and marked to market. The ineffective portion of the derivative's change in value is recognized in earnings. The effective portion is recognized in other comprehensive income until the hedged item is recognized in earnings.

Environmental compliance and remediation: Environmental compliance costs include ongoing maintenance, monitoring and similar costs. We recognize environmental liabilities when they are probable and the costs can be reasonably estimated, and asset retirement obligations when there is a legal obligation and the costs can be reasonably estimated. The vast majority of our plant closure provision relates to our Ellesmere Port site in the United Kingdom.

The Company must comply with environmental legislation in the countries in which it operates or has operated in and annually reassesses the program of work required. This includes estimating the credit-adjusted risk free rate and the timing and cost of performing the remediation work. Management use specialists to develop these estimates and assumptions utilizing the latest information available together with experience of recent costs. While we believe our assumptions for environmental liabilities are reasonable, they are subjective judgements and it is possible that variations in any of the assumptions will result in materially different calculations to the liabilities we have reported. Costs of future obligations are discounted to their present values using the Company's credit-adjusted risk-free rate.

Pension plans and other post-employment benefits: The Company recognizes the funded status of defined benefit post-retirement plans on the consolidated balance sheets and changes in the funded status in comprehensive income. The measurement date of the plan's funded status is the same as the Company's fiscal year-end. The service costs are recognized as employees render the services necessary to earn the post-employment benefits. Prior service costs and credits and actuarial gains and losses are amortized over the average remaining life expectancy of the inactive participants using the corridor method.

Movements in the underlying plan asset value and Projected Benefit Obligation ("PBO") are dependent on actual return on investments as well as our assumptions in respect of the discount rate, annual member mortality rates, future return on assets and future inflation.

Income taxes: The Company provides for income taxes by recognizing deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the

financial statement carrying amounts and the relevant tax bases of the assets and liabilities. Then the Company evaluates the need for a valuation allowance to reduce deferred tax assets to the amount more likely than not to be realized. The effect on deferred taxes of a change in tax rates is recognized in the period that includes the enactment date. The Company recognizes the tax benefit from a tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company recognizes accrued interest and penalties associated with unrecognized tax benefits as part of income taxes in our consolidated statements of income.

Note 3. Segment Reporting and Geographical Area Data

The Fuel Specialties, Performance Chemicals and Oilfield Services segments operate in markets where we actively seek growth opportunities although their ultimate customers are different. The Octane Additives segment revenues may conclude in the early part of 2020 as our one remaining refinery customer transitions to unleaded fuel.

Our Fuel Specialties segment develops, manufactures, blends, markets and supplies a range of specialty chemicals products used as additives to a wide range of fuels.

Our Performance Chemicals segment provides effective technology-based solutions for our customers' processes or products focused in the Personal Care, Home Care, Agrochemical and Metal Extraction markets.

Our Oilfield Services segment develops and markets products to prevent loss of mud in drilling operations, chemical solutions for fracturing and stimulation operations and products for oil and gas production which aid flow assurance and asset integrity.

Our Octane Additives segment, which we believe is the world's only producer of tetra ethyl lead ("TEL"), comprises sales of TEL for use in automotive gasoline and provides services in respect of environmental remediation.

There are no significant customers with sales greater than 10% of our net group sales in the last three financial years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company evaluates the performance of its segments based on operating income. The following table analyzes sales and other financial information by the Company's reportable segments:

(in millions)	2019	2018	2017
Net Sales:			
Refinery and Performance	$ 427.9	$ 432.1	$ 397.0
Other	155.8	142.4	126.8
Fuel Specialties	583.7	574.5	523.8
Personal Care	228.0	241.4	206.5
Home Care	93.4	109.1	103.4
Other	107.3	117.6	109.6
Performance Chemicals	428.7	468.1	419.5
Oilfield Services	479.9	400.6	304.4
Octane Additives	21.0	33.7	59.1
	$1,513.3	$1,476.9	$1,306.8

(in millions)	2019	2018	2017
Gross profit:			
Fuel Specialties	$ 204.5	$ 195.0	$ 188.2
Performance Chemicals	100.1	97.5	75.8
Oilfield Services	159.9	130.4	109.3
Octane Additives	1.7	12.1	30.0
	$ 466.2	$ 435.0	$ 403.3
Operating income/(expense):			
Fuel Specialties	$ 116.6	$ 116.3	$ 107.7
Performance Chemicals	48.7	44.7	32.6
Oilfield Services	39.7	22.1	9.5
Octane Additives	(0.7)	9.9	26.7
Corporate costs	(54.4)	(52.4)	(48.8)
Restructuring charge	0.0	(7.1)	0.0
Loss on disposal of subsidiary	0.0	0.0	(0.9)
Foreign exchange loss on liquidation of subsidiary	0.0	0.0	(1.8)
Total operating income	$ 149.9	$ 133.5	$ 125.0
Identifiable assets at year end:			
Fuel Specialties	$ 499.7	$ 470.5	$ 437.0
Performance Chemicals	383.3	463.9	480.8
Oilfield Services	316.8	296.1	256.6
Octane Additives	24.2	39.6	41.7
Corporate	244.8	203.3	194.1
	$1,468.8	$1,473.4	$1,410.2

Identifiable assets relating to the TEL operations are included within our Octane Additives segment in the table above, as they cannot be separately reported for the periods shown. Our TEL operations produce TEL for automotive gasoline, which is reported in our Octane Additives segment, and produce TEL for our AvTel product line, which is reported in our Fuel Specialties segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company includes within the corporate costs line item the costs of:

- managing the Group as a company with securities listed on the NASDAQ and registered with the SEC;
- the President/CEO's office, group finance, group human resources, group legal and compliance counsel, and investor relations;
- running the corporate offices in the U.S. and Europe;
- the corporate development function since they do not relate to the current trading activities of our other reporting segments; and
- the corporate share of the information technology, production technology, safety, health, environment, accounting and human resources departments.

The following tables analyze sales and other financial information by location:

(in millions)	2019	2018	2017
Net sales by source:			
United States & North America	$ 897.2	$ 803.1	$ 615.7
United Kingdom	810.9	797.5	730.9
Rest of Europe	115.7	143.7	143.4
Rest of World	47.8	29.5	39.2
Sales between areas	(358.3)	(296.9)	(222.4)
	$1,513.3	$1,476.9	$1,306.8
Income before income taxes:			
United States & North America	$ 53.9	$ 37.1	$ 11.5
United Kingdom	67.0	59.5	51.9
Rest of Europe	27.2	32.8	63.1
Rest of World	2.3	2.2	1.6
	$ 150.4	$ 131.6	$ 128.1
Long-lived assets at year end:			
United States & North America	$ 156.0	$ 148.6	$ 149.7
United Kingdom	70.4	71.6	45.7
Rest of Europe	116.6	112.2	163.5
Rest of World	0.3	0.3	0.3
	$ 343.3	$ 332.7	$ 359.2
Identifiable assets at year end:			
United States & North America	$ 419.5	$ 402.5	$ 452.2
United Kingdom	487.2	504.7	258.4
Rest of Europe	163.2	173.1	317.5
Rest of World	35.9	28.2	20.3
Goodwill	363.0	364.9	361.8
	$1,468.8	$1,473.4	$1,410.2

Sales by geographical area are reported by source, being where the transactions originated. Intercompany sales are priced using an appropriate pricing methodology and are eliminated in the consolidated financial statements.

Identifiable assets are those directly associated with the operations of the geographical area.

Goodwill has not been allocated by geographical location on the grounds that it would be impracticable to do so.

Note 4. Earnings per Share

Basic earnings per share is based on the weighted average number of common shares outstanding during the period. Diluted earnings per share includes the effect of options that are dilutive and outstanding during the period. Per share amounts are computed as follows:

	2019	2018	2017
Numerator (in millions):			
Net income available to common stockholders	$ 112.2	$ 85.0	$ 61.8
Denominator (in thousands):			
Weighted average common shares outstanding	24,482	24,401	24,148
Dilutive effect of stock options and awards	246	202	338
Denominator for diluted earnings per share	24,728	24,603	24,486
Net income per share, basic:	$ 4.58	$ 3.48	$ 2.56
Net income per share, diluted:	$ 4.54	$ 3.45	$ 2.52

In 2019, 2018 and 2017 the average number of anti-dilutive options excluded from the calculation of diluted earnings per share were 6,270, 0 and 9,422 respectively.

Note 5. Property, Plant and Equipment

Property, plant and equipment consists of the following:

(in millions)	2019	2018
Land	$ 19.8	$ 18.6
Buildings	60.0	57.0
Equipment	330.7	311.7
Work in progress	19.0	16.0
	429.5	403.3
Less accumulated depreciation	(230.8)	(206.9)
	$ 198.7	$ 196.4

Of the total net book value of equipment at December 31, 2019 $1.8 million (2018 – $3.6 million) are in respect of assets held under finance leases.

Depreciation charges were $23.6 million, $22.6 million and $21.4 million in 2019, 2018 and 2017, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 6. Leases

We have operating and finance leases for toll manufacturing facilities, warehouse storage, land, buildings, plant and equipment. Our leases have remaining lease terms of up to 11 years, some of which include options to terminate the leases within 1 year.

The components of lease expense were as follows:

(in millions)		Twelve Months Ended December 31 2019
Finance lease cost:		
Amortization of right-of-use assets	$	1.7
Interest on lease liabilities		0.0
Total finance lease cost		1.7
Operating lease cost		12.1
Short-term lease cost		2.5
Variable lease cost		0.3
Total lease cost	$	16.6

Supplemental cash flow information related to leases is as follows:

(in millions)		Twelve Months Ended December 31 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	14.3
Operating cash flows from finance leases		2.1
Finance cash flows from finance leases		0.0
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases	$	4.3
Finance leases		0.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Supplemental balance sheet information related to leases is as follows:

(in millions except lease term and discount rate)	December 31 2019
Operating leases:	
Operating lease right-of-use assets	$ 32.4
Current portion of operating lease liabilities	$ 10.6
Operating lease liabilities, net of current portion	21.9
Total operating lease liabilities	$ 32.5
Finance leases:	
Property, plant and equipment at cost	$ 9.9
Accumulated depreciation	(8.1)
Net property, plant and equipment, net	$ 1.8
Current portion of finance leases	$ 1.0
Finance leases, net of current portion	0.5
Total finance lease liabilities	$ 1.5
Weighted average remaining lease term:	
Operating leases	3.3 years
Finance leases	1.7 years
Weighted average discount rate:	
Operating leases	3.1%
Finance leases	2.4%

Maturities of lease liabilities were as follows as at December 31, 2019:

(in millions)	Operating Leases	Finance Leases
Within one year	$ 10.8	$ 1.1
Year two	9.1	0.4
Year three	5.8	0.1
Year four	4.4	0.0
Year five	2.1	0.0
Thereafter	2.5	0.0
Total lease payments	34.7	1.6
Less imputed interest	(2.2)	(0.1)
Total	$ 32.5	$ 1.5

As of December 31, 2019, additional operating and finance leases that have not yet commenced are $0.0 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Future lease payment for all non - cancel l able operating and finance leases as of December 31, 2018 were as follows, as accounted for under the previous lease standard, ASC 840. As such the amounts are not directly comparable to those included above.

(in millions)	Operating Leases	Finance Leases
Within one year	$ 6.5	$ 1.8
Year two	4.5	1.0
Year three	3.2	0.4
Year four	2.3	0.1
Year five	2.1	0.0
Thereafter	4.4	0.0
Total lease payments	$ 23.0	$ 3.3

Note 7. Goodwill

The following table analyzes goodwill movement for 2019 and 2018.

(in millions)	Fuel Specialties	Performance Chemicals	Oilfield Services	Octane Additives	Total
At December 31, 2017					
Gross cost [1]	$ 207.9	$ 116.6	$ 37.3	$ 236.5	$ 598.3
Accumulated impairment losses	0.0	0.0	0.0	(236.5)	(236.5)
Net book amount	$ 207.9	$ 116.6	$ 37.3	$ 0.0	$ 361.8
Exchange effect	0.0	(4.4)	0.0	0.0	(4.4)
Acquisition	0.0	0.0	7.5	0.0	7.5
At December 31, 2018					
Gross cost [1]	$ 207.9	$ 112.2	$ 44.8	$ 236.5	$ 601.4
Accumulated impairment losses	0.0	0.0	0.0	(236.5)	(236.5)
Net book amount	$ 207.9	$ 112.2	$ 44.8	$ 0.0	$ 364.9
Exchange effect	(0.2)	(1.7)	0.0	0.0	(1.9)
At December 31, 2019					
Gross cost [1]	$ 207.7	$ 110.5	$ 44.8	$ 236.5	$ 599.5
Accumulated impairment losses	0.0	0.0	0.0	(236.5)	(236.5)
Net book amount	$ 207.7	$ 110.5	$ 44.8	$ 0.0	$ 363.0

(1) *Gross cost is net of $8.7 million, $0.3 million and $289.5 million of historical accumulated amortization in respect of the Fuel Specialties, Performance Chemicals and Octane Additives reporting segments, respectively .*

The Company's reporting units, the level at which goodwill is tested for impairment, are consistent with the reportable segments: Fuel Specialties, Performance Chemicals, Oilfield

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Services and Octane Additives. The components in each segment (including products, markets and competitors) have similar economic characteristics and the segments, therefore, reflect the lowest level at which operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company.

The Company assesses goodwill for impairment on at least an annual basis, initially based on a qualitative assessment to determine whether it is more likely than not that the fair value of a segment is less than the carrying amount. If a potential impairment is identified then an impairment test is performed.

The Company performed its annual impairment assessment in respect of goodwill as at December 31, 2019, 2018 and 2017. Our impairment assessment concluded that there had been no impairment of goodwill in respect of those reporting units.

We believe that where appropriate the assumptions used in our impairment assessments are reasonable, but that they are judgmental, and variations in any of the assumptions may result in materially different calculations of any potential impairment charges.

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Note 8. Other Intangible Assets

Other intangible assets comprise the following:

(in millions)	2019	2018
Gross cost:		
– Product rights	$ 34.0	$ 34.0
– Brand names	8.9	8.9
– Technology	55.1	55.1
– Customer and distributor relationships	124.7	125.6
– Patents	2.9	2.9
– Non-compete agreements	4.1	4.1
– Marketing related	22.1	22.1
– Internally developed software	43.0	41.9
	294.8	294.6
Accumulated amortization:		
– Product rights	(23.9)	(20.1)
– Brand names	(6.0)	(5.4)
– Technology	(22.5)	(19.1)
– Customer and distributor relationships	(63.9)	(53.5)
– Patents	(2.9)	(2.9)
– Non-compete agreements	(4.1)	(4.1)
– Marketing related	(22.1)	(22.1)
– Internally developed software	(35.9)	(31.1)
	(181.3)	(158.3)
	$ 113.5	$ 136.3

Amortization expense

The aggregate of other intangible asset amortization expense was $23.0 million (excluding the impact of foreign exchange translation on the balance sheet), $26.3 million and $28.3 million in 2019, 2018 and 2017, respectively, of which $3.4 million, $3.4 million and $4.3 million, respectively, was recognized in cost of goods sold, and the remainder was recognized in selling, general and administrative expenses.

Future amortization expense is estimated to be as follows for the next five years:

(in millions)	
2020	$22.7
2021	$19.5
2022	$17.9
2023	$14.5
2024	$12.5

Note 9. Pension and Post-Employment Benefits

United Kingdom plan

The Company maintains a defined benefit pension plan (the "Plan") covering a number of its current and former employees in the United Kingdom, although it does also have other much smaller pension arrangements in the U.S. and overseas. The Plan is closed to future service accrual but has a large number of deferred and current pensioners. The Projected Benefit Obligation ("PBO") is based on final salary and years of credited service reduced by social security benefits according to a plan formula. Normal retirement age is 65 but provisions are made for early retirement. The Plan's assets are invested by several investment management companies in funds holding United Kingdom and overseas equities, United Kingdom and overseas fixed interest securities, index linked securities, property unit trusts and cash or cash equivalents. The trustees' investment policy is to seek to achieve specified objectives through investing in a suitable mixture of real and monetary assets. The trustees recognize that the returns on real assets, while expected to be greater over the long-term than those on monetary assets, are likely to be more volatile. A mixture across asset classes should nevertheless provide the level of returns required by the Plan to meet its liabilities at an acceptable level of risk for the trustees and an acceptable level of cost to the Company.

In 2019, the Company contributed $0.4 million (2018 – $1.0 million) in cash to the Plan in accordance with an agreement with the trustees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The net service cost for the twelve months ended December 31, 2019 was $0.9 million (twelve months ended December 31, 2018 – $1.2 million and twelve months ended December 31, 2017 – $0.9 million) and has been recognized in selling, general and administrative expenses within corporate costs. The following table shows the income statement effect recognized within other income, net:

(in millions)	2019	2018	2017
Plan net pension (credit)/charge:			
Interest cost on PBO	$ 15.2	$ 15.0	$ 15.2
Expected return on plan assets	(22.0)	(22.2)	(24.5)
Amortization of prior service credit	(0.9)	(1.1)	(1.0)
Amortization of actuarial net losses	0.0	2.0	5.0
	$ (7.7)	$ (6.3)	$ (5.3)
Plan assumptions at December 31, (%):			
Discount rate	1.95	2.78	2.56
Inflation rate	2.25	2.25	2.20
Rate of return on plan assets – overall on bid-value	2.50	3.05	2.75
Plan asset allocation by category (%):			
Debt securities and insura nce contracts	86	83	53
Equity securities and real estate	10	12	38
Cash	4	5	9
	100	100	100

The discount rate used represents the annualized yield based on a cash flow matched methodology with reference to an AA corporate bond spot curve and having regard to the duration of the Plan's liabilities. The inflation rate is derived using a similar cash flow matched methodology as used for the discount rate but having regard to the difference between yields on fixed interest and index linked United Kingdom government gilts. A 0.25% change in the discount rate assumption would change the PBO by approximately $24 million and the net pension credit for 2019 would change by approximately $0.1 million. A 0.25% change in the level of price inflation assumption would change the PBO by approximately $18 million and the net pension credit for 2019 by approximately $1.1 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Movements in PBO and fair value of Plan assets are as follows:

(in millions)	2019	2018
Change in PBO:		
Opening balance	$643.2	$721.4
Interest cost	15.2	15.0
Service cost	0.9	1.2
Benefits paid	(42.1)	(43.7)
Actuarial losses/(gains)	57.7	(14.6)
Plan amendments	0.0	3.3
Exchange effect	26.1	(39.4)
Closing balance	$701.0	$643.2
Fair value of plan assets:		
Opening balance	$739.1	$837.4
B enefits paid	(42.1)	(43.7)
Actual contributions by employer	0.4	1.1
Actual return on assets	89.1	(10.3)
Exchange effect	30.4	(45.4)
Closing balance	$816.9	$739.1

The current investment strategy of the Plan is to obtain an asset allocation of approximately 85% debt securities and insurance contracts and 15% equity securities a nd real estate in order to achieve a more predictable return on assets.

Due to the change in the Plan's investment strategy in 2018 the Plan's assets no longer include index-tracking funds (December 31, 2018 – nil). The Plan holds approximately 12% (December 31, 2018 – 9%) of the Plan's assets in debt securities issued by non-US governments and government agencies. No more than 5% of the Plan's assets were invested in any one individual company's investment funds.

For the vast majority of assets, a market approach is adopted to assess the fair value of the assets, with the inputs being the quoted market prices for the actual securities held in the relevant fund.

Debt securities

Fixed income securities are valued based on quotations received from independent pricing services or from dealers who make markets in such securities and are classified as Level 1. Corporate debt securities are classified as Level 2 in line with the industry standard.

Equity backed securities

Common and preferred stock for which market prices are readily available at the measurement date are valued at the last reported sale price or official closing price on the primary market or exchange on which they are actively traded. Other financial derivatives are classified as level 2 and certain investments that are measured at fair value using the net asset value per share (or its equivalent) have not been categorized with a hierarchy .

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Other asset backed securities

The Company has invested in insurance contracts, known as buy-in contracts. The value of the insurance contract is based on significant unobservable inputs including plan participant medical data, in addition to observable inputs which include expected return on assets and estimated value premium. Therefore, we have classified the contracts as Level 3 investments. Fair value estimates are provided by external parties and are subsequently reviewed and approved by management.

The Company also invests in real estate as a low risk asset backed security, classified as Level 1.

The fair values of pension assets by level of input were as follows:

(in millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
At December 31, 2019				
Debt securities:				
Debt securities issued by non-U.S. governments and government agencies	$ 98.4	$	$	$ 98.4
Corporate debt securities		445.9		445.9
Equity backed securities:				
Other financial derivatives		(3.7)		(3.7)
Investments measured at net asset value [1]				46.8
Other asset backed securities:				
Insurance contracts			157.9	157.9
Real estate	41.7			41.7
Total assets at fair value	140.1	442.2	157.9	787.0
Cash	29.9			29.9
Total plan assets	$ 170.0	$ 442.2	$ 157.9	$ 816.9
At December 31, 2018				
Debt securities:				
Debt securities issued by non-U.S. governments and government agencies	$ 67.2	$	$	$ 67.2
Corporate debt securities		406.4		406.4
Equity backed securities:				
Other financial derivatives		0.5		0.5
Investments measured at net asset value [1]				53.0
Other asset backed securities:				
Insurance contracts			142.5	142.5
Real estate	31.4			31.4
Total assets at fair value	98.6	406.9	142.5	701.0
Cash	38.1			38.1
Total plan assets	$ 136.7	$ 406.9	$ 142.5	$ 739.1

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) have not been categorized in the fair value tab le with a hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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The reconciliation of the fair value of the Plan assets measured using significant unobservable inputs was as follows:

(in millions)	Other Assets
Balance at December 31, 2017	162.8
Realized/unrealized gains/(losses):	
Relating to assets still held at the reporting date	(4.8)
Purchases, issuances and settlements	(6.7)
Exchange effect	(8.8)
Balance at December 31, 2018	$142.5
Realized/unrealized gains/(losses):	
Relating to assets still held at the reporting date	16.0
Purchases, issuances and settlements	(6.5)
Exchange effect	5.9
Balance at December 31, 2019	$157.9

The projected net service cost for the year ending December 31, 2020 is $ 1.2 million and will be recognized in selling, general and administrative expenses. The following net pension credit will be recognized in other income and expense:

(in millions)	
Interest cost on PBO	$ 11.5
Expected return on plan assets	(18.3)
Amortization of prior service credit	(0.9)
Amortization of actuarial net losses	0.9
	$ (6.8)

In total, there will be a net pension credit of $ 5.6 million to the Innospec's net income for the year ending December 31, 2020.

The following benefit payments are expected to be made:

(in millions)	
2020	$ 42.4
2021	$ 36.2
2022	$ 35.5
2023	$ 34.6
2024	$ 34.8
2025-2029	$167.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

German plan

The Company also maintains an unfunded defined benefit pension plan covering a number of its current and former employees in Germany (the "German plan"). The German plan is closed to new entrants and has no assets.

The net service cost for the German plan for the twelve months ended December 31, 2019 was $ 0.1 million (twelve months ended December 31, 2018 – $ 0.2 million and twelve months ended December 31, 2017 – $ 0.2 million). The following table shows the income statement effect recognized within other income and expense:

(in millions)	2019	2018	2017
Plan net pension charge:			
Interest cost on PBO	$ 0.2	$ 0.2	$ 0.2
Amortization of actuarial net loss	0.3	0.4	0.4
	$ 0.5	$ 0.6	$ 0.6
Plan assumptions at December 31, (%):			
Discount rate	0.80	1.90	1.70
Inflation rate	1.75	1.75	1.75
Rate of increase in compensation levels	2.75	2.75	2.75

Movements in PBO of the German plan are as follows:

(in millions)	2019	2018
Change in PBO:		
Opening balance	$11.3	$11.8
Service cost	0.1	0.2
Interest cost	0.2	0.2
Benefits paid	(0.3)	(0.3)
Actuarial losses	2.2	0.0
Exchange effect	(0.2)	(0.6)
Closing balance	$13.3	$11.3

Other plans

As at December 31, 2019, we have post-employment obligations in our European businesses with a liability of $ 4.5 million (December 31, 2018 – $ 4.4 million). For the year ended December 31, 2019 we have recognized an actuarial loss of $0.2 million in other comprehensive loss in relation to the Performance Chemicals pension in France.

Company contributions to defined contribution schemes during 2019 were $10.4 million (2018 – $8.6 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 10. Income Taxes

A roll-forward of unrecognized tax benefits and associated accrued interest and penalties is as follows:

(in millions)	Unrecognised Tax Benefits	Interest and Penalties	Total
Opening balance at January 1, 2017	$ 2.2	$ 0.1	$ 2.3
Additions for tax positions of prior periods	0.5	0.2	0.7
Reductions due to lapsed statute of limitations	(0.5)	0.0	(0.5)
Closing balance at 31 December , 2017	2.2	0.3	2.5
C urren t	0.0	0.0	0.0
Non-cur rent	$ 2.2	$ 0.3	$ 2.5
Ope ning balance at January 1, 2018	$ 2.2	$ 0.3	$ 2.5
Addition s for tax positions of p rior periods	11.7	0.4	12.1
Reductions due to lapsed statute of limitations	(0.5)	(0.1)	(0.6)
Closing balance at 31 December, 201 8	13.4	0.6	14.0
Current	0.0	0.0	0.0
Non- current	$ 13.4	$ 0.6	$ 14.0
Opening balance at January 1, 2019	$ 13.4	$ 0.6	$ 14.0
Additions for tax positions of prior periods	1.0	1.4	2.4
Closing balance at 31 December, 2019	14.4	2.0	16.4
Current	0.0	0.0	0.0
Non-current	$ 14.4	$ 2.0	$ 16.4

All of the $14.4 million of unrecognised tax benefits would impact our effective tax rate if recognised.

T ax audits have been opened by the Italian tax authorities in respect of Innospec Performance Chemicals Italia Srl, acquired as part of the Huntsman business, in relation to the period 2011 to 2013 inclusive. D uring the third quarter of 2019, the Italian tax authorities opened a tax au dit into 2014. The Company believes that additional tax of approximately $ 0.5 million, together with associated interest of $ 0.2 million, may arise as a result of the 2011 audit. This amount was recorded at December 31 , 2017 . During 2018 , the Company determined that additional tax of approximately $ 0.9 million, together with associated interest of $ 0.3 million, may arise as a result of the 2012 and 2013 audits collectively. Duri ng 2019, the company recor ded additi onal tax of $1.0 million in relation to 2014, together with additional interest of $0.5 million relating to all years. As any additional tax arising as a consequence of the tax audit would be reimbursed by the previous owner under the terms of the sale and purchase agreement, an unre co gnized t a x bene fit of $3.4 million is recorded, together with an

indemnification asset of the same amount to reflect the fact that the final liability would be reimbursed by the previous owner.

I n the fourth quarter of 2018, the Company recorded an uncertain tax position of $10.8 million. This portion primarily related to a potential adjustment that could arise as a consequence of the Tax Act, but for which retrospective adjustment to the filed 2017 U.S. federal income tax returns was not permissible. Additional interest of $0.9 million has bee n re corded during the period e nding December 31, 2019 .

Innospec Performance Chemicals France SAS and Innospec Saint-Mihiel SAS are currently subject to a corporate income tax audit in France in respect of 2016 to 2018. The Company currently anticipates that adjustments, if any, arising out of this tax audit would not result in a material change to the Company's financial position as at December 31, 2019. Any additional tax arising as a consequence of the 2016 tax audit would be reimbursed by the previous owner under the terms of the sale and purchase agreement.

The Company and its U.S. subsidiaries remain open to examination by the IRS for years 2016 onwards. The Company's subsidiaries in foreign tax jurisdictions are open to examination including Spain (2015 onwards), France (2016 onwards), Germany (2016 onwards), Switzerland (2017 onwards) and the United Kingdom (2018 onwards).

The sources of income before income taxes were as follows:

(in millions)	2019	2018	2017
Domestic	$ 52.4	$ 37.1	$ 3.1
Foreign	98.0	94.5	125.0
	$150.4	$131.6	$128.1

The components of income tax expense are summarized as follows:

(in millions)	2019	2018	2017
Current:			
Federal	$13.8	$12.5	$51.2
State and local	2.3	2.0	0.9
Foreign	22.9	26.6	21.0
	39.0	41.1	73.1
Deferred:			
Federal	(3.0)	4.2	(8.1)
State and local	(0.5)	0.3	0.7
Foreign	2.7	1.0	0.6
	(0.8)	5.5	(6.8)
	$38.2	$46.6	$66.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Cash payments for income taxes were $37.6 million, $35.4 million and $24.2 million during 2019, 2018 and 2017, respectively.

The effective tax rate varies from the U.S. federal statutory rate because of the factors indicated below:

(in percent)	2019	2018	2017
Statutory rate	21.0%	21.0%	35.0%
Foreign income inclusions	0.3	0.7	2.1
Foreign tax rate differential	(0.2)	(0.5)	(13.7)
Tax charge from previous years	1.8	0.7	1.1
Net charge/(credit) from unrecognized tax benefits	1.1	0.3	(0.4)
Foreign currency transactions	(0.3)	1.4	(0.9)
Effect of U.S. tax law change	0.6	9.3	31.7
Tax on unremitted earning s	(0.1)	0.9	0.0
Non-deductible foreign interest	0.8	1.3	1.1
Other items and adjustments, ne t	0.4	0.3	(4.2)
	25.4%	35.4%	51.8%

The 2019 effective tax rate was negatively impacted by the change in tax estimates for 2018 compared to actual filed returns, including the impact of the final U.S. FDII regulations which were released during the first quarter of 2019.

During 2019, the Company recorded additional tax and interest arising as a consequence of the tax audit into Innospec Performance Chemicals Italia Srl. This has had a negative impact on the tax rate in 2019, although any finally determined tax liabilities would be reimbursed by the previous owner under the terms of the sale and purchase agreement.

Additional interest arising on the uncertain tax position relating to a potential adjustment that could arise as a consequence of the Tax Act has had a negative impact on the effective tax rate in 2019.

In the United Kingdom, tax legislation prohibits a tax deduction in relation to certain intercompany interest expense arising. This has also had a negative impact on the effective tax rate in 201 9 .

Other items do not have a material impact on the effective tax rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Details of deferred tax assets and liabilities are analyzed as follows:

(in millions)	2019	2018
Deferred tax assets:		
Stock compensation	$ 6.7	$ 4.9
Net operating loss carry forwards	7.3	8.8
Other intangible assets	6.0	5.6
Accretion expense	3.3	3.3
Restructuring provision	0.0	1.9
Foreign t ax credits	3.6	0.0
Other	5.9	4.8
Subtotal	32.8	29.3
Less valuation allowance	(0.8)	0.0
Total net deferred tax assets	$ 32.0	$ 29.3
Deferred tax liabilities:		
Property, plant and equipment	$(19.5)	$(17.1)
Intangible assets including goodwill	(28.1)	(28.1)
Pension asset	(18.2)	(15.0)
Investment impairment recapture	(1.0)	(2.0)
Customer relationships	(4.2)	(4.9)
Unremitted overseas earnings	(1.0)	(1.1)
Other	(0.5)	(0.5)
Total deferred tax liabilities	$(72.5)	$(68.7)
Net deferred tax liability	$(40.5)	$(39.4)
Deferred tax assets	$ 9.1	$ 8.8
Deferred tax liabilities	(49.6)	(48.2)
	$(40.5)	$(39.4)

The Company assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative losses incurred in certain jurisdictions over the three-year period ended December 31, 2019. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth. On the basis of this evaluation, as of December 31, 2019, a valuation allowance of $0.8 million has been recorded to recognise only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carry forward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as our projections for growth .

Gross net operating loss carry forwards of $33.7 million result in a deferred tax asset of $7.3 million , ne t of valuation allowances . The net operating loss carry forwards arose in the U.S. and in five of the Company's foreign subsidiaries. Net operating loss carry forwards of $3.9 million arose from state tax losses in prior periods in certain of the Company's U.S. subsidiaries. It is expected that sufficient taxable profits will be generated in the U.S. against which the state net operating loss carry forwards of $3.8 million can be relieved before their expiration in the period 2031 to 2038. The remaining $0.1 million of the U.S. net operating losses can be carried forward indefinitely without expiration. Net operating loss carry forwards of $29.8 million arose in five of the Company's foreign subsidiaries. It is expected that sufficient taxable profits will be generated against which $26.4 million of these net operating loss carry forwards can be relieved. These losses can be carried forward indefinitely without expiration.

Note 11. Long-Term Debt

Long-term debt consists of the following:

(in millions)	2019	2018
Revolving credit facility	$60.0	$126.0
Term loan	0.0	82.5
Deferred finance costs	(1.4)	(0.9)
	58.6	207.6
Less current portion	0.0	(21.4)
	$58.6	$186.2

On September 26, 2019, Innospec and certain of its subsidiaries entered into a new agreement for a $250.0 million revolving credit facility until September 25, 2023 with an option to request an extension to the facility for a further year. The facility also contains an accordion feature whereby the Company may elect to increase the total available borrowings by an aggregate amount of up to $125.0 million.

On September 30, 2019 the Company repaid its pre-existing term loan and revolving credit facility that had been amended and restated on December 14, 2016, and replaced this borrowing with the new credit facility.

As a result, refinancing costs of $1.5 million were capitalized which are being amortized over the expected life of the facility.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(in millions)	2019	2018
Gross cost at January 1	$ 2.7	$ 2.7
Capitalized in the year	1.5	0.0
Written down in the year	(2.7)	0.0
	1.5	2.7
Accumulated amortization at January 1	$(1.8)	$(1.1)
Amortization in the year	(1.0)	(0.7)
Amortization written down in the year	2.7	0.0
	$(0.1)	$(1.8)
Net book value at December 31	$ 1.4	$ 0.9

Amortization expense was $1.0 million, $0.7 million and $0.6 million in 2019, 2018 and 2017, respectively. The charge is included in interest expense, see Note 2 of the Notes to the Consolidated Financial Statements.

The obligations of the Company under the credit facility are secured obligations and guaranteed by certain subsidiaries of the Company. Amounts available under the revolving facility may be borrowed in U.S. dollars, Euros, British pounds and other freely convertible currencies.

The Company's credit facility contain s restrictive clauses which may constrain our activities and limit our operational and financial flexibility. The facility obliges the lenders to comply with a request for utilization of finance unless there is an event of default outstanding. Events of default are defined in the credit facility and include a material adverse change to our assets, operations or financial condition. The facility contains a number of restrictions that limit our ability, amongst other things, and subject to certain limited exceptions, to incur additional indebtedness, pledge our assets as security, guarantee obligations of third parties, make investments, undergo a merger or consolidation, dispose of assets, or materially change our line of business.

In addition, the credit facility contains terms which, if breached, would result in it becoming repayable on demand. It requires, among other matters, compliance with the following financial covenant ratios measured on a quarterly basis: (1) the ratio of net debt to EBITDA shall not be greater than 3.0:1 and (2) the ratio of EBITDA to net interest shall not be less than 4.0:1. Management has determined that the Company has not breached these covenants throughout the period to December 31, 2019 and does not expect to breach these covenants for the next 12 months.

The weighted average rate of interest on borrowings was 3.14% at December 31, 2019 and 3.32% at December 31, 2018. Payments of interest on long-term debt were $4.8 million, $6.5 million and $7.2 million in 2019, 2018 and 2017, respectively.

The net cash outflows in respect of refinancing costs were $1.5 million, $0.0 million and $0.0 million in 2019, 2018 and 2017, respectively.

Note 12. Plant Closure Provisions

The Company has continuing plans to close some of its manufacturing facilities at sites around the world as and when those operations are expected to be decommissioned. The liability for estimated closure costs of lnnospec's manufacturing facilities includes costs for decontamination and environmental remediation activities ("remediation").
As a result, the principal site giving rise to remediation liabilities is the manufacturing site at Ellesmere Port in the United Kingdom, which management believes is the last ongoing manufacturer of TEL. There are also remediation liabilities on a much smaller scale in respect of our other manufacturing sites in the U.S. and Europe.

Movements in the provisions are summarized as follows:

(in millions)	2019	2018	2017
Total at January 1	$49.5	$46.1	$39.5
Charge for the period	4.4	6.8	5.9
Measurement period adjustment on acquisition	0.0	0.0	2.8
Utilized in the period	(4.4)	(3.1)	(2.4)
Exchange effect	(0.2)	(0.3)	0.3
Total at December 31	49.3	49.5	46.1
Due within one year	(5.6)	(5.9)	(5.2)
Due after one year	$43.7	$43.6	$40.9

Amounts due within one year refer to provisions where expenditure is expected to arise within one year of the balance sheet date. Remediation costs are recognized in cost of goods sold.

The provisions for remediation represent the Company's liability for environmental liabilities and asset retirement obligations. The charge for the period in 2019 represents the accretion expense recognized of $4.3 million and a further $0.1 million primarily in respect of changes in the expected cost and scope of future remediation activities.

In 2017, we recognized $2.8 million of asset retirement obligations, in relation to the acquisition of our European Performance Chemicals business, as an increase in the value of the tangible assets acquired. This is being depreciated over the remaining useful economic life of those assets.

We recognize environmental liabilities when they are probable and costs can be reasonably estimated, and asset retirement obligations when there is a legal obligation and costs can be reasonably estimated. The Company has to anticipate the program of work required and the

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associated future expected costs, and comply with environmental legislation in the countries in which it operates or has operated in.

Remediation expenditure utilized provisions of $4.4 million, $3.1 million and $2.4 million in 2019, 2018 and 2017, respectively.

Note 13. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes a mid-market pricing convention for valuing the majority of its assets and liabilities measured and reported at fair value. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. The Company primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observability of those inputs. The Company gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy Levels. In 2018, the Company evaluated the fair value hierarchy levels assigned to its assets and liabilities, and concluded that there should be no transfers into or out of Levels 1, 2 and 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents the carrying amount and fair values of the Company's assets and liabilities measured on a recurring basis:

(in millions)	December 31, 2019 Carrying Amount	December 31, 2019 Fair Value	December 31, 2018 Carrying Amount	December 31, 2018 Fair Value
Assets				
Non-derivatives:				
Cash and cash equivalents	$ 75.7	$75.7	$ 123.1	$123.1
Derivatives (Level 1 measurement):				
Other current and non-current assets:				
Foreign currency forward exchange contracts	0.8	0.8	0.0	0.0
Interest rate swaps	0.0	0.0	1.9	1.9
Liabilities				
Non-derivatives:				
Long-term debt (including current portion)	$ 58.6	$58.6	$ 207.6	$207.6
Finance leases (including current portion)	1.5	1.5	3.3	3.3
Derivatives (Level 1 measurement):				
Other non-current liabilities:				
Foreign currency forward exchange contracts	0.0	0.0	0.7	0.7
Non-financial liabilities (Level 3 measurement):				
Stock equivalent units	24.6	24.6	15.1	15.1

The following methods and assumptions were used to estimate the fair values of financial instruments:

Cash and cash equivalents: The carrying amount approximates fair value because of the short-term maturities of such instruments.

Long-term debt and finance leases: Long-term debt principally comprises the revolving credit facility, which is shown net of deferred finance costs that have been capitalized. The fair value of long-term debt approximates to the carrying value. Finance leases relate to certain fixed assets in our Fuel Specialties and Oilfield Services segments. The carrying amount of long-term debt and finance leases approximates to the fair value.

Derivatives: The fair value of derivatives relating to foreign currency forward exchange contracts and interest rate swaps are derived from current settlement prices and comparable contracts using current assumptions. Foreign currency forward exchange contracts primarily relate to contracts entered into to hedge future known transactions or hedge balance sheet net

cash positions. The movements in the carrying amounts and fair values of these contracts are largely due to changes in exchange rates against the U.S. dollar. Interest rate swaps in the prior year related to contracts taken out to hedge interest rate risk on a portion of our long-term debt.

Stock equivalent units: The fair values of stock equivalent units are calculated at each balance sheet date using either the Black-Scholes or Monte Carlo method.

Note 14. Derivative Instruments and Risk Management

The Company has limited involvement with derivative instruments and does not trade them. The Company does use derivatives to manage certain interest rate, foreign currency exchange rate and raw material cost exposures, as the need arises.

The Company pre viously enter ed into interest rate swap contracts to reduce interest rate risk on its core debt. As at December 31, 2019, there were no interest rate swaps in pl a ce with all sw aps having bee n settled during the year . As at Dece m b er 31, 2018, ther e were interest rate swaps with a notional value of $132.5 million in place . Interest rate swaps were in place to hedge interest rate risk on the term loan for a notional value that matche d the repayment profile of the term loan. These interest rate swaps we re designated as hedging instruments, and their impact on other comprehensive loss for 2019 was a loss of $1.9 million (2018 – gain $0.4 million).

The Company enters into various foreign currency forward exchange contracts to minimize currency exchange rate exposure from expected future cash flows. As at December 31, 2019, foreign currency forward exchange contracts with a notional value of $108.9 million were in place (December 31, 2018 $108.7 million), with maturity dates of up to one year from the date of inception. These foreign currency forward exchange contracts have not been designated as hedging instruments, and their impact on the income statement for 2019 was a gain of $1.5 million (2018 – loss $1.8 million).

As at December 31, 2019 and December 31, 2018 the Company did not hold any raw material derivatives.

The Company sells a range of specialty chemicals to major oil refineries and chemical companies throughout the world. Credit limits, ongoing credit evaluation and account monitoring procedures are intended to minimize bad debt risk. Collateral is not generally required.

Note 15. Commitments and Contingencies

Environmental remediation obligations

Commitments in respect of environmental remediation obligations are disclosed in Note 12 of the Notes to the Consolidated Financial Statements.

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Capital commitments

The estimated additional cost to complete work in progress at December 31, 2019 is $4.0 million (2018 – $6.0 million).

Contingencies

Legal matters

While we are involved from time to time in claims and legal proceedings that result from, and are incidental to, the conduct of our business including business and commercial litigation, employee and product liability claims, there are no material pending legal proceedings to which the Company or any of its subsidiaries is a party, or of which any of their property is subject. It is possible however, that an adverse resolution of an unexpectedly large number of such individual items could in the aggregate have a material adverse effect on results of operations for a particular year or quarter.

Guarantees

The Company and certain of the Company's consolidated subsidiaries are contingently liable for certain obligations of affiliated companies primarily in the form of guarantees of debt and performance under contracts entered into as a normal business practice. This includes guarantees of non-U.S. excise taxes and customs duties. As at December 31, 2019, such guarantees which are not recognized as liabilities in the consolidated financial statements amounted to $4.7 million (December 31, 2018 – $5.0 million). The remaining terms of the fixed maturity guarantees vary from 1 month to 4 years, with some further guarantees having no fixed expiry date.

Under the terms of the guarantee arrangements, generally the Company would be required to perform should the affiliated company fail to fulfill its obligations under the arrangements. In some cases, the guarantee arrangements have recourse provisions that would enable the Company to recover any payments made under the terms of the guarantees from securities held of the guaranteed parties' assets.

The Company and its affiliates have numerous long-term sales and purchase commitments in their various business activities, which are expected to be fulfilled with no adverse consequences material to the Company.

Note 16. Stockholders' Equity

	Common Stock			Treasury Stock		
(number of shares in thousands)	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
At January 1	29,555	29,555	29,555	5,121	5,204	5,483
Exercise of options	0	0	0	(104)	(103)	(296)
Stock purchases	0	0	0	30	20	17
At December 31	29,555	29,555	29,555	5,047	5,121	5,204

At December 31, 2019, the Company had authorized common stock of 40,000,000 shares (2018 – 40,000,000).

Note 17. Stock-Based Compensation Plans

Stock option plans

The Company has two stock option plans, the Omnibus Long-Term Incentive Plan and the Share S ave Plan 2008 under which it currently grants awards. The stock options have vesting periods ranging from 24 months to 5 years and in all cases stock options granted expire within 10 years of the date of grant. All grants are at the sole discretion of the Compensation Committee of the Board of Directors. Grants may be priced at market value or at a premium or discount. The aggregate number of shares of common stock reserved for issuance which can be granted under the plans is 2,550,000.

The fair value of stock options is measured on the grant date using either the Black-Scholes model, or in cases where performance criteria are dependent upon external factors such as the Company's stock price, using a Monte Carlo model. The following weighted average assumptions were used to determine the grant-date fair value of options:

	2019	2018	2017
Dividend yield	1.09%	1.11%	0.96%
Expected life	5 years	5 years	5 years
Volatility	26.8%	25.6%	25.3%
Risk free interest rate	2.48%	2.74%	1.50%

The following table summarizes the transactions of the Company's stock option plans for the year ended December 31, 2019:

	Number of Options	Weighted Average Exercise Price	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2018	545,249	$ 32.46	$ 36.06
Granted – at discount	67,230	$ 0.00	$ 71.54
– at market value	12,539	$ 81.07	$ 22.69
Exercised	(103,633)	$ 11.92	$ 32.12
Forfeited	(16,926)	$ 47.69	$ 33.50
Outstanding at December 31, 2019	504,459	$ 33.05	$ 41.35

At December 31, 2019, there were 41,525 stock options that were exercisable, 8,530 had performance conditions attached.

The Company's policy is to issue shares from treasury stock to holders of stock options who exercise those options, but if sufficient treasury stock is not available, the Company will issue previously unissued shares of stock to holders of stock options who exercise options.

The stock option compensation cost for 2019, 2018 and 2017 was $6.6 million, $4.9 million and $4.2 million, respectively. The total intrinsic value of options exercised in 2019, 2018 and 2017 was $3.5 million, $3.2 million and $2.9 million, respectively.

The total compensation cost related to non-vested stock options not yet recognized at December 31, 2019 was $8.6 million and this cost is expected to be recognized over the weighted-average period of 1.76 years.

In 2019 , the Company recorded a current tax benefit of $ 1.5 million in respect of stock option compensation (2018 – $ 1.2 million). This amount is inclusive of excess tax benefits.

Forfeits are accounted for as an adjustment to the charge in the period in which the forfeits occur.

Stock equivalent units

The Company awards Stock Equivalent Units ("SEUs") from time to time as a long-term performance incentive. SEUs are cash settled equity instruments conditional on certain performance criteria and linked to the Innospec Inc. share price. SEUs have vesting periods ranging from 11 months to 4 years and in all cases SEUs granted expire within 10 years of the date of grant. Grants may be priced at market value or at a premium or discount. There is no limit to the number of SEUs that can be granted. As at December 31, 2019 the liability for SEUs of $24.6 million is in clu ded in accrued liabilities in the consolidated balance sheets until they are cash settled.

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

	2019	2018	2017
Dividend yield	0.99%	1.44%	1.09%
Ex pected life	5 years	5 years	5 years
Volatility	26.6%	27.2%	25.4%
Risk free interest rate	1.62%	2.46%	1.98%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes the transactions of the Company's SEUs for the year ended December 31, 2019:

	Number of SEUs	Weighted Average Exercise Price	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2018	418,936	$ 3.47	$ 52.45
Granted – at discount	123,815	$ 0.00	$ 71.47
– at market value	4,359	$ 81.07	$ 22.69
Exercised	(142,035)	$ 2.22	$ 46.45
Forfeited	(14,259)	$ 3.42	$ 63.76
Outstanding at December 31, 2019	390,816	$ 3.69	$ 59.91

At December 31, 2019, there were 31,649 SEUs that were exercisable, 28,881 had performance conditions attached.

The charges for SEUs are spread over the life of the award subject to a revaluation to fair value each quarter. The revaluation may result in a charge or a credit to the income statement in the quarter dependent upon our share price and other performance criteria.

The SEU compensation cost for 2019, 2018 and 2017 was $20.1 million, $5.7 million and $6.6 million, respectively. The total intrinsic value of SEUs exercised in 2019, 2018 and 2017 was $7.3 million, $2.7 million and $1.7 million, respectively.

The weighted-average remaining vesting period of non-vested SEUs is 1.88 years.

Forfeits are accounted for as an adjustment to the charge in the period in which the forfeits occur.

Note 18. Reclassifications out of Accumulated Other Comprehensive Loss

Reclassifications out of accumulated other comprehensive loss for 2019 were:

(in millions) Details about AOCL Components	Amount Reclassified from AOCL	Affected Line Item in the Statement where Net Income is Presented
Defined benefit pension plan items:		
Amortization of prior service credit	$ (0.9)	See (1) below
Amortization of actuarial net losses	0.0	See (1) below
	(0.9)	Total before tax
	0.2	Income tax expense
Total reclassifications	$ (0.7)	Net of tax

(1) *These items are included in the computation of net periodic pension cost. See Note 9 of the Notes to the Consolidated Financial Statements for additional information.*

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Changes in accumulated other comprehensive loss for 2019, net of tax, were:

(in millions)	Derivative Instruments	Defined Benefit Pension Plan Items	Cumulative Translation Adjustments	Total
Balance at December 31, 2018	$ 1.5	$ (18.1)	$ (59.1)	$(75.7)
Other comprehensive income before reclassifications	(1.5)	0.0	(6.0)	(7.5)
Amounts reclassified from AOCL	0.0	(0.7)	0.0	(0.7)
Actuarial net gains arising during the year	0.0	9.5	0.0	9.5
Net current period other comprehensive income	(1.5)	8.8	(6.0)	1.3
Balance at December 31, 2019	$ 0.0	$ (9.3)	$ (65.1)	$(74.4)

Note 19. Recently Issued Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-13, Financial Instruments – Credit Losses (ASC Topic 326). This replaces the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. We will be required to use a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The standard will be effective for the Company beginning January 1, 2020. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date to align our credit loss methodology with the new standard. We have e va luated the impact of this standard on our consolidated financial statements, including accounting policies, processes and systems. We ex p ec t the impact on the financial statements of ad opting this standard to be minimal.

Note 20. Related Party Transactions

Mr. Robert I. Paller has been a non-executive director of the Company since November 1, 2009. The Company has retained and continues to retain Smith, Gambrell & Russell, LLP ("SGR"), a law firm with which Mr. Paller holds a position. In 2019, 2018 and 2017 the Company incurred fees payable to SGR of $0.5 million, $0.3 million and $0.4 million, respectively. As at December 31, 2019 and at December 31, 2018, the Company did no t have any amounts outstanding due to SGR.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Mr. David F. Landless has been a non-executive director of the Company since January 1, 2016 and is a non-executive director of Ausurus Group Limited which owns European Metal Recycling Limited ("EMR"). The Company has sold scrap metal to EMR in 2019 for a value of $ 0.4 million (2018 – $0.3 million ; 2017 – $0.0 million) . A tendering process is operated periodically to select the best buyer for the sale of scrap metal by the Company. As at December 31 , 2019 EMR owed $ 0.0 million (December 31, 2018 – $ 0.1 million).

Note 21. Subsequent Events

The Company has evaluated subsequent events through the date that the consolidated financial statements were issued, and has concluded that no additional disclosures are required in relation to events subsequent to the balance sheet date.

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Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation carried out as of the end of the period covered by this report, under the supervision and with the participation of our management, our Chief Executive Officer and our Chief Financial Officer concluded that the Company's "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) were effective as of December 31, 2019.

Management's Report on Internal Control Over Financial Reporting

Our management, including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting (within the meaning of Rule 13a-15(f) under the Securities Exchange Act of 1934). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Due to its inherent limitations, management does not believe that internal control over financial reporting will prevent or detect all errors or fraud. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on criteria in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission the evaluation of our management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company did maintain effective internal control over financial reporting as of December 31, 2019.

Our independent registered public accounting firm PricewaterhouseCoopers LLP, has audited our consolidated financial statements and the effectiveness of our internal control over financial reporting as of December 31, 2019. Their report is included in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Controls over Financial Reporting

As disclosed under Item 4 Controls and Procedures in our Quarterly Report on Form 10-Q for the period ended June 30, 2019 management identified a material weakness in internal control over financial reporting relating to a network security incident that prevented access to certain information technology systems and data within our network. Management designed and maintained new controls and procedures to improve the IT infrastructure. Therefore, as of December 31, 2019 management has concluded that these controls are operating effectively and the material weakness remediated.

The Company is continuously seeking to improve the efficiency and effectiveness of its operations and of its internal controls. This is intended to result in refinements to processes throughout the Company.

There were no changes to our internal control over financial reporting which were identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting, other than those to remediate the aforementioned material weakness in the Company’s IT infrastructure, that occurred during our second fiscal quarter.

Item 9B Other Information

None.

PART III

Item 10 Directors, Executive Officers and Corporate Governance

The information set forth under the headings "Re-Election of Two Class I Directors", "Information about the Board of Directors," "Information about the Executive Officers" and "Delinquent Section 16(a) Reports" in the Proxy Statement for the Annual Meeting of Stockholders to be held on May 6, 2020 ("the Proxy Statement") is incorporated herein by reference.

The Board of Directors has adopted a Code of Conduct that applies to the Company's directors, officers and employees, including the Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer. Any stockholder who would like to receive a copy of our Code of Conduct, our Corporate Governance Guidelines or any charters of our Board's committees may obtain them without charge by writing to the General Counsel and Chief Compliance Officer, Innospec Inc., 8310 South Valley Highway, Suite 350, Englewood, Colorado, 80112, e-mail investor@innospecinc.com . These and other documents can also be accessed via the Company's web site, www.innospecinc.com .

The Company intends to disclose on its web site www.innospecinc.com any amendments to, or waivers from, its' Code of Conduct that are required to be publicly disclosed pursuant to the rules of the SEC or Nasdaq.

Information regarding the Audit Committee of the Board of Directors, including membership and requisite financial expertise, set forth under the headings "Corporate Governance – Board Committees – Audit Committee" in the Proxy Statement is incorporated herein by reference.

Information regarding the procedures by which stockholders may recommend nominees to the Board of Directors set forth under the heading "Corporate Governance – Board Committees – Nominating and Governance Committee" in the 2020 Proxy Statement is incorporated herein by reference.

Item 11 Executive Compensation

The information set forth under the headings "Executive Compensation," "Corporate Governance – Board Committees – Compensation Committee – Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report" in the Proxy Statement is incorporated herein by reference.

Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information set forth under the heading "Information About our Common Stock Ownership" in the Proxy Statement is incorporated herein by reference.

Shares Authorized for Issuance Under Equity Compensation Plans

The information set forth in the table under the heading "Equity Compensation Plans" in the Proxy Statement is incorporated herein by reference.

Item 13 Certain Relationships and Related Transactions, and Director Independence

The information set forth under the headings "Related Person Transactions and Relationships", "Related Person Transactions Approval Policy" and "Corporate Governance – Director Independence" in the Proxy Statement is incorporated herein by reference.

Item 14 Principal Accountant Fees and Services

Information regarding fees and services related to the Company's independent registered public accounting firm, PricewaterhouseCoopers LLP and KPMG LLP, is provided under the heading "Principal Accountant Fees and Services" in the Proxy Statement and is incorporated herein by reference. Information regarding the Audit Committee's pre-approval policies and procedures is provided under the heading "Audit Committee Pre-approval Policies and Procedures" in the Proxy Statement and is incorporated herein by reference.

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PART IV

Item 15 Exhibits and Financial Statement Schedules

(1) Financial Statements

The Consolidated Financial Statements (including notes) of Innospec Inc. and its subsidiaries, together with the report of PricewaterhouseCoopers LLP dated February 19, 2020, are set forth in Item 8.

(2) Financial Statement Schedules

Financial statement schedules have been omitted since they are either included in the financial statements, not applicable or not required.

(3) Exhibits

2.1 Amended and Restated Share and Asset Purchase Agreement, dated as of December 22, 2016, by and between Huntsman Investments (Netherlands) B.V. and Innospec International Ltd (Incorporated by reference to Exhibit 2.1 of the Company's Form 8-K on January 3, 2017).

3.1 Amended and Restated Certificate of Incorporation of the Company (filed herewith).

3.2 Amended and Restated By-laws of the Company (Incorporated by reference to Exhibit 3.1 of the Company's Form 8-K on November 13, 2015).

3.3 Innospec Inc. 2018 Omnibus Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed May 10, 2018).

3.4 Innospec Inc. ShareSave Plan 2008 (as amended and restated) (Incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed May 10, 2018).

4.1 Description of Common Stock (filed herewith).

10.1 Executive Service Agreement of Mr. Philip J. Boon dated June 1, 2009 (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K on May 27, 2009). *

10.2 Contract of Employment, Mr. Ian McRobbie (Incorporated by reference to Exhibit 10.23 of the Company's Form 10-K on March 28, 2003). *

10.3 Contract of Employment, Dr. Catherine Hessner (Incorporated by reference to Exhibit 10.26 of the Company's Form 10-K on March 31, 2005). *

10.4	Contract of Employment, Mr. Patrick Williams, dated October 11, 2005, (Incorporated by reference to Exhibit 99.1 of the Company's Form 8-K on October 12, 2005) and Executive Service Agreement dated April 2, 2009. (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K on April 3, 2009). *
10.5	Contract of Employment, Mr. Ian Cleminson, dated June 30, 2006 (Incorporated by reference to Exhibit 99.2 of the Company's Form 8-K on June 30, 2006). *
10.6	Innospec Inc. Performance Related Stock Option Plan 2008 (Incorporated by reference to Appendix A of the Company's Proxy Statement on April 1, 2011). *
10.7	Innospec Inc. Company Share Option Plan 2008 (Incorporated by reference to Appendix B of the Company's Proxy Statement on April 1, 2011). *
10.8	Innospec Inc. Non-Employee Directors' Stock Option Plan 2008 (Incorporated by reference to Appendix C of the Company's Proxy Statement on April 1, 2011). *
10.9	Innospec Inc. ShareSave Plan 2008 (Incorporated by reference to Appendix D of the Company's Proxy Statement on March 31, 2008). *
10.10	Innospec Inc. Executive Co-Investment Stock Plan 2004, as amended by the First Amendment 2006 (Incorporated by reference to Exhibit 10.10 of the Company's Form 10-K on February 17, 2012). *
10.11	Contract of Employment, Mr. David E. Williams, dated September 17, 2009 (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K on September 14, 2009). *
10.12	Form of Indemnification Agreement for individual who is an officer (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on February 27, 2014).
10.13	Form of Indemnification Agreement for individual who is a director (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed on February 27, 2014).
10.14	Form of Indemnification Agreement for individual who is an officer and director (Incorporated by reference to Exhibit 10.3 of the Company's Form 8-K filed on February 27, 2014).
10.15	Employment contract for Brian Watt (Incorporated by Reference to Exhibit 10.4 of the Company's Form 10-Q filed on May 7, 2014). *

10.16	Innospec Inc. 2014 Long-Term Incentive Plan (Incorporated by Reference to Exhibit 10.5 of the Company's Form 10-Q filed on May 7, 2014). *
10.17	Executive Service Letter to Mr. Philip J. Boon dated October 15, 2015 (Incorporated by reference to Exhibit 10.24 of the Company's Form 10-K on February 17, 2016). *
10.18	$250,000,000 Multicurrency Revolving Facility Agreement with various lenders dated September 26, 2019 (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K on September 30, 2019).
10.19	Innospec Inc. 2018 Omnibus Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed May 10, 2018).
10.20	Innospec Inc. ShareSave Plan 2008 (as amended and restated) (Incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed May 10, 2018)
16	Letter regarding change in certifying accountant dated April 10, 2019 (Incorporated by reference to Exhibit 16.1 of the Company's Form 8-K filed April 11, 2019).
21.1	Principal Subsidiaries of the Registrant (filed herewith).
23.1	Consent of Independent Registered Public Accounting Firm, PricewaterhouseCoopers LLP (filed herewith).
23.2	Consent of Independent Registered Public Accounting Firm, KPMG LLP (filed herewith).
23.3	Consent of Independent Registered Public Accounting Firm, KPMG Audit Plc (filed herewith).
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101	XBRL Instance Document and Related Items.
104	Cover Page Interactive Data File – The cover page XBRL tags are embedded within the inline XBRL document.

* Denotes a management contract or compensatory plan.

Item 16 Form 10-K Summary

Not Applicable.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INNOSPEC INC. (Registrant) Date: February 19, 2020	By:	/s/ PATRICK S. WILLIAMS Patrick S. Williams President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of February 19, 2020:

/s/ MILTON C. BLACKMORE Milton C. Blackmore	Chairman and Director
/s/ PATRICK S. WILLIAMS Patrick S. Williams	President and Chief Executive Officer (Principal Executive Officer); Director
/s/ IAN P. CLEMINSON Ian P. Cleminson	Executive Vice President and Chief Financial Officer
/s/ CHRISTOPHER J. PARSONS Christopher J. Parsons	Head of Group Finance (Principal Accounting Officer)
/s/ HUGH G. C. ALDOUS Hugh G. C. Aldous	Director
/s/ DAVID F. LANDLESS David F. Landless	Director
/s/ LAWRENCE J. PADFIELD Lawrence J. Padfield	Director
/s/ ROBERT I. PALLER Robert I. Paller	Director
/s/ CLAUDIA POCCIA Claudia Poccia	Director
/s/ JOACHIM ROESER Joachim Roeser	Director

Delaware

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED ARE TRUE AND CORRECT COPIES OF ALL DOCUMENTS FILED FROM AND INCLUDING THE RESTATED CERTIFICATE OR A MERGER WITH A RESTATED CERTIFICATE ATTACHED OF "INNOSPEC INC." AS RECEIVED AND FILED IN THIS OFFICE.

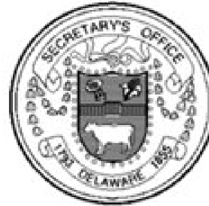
THE FOLLOWING DOCUMENTS HAVE BEEN CERTIFIED:

RESTATED CERTIFICATE, FILED THE SECOND DAY OF FEBRUARY, A.D. 2006, AT 10:50 O'CLOCK A.M.

CERTIFICATE OF DESIGNATION, FILED THE TWELFTH DAY OF JUNE, A.D. 2009, AT 12:53 O'CLOCK P.M.

Jeffrey W. Bullock, Secretary of State

2851532 8100X
SR# 20200492100



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Date: 01-23-20

You may verify this certificate online at corp.delaware.gov/authver.shtml

State of Delaware
Secretary of State
Division of Corporations
Delivered 10:59 AM 02/02/2006
FILED 10:50 AM 02/02/2006
SRV 060099370 – 2851532 FILE

CERTIFICATE OF
RESTATED CERTIFICATE OF INCORPORATION
OF
INNOSPEC INC.

The undersigned, being a duly elected officer of Innospec Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"), does hereby certify as follows:

1. That the Corporation filed its original Certificate of Incorporation with the Delaware Secretary of State on January 27, 1998.

2. That the original name of the Corporation was Octel Corp.

3. That the Board of Directors of the Corporation, pursuant to Sections 141 and 245 of the General Corporation Law of the State of Delaware, adopted resolutions authorizing the Corporation to restate the Corporation's Certificate of Incorporation in its entirety to read as set forth in Exhibit A attached hereto and made a part hereof (the "Restated Certificate").

4. The Restated Certificate only restates and integrates the Corporation's Certificate of Incorporation and does not further amend the provisions of the Certificate of Incorporation as heretofore amended or supplemented and there is no discrepancy between these provisions and the provisions of the Restated Certificate.

IN WITNESS WHEREOF, the undersigned, being a duly elected officer of the Corporation, for the purpose of restating the Certificate of Incorporation of the Corporation pursuant to the General Corporation Law of the State of Delaware, under penalties of perjury does hereby declare and certify that this is the act and deed of the Corporation and the facts stated herein are true, and accordingly has hereunto signed this Certificate of Restated Certificate of Incorporation this 31st day of January, 2006.

By: ______________________________
Name: ANDREW HARTLEY
Title: GENERAL COUNSEL & VICE PRESIDENT

Exhibit A

RESTATED

CERTIFICATE OF INCORPORATION

FIRST: The name of the Corporation is Innospec Inc.(the "Corporation").

SECOND: The address of the registered office of the Corporation in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at that address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of the State of Delaware (the "DGCL").

FOURTH: (a) The total number of shares of stock which the Corporation shall have authority to issue is 50,000,000 shares of capital stock (the "Capital Stock"), consisting of (i) 40,000,000 shares of common stock, par value $0.01 per share (the "Common Stock") and (ii) 10,000,000 shares of preferred stock, par value $0.01 per share (the "Preferred Stock").

(b) The holders of the Common Stock shall have no preemptive rights to subscribe for any shares of any class of stock of the Corporation whether now or hereafter authorized. The holders of the Common Stock shall not have cumulative voting rights.

(c) The Board of Directors is hereby expressly authorized to provide for the issuance of all or any shares of the Preferred Stock in one or more classes or series, and to fix for each such class or series such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights and such qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions adopted by the Board of Directors providing for the issuance of such class or series, including, without limitation, the authority to provide that any such class or series may be (i) subject to redemption at such time or times and at such price or prices; (ii) entitled to receive dividends (which may be cumulative or non- cumulative) at such rates, on such conditions, and at such times, and payable in preference to, or in such relation to, the dividends payable on any other class or classes or any other series; (iii) entitled to such rights upon the dissolution of, or upon any distribution of the assets of, the Corporation; or (iv) convertible into, or exchangeable for, shares of any other class or classes of stock, or of any other series of the same or any other class or classes of stock, of the Corporation at such price or prices or at such rates of exchange and with such adjustments; all as may be stated in such resolution or resolutions.

FIFTH: The following provisions are inserted for the management of the business and the conduct of the affairs of the Corporation, and for further definition, limitation and regulation of the powers of the Corporation and of its directors and stockholders:

(a) The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.

(b) The number of directors of the Corporation shall be as from time to time fixed by, or in the manner provided in, the By-Laws of the Corporation. Election of directors need not be by written ballot unless the By-Laws so provide.

(c) The directors shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. The initial division of the Board of Directors into classes shall be made by the decision of the affirmative vote of a majority of the entire Board of Directors. The term of the initial Class I directors shall terminate on the date of the 1999 annual meeting; the term of the initial Class II directors shall terminate on the date of the 2000 annual meeting; and the term of the initial Class III directors shall terminate on the date of the 2001 annual meeting. At each succeeding annual meeting of stockholders beginning in 1999, successors to the class of directors whose term expires at that annual meeting shall be elected for a three-year term. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class, but in no case will a decrease in the number of directors shorten the term of any incumbent director.

(d) A director shall hold office until the annual meeting for the year in which his or her term expires and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

(e) Subject to the terms of anyone or more classes or series of Preferred Stock, any vacancy on the Board of Directors that results from an increase in the number of directors may be filled by a majority of the Board of Directors then in office, provided that a quorum is present, and any other vacancy occurring on the Board of Directors may be filled by a majority of the Board of Directors then in office, even if less than a quorum, or by a sole remaining director. Any director of any class elected to fill a vacancy resulting from an increase in the number of directors of such class shall hold office for a term that shall coincide with the remaining term of that class. Any director elected to fill a vacancy not resulting from an increase in the number of directors shall have the same remaining term as that of his predecessor. Subject to the rights, if any, of the holders of shares of Preferred Stock then outstanding, any or all of the directors of the Corporation may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least a majority of the voting power of the Corporation’s then outstanding capital stock entitled to vote generally in the election of directors. Notwithstanding the foregoing, whenever the holders of anyone or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of this Certificate of Incorporation applicable thereto, and such directors so elected shall not be divided into classes pursuant to this Article SIXTH unless expressly provided by such terms.

(f) In addition to the powers and authority hereinbefore or by statute expressly conferred upon them, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the DGCL, this Certificate of Incorporation, and any By-Laws adopted by the stockholders; provided, however, that no By-Laws hereafter adopted by the stockholders shall invalidate any prior act of the directors which would have been valid if such By-Laws had not been adopted.

SIXTH: (a) In addition to any affirmative vote required by law or this Certificate of Incorporation or the By-laws of the Corporation, and except as otherwise expressly provided in Section (b) of this Article SIXTH, any Business Combination shall require the affirmative vote of at least eighty percent (80%) of the Voting Shares. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that some lesser percentage may be specified, by law or in any agreement with any national securities exchange or otherwise.

(b) The provisions of Section (a) of this Article SIXTH shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote as is required by law and any other provision of this Certificate of Incorporation, if all of the conditions specified in either of the following Subparagraphs (i) or (ii) are met:

(i) The Business Combination has been approved by two- thirds of the whole Board; or

(ii) The aggregate amount of the cash and Fair Market Value of consideration other than cash to be received per share by holders of the Common Stock in such Business Combination shall be in the same form and of the same kind as the consideration paid by the Interested Stockholder in acquiring the initial 10% of the Common Stock owned by it and shall be at least equal to the highest of the following:

(A) the highest per share price (including brokerage commissions, transfer taxes and soliciting dealers' fees) paid by such Interested Stockholder for any shares of Common Stock acquired by it within the two-year period prior to the Business Combination;

(B) the per share book value of the Common Stock as reported at the end of the fiscal quarter immediately preceding the announcement of such Business Combination; and

(C) if applicable, the price per share equal to the earnings per share of Common Stock for the four full consecutive quarters immediately preceding the record date for solicitation of votes on such Business Combination, multiplied by the ratio (if any) of the highest price of the Interested Stockholder's stock during its most recent four fiscal quarters, to the earnings per share of the Interested Stockholder's stock for such four full consecutive quarters.

(c) For purposes of this Article SIXTH:

(i) The term "Business Combination" shall mean any transaction which is referred to in anyone or more of the following clauses (A) through (E):

(A) any merger or consolidation of the Corporation or any Subsidiary with or into (1) any Interested Stockholder or (2) any other corporation (whether or not itself an Interested Stockholder) which, after such merger or consolidation, would be an Affiliate or Associate of an Interested Stockholder;

(B) any sale, lease, exchange, mortgage, pledge, transfer or other disposition or any security arrangement, investment, loan advance, guarantee, agreement to purchase, agreement to pay, extension of credit, joint venture participation or other similar arrangement (in one transaction or a series of related transactions), with or for the benefit of any Interested Stockholder or any Affiliate or Associate of any Interested Stockholder, involving any assets, securities or commitments of the Corporation or any Subsidiary which, including all contemplated future events, have an aggregate Fair Market Value of $10,000,000 or more or constituting more than five percent (5%) of the book value of the total assets (in the case of transactions involving assets or commitments other than Capital Stock) or more than five percent (5%) of the stockholders' equity (in the case of transactions in capital Stock) of the entity in question (each, a "Substantial Part"), as reflected in the most recent fiscal year-end consolidated balance sheet of such entity existing at the time the stockholders of the Corporation would be required to approve or authorize the Business Combination involving a Substantial Part of the assets, securities and/or commitments of the Corporation;

(C) the adoption of any plan or proposal for the liquidation or dissolution of the Corporation or for any amendment to the By-Laws or to this Certificate of Incorporation proposed by or on behalf of an Interested Stockholder or any Affiliate or Associate of any Interested Stockholder;

(D) any reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any of its Subsidiaries or any similar transaction (whether or not with or into or otherwise involving an Interested Stockholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class or series of Capital Stock, or any securities convertible into Capital Stock or equity securities of any Subsidiary, which is beneficially owned by any Interested Stockholder or any Affiliate or Associate of any Interested Stockholder; or

(E) any agreement, contract or arrangement providing for any one or more of the actions specified in the foregoing clauses (A) through (D).

(ii) The term "person" shall mean any individual, firm, corporation or other entity and shall include any group comprised of any person and any other person with whom such person or any Affiliate or Associate of such person has any agreement, arrangement or understanding, directly or indirectly, for the purpose of acquiring, holding, voting or disposing of Capital Stock.

(iii) The term "Interested Stockholder" shall mean any person (other than the Corporation or any Subsidiary and other than any profit-sharing, employee stock ownership or other employee benefit plan of the Corporation or any Subsidiary or any trustee or fiduciary with respect to any such plan when acting in such capacity) who or which, as of the record date for the determination of stockholders entitled to notice of and to vote on such Business Combination, or immediately prior to the consummation of any such transaction:

(A) is, or has announced or publicly disclosed a plan or intention to become, the beneficial owner of ten percent (10%) or more of the Voting Shares; or

(B) is an Affiliate or Associate of the Corporation and at any time within the two year period prior to the date in question was the beneficial owner of ten percent (10%) or more of the Voting Shares.

For purposes of determining whether a person is an Interested Stockholder pursuant to this Subparagraph (c) (iii) of this Article SIXTH, the number of Voting Shares shall include shares deemed beneficially owned through application of Subparagraph (c) (iv) of this Article SIXTH, but shall not include any other Voting Shares which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

(iv) A person shall be a "beneficial owner" of any Voting Shares:

(A) which such person or any of its Affiliates or Associates beneficially owns, directly or indirectly; or

(B) which such person or any of its Affiliates or Associates has (1) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise; (2) the right to vote pursuant to any agreement, arrangement or understanding; or (3) which are beneficially owned, directly or indirectly, by any other person with which such first mentioned person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purposes of acquiring, holding, voting or disposing of any shares of Capital Stock of the Corporation.

(v) The terms "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 under the Exchange Act as in effect on the date of filing this Certificate of Incorporation with the Secretary of State of the State of Delaware (the term "registrant" in such Rule 12b-2 meaning in this case the Corporation).

(vi) The term "Subsidiary" means any company of which a majority of any class of equity security is beneficially owned by the Corporation; provided, however, that for the purposes of the definition of "Interested Stockholder" set forth in Subparagraph (c) (iii) of this Article SIXTH, the term "Subsidiary" shall mean only a company of which a majority of each class of equity security is beneficially owned by the Corporation.

(vii) The term "Continuing Director" means a person who was a member of the Board of Directors of the Corporation elected by the public stockholders prior to the date as of which the Interested Stockholder became an Interested Stockholder and who remains a member of the Board of Directors of the Corporation as of the date in question, or a person designated (before his initial election as a director) as a Continuing Director by a majority of the then Continuing Directors and who remains a member of the Board of Directors of the Corporation as of the date in question.

(viii) The term "Fair Market Value" shall mean (A) in the case of cash, the amount of such cash; (B) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such stock is not

quoted on such Composite Tape, on the New York Stock Exchange, or if such stock is not listed on such exchange, on the principal United States securities exchange registered under the Exchange Act on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any similar system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Continuing Directors in good faith; and (C) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by a majority of the Continuing Directors in good faith.

(ix) The term "Voting Shares" shall mean the outstanding shares of Capital Stock of the Corporation entitled to vote generally in the election of directors, considered for the purpose of this Article SIXTH as one class.

(d) A majority of the directors shall have the power and the duty to determine for purposes of this Article SIXTH on the basis of information known to them, (i) the number of Voting Shares beneficially owned by any person, (ii) whether a person is an Affiliate or Associate of another, (iii) whether a person has an agreement, arrangement or understanding with another as to the matters referred to in Subparagraphs (c) (iii) and (c) (iv), or (iv) for purposes of Subparagraph (c) (i) (B), whether the assets, securities or commitments subject to any Business Combination constitute a Substantial Part of the Corporation or any of its Subsidiaries.

(e) Nothing in this Article SIXTH shall be construed to relieve any Interested Stockholder from any fiduciary obligation imposed by law.

SEVENTH: No director shall be personally liable to the Corporation or any of its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the DGCL as the same currently exists or may hereafter be amended. If the DGCL is amended hereafter to authorize the further elimination or limitation of the liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent authorized by the DGCL, as so amended. Any repeal or modification of this Article SEVENTH by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification with respect to acts or omissions occurring prior to such repeal or modification.

EIGHTH: (a) The Corporation shall indemnify its directors and officers to the fullest extent authorized or permitted by law, as now or hereafter in effect, and such right to indemnification shall continue as to a person who has ceased to be a director or officer of the Corporation and shall inure to the benefit of his or her heirs, executors and personal and legal representatives; provided, however, that, except for proceedings to enforce rights to indemnification, the Corporation shall not be obligated to indemnify any director or officer (or his or her heirs, executors or personal or legal representatives) in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors. The right to indemnification conferred by this Article EIGHTH shall include the right to be paid by the Corporation the expenses incurred in defending or otherwise participating in any proceeding in advance of its final disposition.

(b) The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation similar to those conferred in this Article EIGHTH to directors and officers of the Corporation.

(c) The rights to indemnification and to the advancement of expenses conferred in this Article EIGHTH shall not be exclusive of any other right which any person may have or may hereafter acquire under this Certificate of Incorporation, the By-Laws of the Corporation, any statute, agreement, vote of stockholders or disinterested directors or otherwise.

(d) Any repeal or modification of this Article EIGHTH by the stockholders of the Corporation shall not adversely affect any rights to indemnification and to the advancement of expenses of a director or officer of the Corporation existing at the time of such repeal or modification with respect to any acts or omissions occurring prior to such repeal or modification.

NINTH: Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation, and the ability of the stockholders to consent in writing to the taking of any action is hereby specifically denied.

TENTH: Meetings of stockholders may be held within or without the State of Delaware, as the By-Laws may provide. The books of the Corporation may be kept (subject to any provision contained in the DGCL) outside of the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the By-Laws of the Corporation.

ELEVENTH: In furtherance and not in limitation of the powers conferred upon it by the laws of the State of Delaware and by this Certificate of Incorporation, the Board of Directors shall have the power to adopt, amend, alter or repeal the Corporation’s By-Laws. The affirmative vote of at least a majority of the entire Board of Directors shall be required to adopt, amend, alter or repeal the Corporation’s By-Laws. The Corporation’s By-Laws also may be adopted, amended, altered or repealed by the affirmative vote of the holders of at least eighty percent (80%) of the voting power of the shares entitled to vote at an election of directors.

TWELFTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation in the manner now or hereafter prescribed in this Certificate of Incorporation, the Corporation’s By-Laws or the DGCL, and all rights herein conferred upon stockholders are granted subject to such reservation; provided, however, that, notwithstanding any other provision of this Certificate of Incorporation (and in addition to any other vote that may be required by law), the affirmative vote of the holders of at least eighty percent (80%) of the voting power of the shares entitled to vote at an election of directors shall be required to amend, alter, change or repeal, or to adopt any provision as part of this Certificate of Incorporation inconsistent with the purpose and intent of Articles FIFTH, SIXTH, EIGHTH and ELEVENTH of this Certificate of Incorporation or this Article TWELFTH.

State of Delaware
Secretary of State
Division of Corporations
Delivered 12:58 PM 06/12/2009
FILED 12:53 PM 06/12/2009
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CERTIFICATE OF DESIGNATION OF SERIES B JUNIOR PARTICIPATING PREFERRED STOCK OF INNOSPEC INC.

Pursuant to Section 151 of the Delaware General Corporation Law

The undersigned duly authorized officers of Innospec Inc. (the "Corporation"), a Delaware corporation, in accordance with the provisions of Section 103 of the Delaware General Corporation Law (the "DGCL"), DO HEREBY CERTIFY:

That the Board of Directors of the Corporation on June 12, 2009, at a meeting duly called and held, adopted the following resolution creating a series of 40,000 shares of Preferred Stock, par value $0.01 per share, designated as Series B Junior Participating Preferred Stock:

RESOLVED, that pursuant to the authority granted to and vested in the Board of Directors by the Amended and Restated Certificate of Incorporation of the Corporation (as amended from time to time, the "Certificate of Incorporation"), the Board of Directors hereby authorizes that a series of Preferred Stock, par value $0.01 per share, of the Corporation be, and hereby is, created and approved for issuance out of the Preferred Stock authorized in the Certificate of Incorporation, and hereby fixes the designation and amount thereof and the voting powers, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, as follows:

1. **Designation and Amount.** There shall be a series of Preferred Stock of the Corporation which shall be designated as "Series B Junior Participating Preferred Stock," par value $0.01 per share, (hereinafter called "Series B Preferred Stock"), and the number of shares constituting such series shall be 40,000. Such number of shares may be increased or decreased by resolution of the Board of Directors and by the filing of a certificate pursuant to the provisions of the DGCL stating that such increase or reduction has been so authorized; provided, however, that no decrease shall reduce the number of shares of Series B Preferred Stock to a number less than the number of shares of Series B Preferred Stock issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Corporation.

2. **Dividends and Distributions.**

(A) Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series B Preferred Stock with respect to dividends, the holders of shares of Series B Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash to holders of record on the last business day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series B Preferred Stock, in an amount per share (rounded to the nearest cent) equal to 1,000 times the aggregate per share amount of all cash dividends (subject to the provision for adjustment hereinafter set forth), and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock (hereinafter defined) or a subdivision

of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the common stock, par value $0.01 per share, of the Corporation (the "Common Stock") since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series B Preferred Stock. In the event the Corporation shall at any time (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series B Preferred Stock were entitled immediately prior to such event under the preceding sentence shall be adjusted by multiplying each such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series B Preferred Stock as provided in paragraph (A) above at the time it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock).

(C) No dividend or distribution (other than a dividend payable in shares of Common Stock) shall be paid or payable to the holders of shares of Common Stock unless, prior thereto, all accrued but unpaid dividends to the date of such dividend or distribution shall have been paid to the holders of shares of Series B Preferred Stock.

(D) Dividends shall begin to accrue and be cumulative on outstanding shares of Series B Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series B Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series B Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series B Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series B Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

3. **Voting Rights.** The holders of shares of Series B Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each one one- thousandth of a share of Series B Preferred Stock shall entitle the holder thereof to one vote on all matters submitted to a vote of the shareholders of the Corporation. In the event the Corporation shall at any time (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the number of votes per share to which holders of shares of Series B Preferred Stock were entitled immediately prior to

such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein or by law, the holders of shares of Series B Preferred Stock and the holders of shares of Common Stock and any other capital stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of shareholders of the Corporation.

(C) (i) Whenever, at any time or times, dividends payable on any share or shares of Series B Preferred Stock shall be in arrears in an amount equal to at least six full quarterly dividends (whether or not declared and whether or not consecutive), the holders of record of the outstanding Preferred Stock shall have the exclusive right, voting separately as a single class, to elect two directors of the Corporation at a special meeting of shareholders of the Corporation or at the Corporation's next annual meeting of shareholders, and at each subsequent annual meeting of shareholders, as provided below. At elections for such directors, the holders of shares of Series B Preferred Stock shall be entitled to cast one vote for each one one-thousandth of a share of Series B Preferred Stock held.

(ii) Upon the vesting of such right of the holders of the Preferred Stock, the maximum authorized number of members of the Board of Directors shall automatically be increased by two and the two vacancies so created shall be filled by vote of the holders of the outstanding Preferred Stock as hereinafter set forth. A special meeting of the shareholders of the Corporation then entitled to vote shall be called by the Chairman or the President or the Secretary of the Corporation, if requested in writing by the holders of record of not less than 10% of the Preferred Stock then outstanding. At such special meeting, or, if no such special meeting shall have been called, then at the next annual meeting of shareholders of the Corporation, the holders of the shares of the Preferred Stock shall elect, voting as above provided, two directors of the Corporation to fill the aforesaid vacancies created by the automatic increase in the number of members of the Board of Directors. At any and all such meetings for such election, the holders of a majority of the outstanding shares of the Preferred Stock shall be necessary to constitute a quorum for such election, whether present in person or by proxy, and such two directors shall be elected by the vote of at least a plurality of shares held by such shareholders present or represented at the meeting. Any director elected by holders of shares of the Preferred Stock pursuant to this Section may be removed at any annual or special meeting, by vote of a majority of the shareholders voting as a class who elected such director, with or without cause. In case any vacancy shall occur among the directors elected by the holders of the Preferred Stock pursuant to this Section, such vacancy may be filled by the remaining director so elected, or his successor then in office, and the director so elected to fill such vacancy shall serve until the next meeting of shareholders for the election of directors. After the holders of the Preferred Stock shall have exercised their right to elect directors in any default period and during the continuance of such period, the number of directors shall not be further increased or decreased except by vote of the holders of Preferred Stock as herein provided or pursuant to the rights of any equity securities ranking senior to or pari passu with the Series B Preferred Stock.

(iii) The right of the holders of the Preferred Stock, voting separately as a class, to elect two members of the Board of Directors of the Corporation as aforesaid shall continue until, and only until, such time as all arrears in dividends (whether or not declared) on the Preferred Stock shall have been paid or declared and set apart for payment, at which time such right shall terminate, except as herein or by law expressly provided, subject to revesting in the event of each and every subsequent default of the character above-mentioned. Upon any termination of the right of the holders of the shares of the Preferred Stock as a class to vote for directors as herein provided, the term of office of all directors then in office elected by the holders of Preferred Stock pursuant to this Section shall terminate immediately. Whenever the term of office of the directors elected by the holders of the Preferred Stock pursuant to this Section shall terminate and the special voting powers vested in the holders of the Preferred Stock pursuant to this Section shall have expired, the maximum number of members of the Board of Directors of the Corporation shall be such number as may be provided for in the By-laws of the Corporation or in a resolution of the Board of Directors adopted pursuant thereto, irrespective of any increase made pursuant to the provisions of this Section.

(D) Except as set forth herein, holders of Series B Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

4. **Certain Restrictions.**

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series B Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series B Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series B Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series B Preferred Stock, except dividends paid ratably on the Series B Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series B Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series B Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series B Preferred Stock, except in accordance with a purchase offer made in writing or by

publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section, purchase or otherwise acquire such shares at such time and in such manner.

5. **Reacquired Shares.** Any shares of Series B Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

6. **Liquidation, Dissolution or Winding Up.**

(A) Upon any voluntary liquidation, dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series B Preferred Stock unless, prior thereto, the holders of shares of Series B Preferred Stock shall have received $1.00 per share, plus an amount per share equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (collectively, the "Series B Liquidation Preference"). Following the payment of the full amount of the Series B Liquidation Preference, no additional distributions shall be made to the holders of shares of Series B Preferred Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series B Liquidation Preference by (ii) 1,000 (as appropriately adjusted as set forth in subparagraph C below to reflect such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock) (such number in clause (ii), the "Adjustment Number"). Following the payment of the full amount of the Series B Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series B Preferred Stock and Common Stock, respectively, holders of Series B Preferred Stock and holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio, on a per share basis, of the Adjustment Number to 1 with respect to such Preferred Stock and Common Stock, on a per share basis, respectively.

(B) In the event, however, that there are not sufficient assets available to permit payment in full of the Series B Liquidation Preference and the liquidation preferences of all other series of Preferred Stock, if any, which rank on a parity with the Series B Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences.

(C) In the event the Corporation shall at any time (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock or (iii) combine the outstanding Common Stock into a smaller number of shares, then in

each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

7. **Consolidation, Merger, etc.** In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series B Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series B Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

8. **Redemption.** The shares of a Series B Preferred Stock shall not be redeemable by the Corporation. The preceding sentence shall not limit the ability of the Corporation to purchase or otherwise deal in such shares of stock to the extent permitted by law.

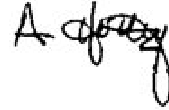
9. **Ranking.** The Series B Preferred Stock shall rank junior to all other series of the Corporation's preferred stock (whether with or without par value) as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

10. **Amendment.** The Certificate of Incorporation of the Corporation, as amended as of this date, shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series B Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority or more of the outstanding shares of Series B Preferred Stock, voting separately as a class.

11. **Fractional Shares.** Series B Preferred Stock may be issued in fractional shares which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series B Preferred Stock.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be signed by Andrew Hartley its Vice President and General Counsel and the same to be attested by KATE DAVISON its GROUP LEGAL ADVISOR on this 12th day of June, 2009.

INNOSPEC INC.



Name: Andrew Hartley
Title: Vice President and General Counsel

Attest:

Name: KATE DAVISON
Title: GROUP LEGAL ADVISOR

DESCRIPTION OF COMMON STOCK

The following is a summary of the material terms of the common stock of Innospec Inc., a Delaware corporation (the “Company,” “Innospec,” “we,” “our” or “us”). Because it is only a summary, it may not contain all of the information that may be important to you, and should be read in conjunction with the restated certificate of incorporation of the Company (the “Certificate of Incorporation”), the amended and restated bylaws of the Company (the “Bylaws”), the Company’s Corporate Governance Guidelines and applicable Delaware law.

General

The Company is authorized by its Certificate of Incorporation to issue 50 million total of shares of all classes of stock, consisting 40 million shares of Common Stock, par value $.01 per share (“Common Stock”) and of 10 million shares preferred stock, par value $.01 per share (“Preferred Stock”). The Board is authorized to provide for the issuance of shares of Preferred Stock in one or more series and to determine, with respect to any series, the terms and rights of such series.

Dividend and Liquidation Rights

Subject to any preferential or other rights of any outstanding series of Preferred Stock that may be designated by the Board of Directors of the Company (the “Board”), the holders of Common Stock will be entitled to such dividends as may be declared from time to time by the Board from available funds, and upon liquidation will be entitled to receive pro rata all assets of the Company available for distribution to holders of Common Stock.

Voting Rights

Each share of Common Stock has one vote per share. Holders of Common Stock are entitled to vote on all matters to be voted on by stockholders. The holders of our Common Stock do not have cumulative voting rights.

Company Bylaws provide for a plurality of shares present in person or represented by proxy voting standard for the election of directors. While directors are elected by a plurality vote, the Company’s Corporate Governance Guidelines requires that any nominee who receives more “withheld” votes than “for” votes, must submit a resignation which is subject to acceptance or rejection by the Board.

Other Rights

The Company’s Common Stock is not liable to further calls or assessment. Holders of the Company’s Common Stock have no preemptive rights. The Common Stock cannot be redeemed and does not have any conversion rights or sinking fund provisions.

Provisions of our Certificate of Incorporation and our Bylaws that Could Delay or Prevent a Change in Control

The Company’s Certificate of Incorporation and Bylaws contain provisions which could make it difficult to obtain control of the Company if the Board does not approve the transaction. The provisions include the following:

Classified Board of Directors

The Board is divided into three classes, as nearly equal in number as is reasonably possible, serving staggered terms such that approximately a third of directors are up for election each year. Therefore, at least two annual meetings of stockholders, instead of one, will generally be required to effect a change in a majority of the Board. As a result, the Company’s classified Board may discourage proxy contests for the election of directors or purchases of a substantial block of Common Stock because its provisions could operate to prevent obtaining control

of the Board in a relatively short period of time. The classification provisions could also have the effect of discouraging a third party from making a tender offer or otherwise attempting to obtain control of the Company. In addition, because Section 141(k)(1) of the Delaware General Corporation Law provides that a director serving on a classified board of directors may be removed only for cause, a classified Board could delay stockholders who do not agree with the policies of the Board from replacing a majority of the Board for two years unless they can demonstrate that the directors should be removed for cause and obtain the requisite vote.

Special Meetings of Stockholders and Action by Written Consent

The By-laws provide that special meetings of stockholders of the Company may be called only by the Chairman of the Board, the President or the Board. The Certificate of Incorporation also requires that stockholder action be taken at a meeting of stockholders and prohibits action by written consent.

Advance Notice Provisions

The Company's Bylaws generally require that for a stockholder to nominate a director or bring other business before an annual meeting, the stockholder must deliver written notice to the Secretary of the Company not less than 60 nor more than 90 days prior to the anniversary date of the immediately preceding annual meeting of stockholders.

Certain Business Combinations

The Certificate of Incorporation generally provides that, whether or not a vote of the stockholders is otherwise required, the affirmative vote of the holders of not less than 80% of the outstanding voting shares of the Company shall be required for the approval or authorization of any Business Combination with an Interested Stockholder or any affiliate or associate of an Interested Stockholder. However, a Business Combination will not be subject to such voting threshold if the Business Combination was approved by two-thirds of the Board or the consideration satisfies pricing levels specified in the Certificate of Incorporation.

The term "Business Combination" is generally defined to include (a) any merger or consolidation of the Company or any subsidiary; (b) any sale, lease, exchange, mortgage, pledge, transfer or other disposition or any security arrangement, investment, loan advance, guarantee, agreement to purchase, agreement to pay, extension of credit, joint venture participation or other similar arrangement (in one transaction or a series of related transactions), involving substantial part, as further described in the Certificate of Incorporation, of any assets, securities or commitments of the Company or any subsidiary; (c) the adoption of any plan or proposal for the liquidation or dissolution of the Company or for any amendment to the By-Laws or to the Certificate of Incorporation proposed by or on behalf of any Interested Stockholder or an affiliate or associate of any Interested Stockholder, (d) any reclassification of securities (including any reverse stock split), or recapitalization of the Company or any similar transaction (whether or not with or into or otherwise involving an Interested Stockholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class or series of capital stock, or any securities convertible into capital stock or equity securities of any subsidiary, which is beneficially owned by any Interested Stockholder or any affiliate or associate of any Interested Stockholder; or (e) or any agreement, contract or arrangement providing for any one or more of such actions.

The term "Interested Stockholder" is generally defined as (a) a person having, or having publicly announced an intention to acquire, beneficial ownership of the Company's voting shares; or (b) an affiliate or associate of the Company that within the two prior years was the beneficial owner of 10% or more of the voting shares.

Amendments to the Certificate of Incorporation

Certain articles of the Certificate of Incorporation, including the articles containing the classified board and business combination provisions described above and the article governing amendments to the Certificate of Incorporation, require the affirmative vote of the holders of not less than 80% of the outstanding voting shares of the Company.

EXHIBIT 21.1

PRINCIPAL SUBSIDIARIES OF THE REGISTRANT

Alcor Chemie Vertriebs GmbH (Switzerland)
Innospec Active Chemicals LLC (USA)
Innospec Deutschland GmbH (Germany)
Innospec Finance Limited (U.K.)
Innospec France SA (France)
Innospec Fuel Specialties LLC (USA)
Innospec Holdings Limited (U.K.)
Innospec International Limited (U.K.)
Innospec Trading Limited (U.K.)
Innospec Developments Limited (U.K.)
Innospec Leuna GmbH (Germany)
Innospec Limited (U.K.)
Innospec Oil Field Chemicals LLC (USA)
Innospec International Holdings LLC (USA)
Independence Oilfield Chemicals LLC (USA)
Innospec Performance Chemicals Europe Limited (U.K.)
Innospec Performance Chemicals Spain S.L. (Spain)
Innospec Performance Chemicals Italia s.r.l (Italy)
Innospec Saint-Mihiel SAS (France)
Innospec Canada Limited (Canada)
Bachman Services, Inc. (USA)
BioSuite LLC (USA)
Innospec Strata Holdings, LLC (USA)
Strata Control Services, Inc. (USA)
Chemsil Silicones, Inc. (USA)
Chemtec Chemical Co. (USA)
Innospec Russ OOO (Russia)
Innospec Chemicals Beijing Limited (China)
Innospec Do Brasil Limited (Brazil)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-225518, 333-131687, 333-124139, 333-174050, 333-174439 and 333-42252) of Innospec Inc. of our report dated February 19, 2020 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Manchester, United Kingdom
February 19, 2020

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Innospec, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333-225518, 333-131687, 333-124139, 333-174050 and 333-174439) on Form S-8 of Innospec Inc. of our report dated February 20, 2019, with respect to the consolidated balance sheet of Innospec, Inc. as of December 31, 2018, the related consolidated statements of income, comprehensive income, accumulated other comprehensive loss, cash flows and equity for the year then ended, and the related notes, which report appears in the December 31, 2019 annual report on Form 10-K of Innospec, Inc.

KPMG LLP
Manchester, United Kingdom
February 19, 2020

Exhibit 23.3

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Innospec, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333-225518, 333-131687, 333-124139, 333-174050 and 333-174439) on Form S-8 of Innospec, Inc. of our report dated February 15, 2018, with respect to the consolidated statements of income, comprehensive income, accumulated other comprehensive loss, cash flows and equity of Innospec, Inc. for the year ended December 31, 2017, and the related notes, which report appears in the December 31, 2019 annual report on Form 10-K of Innospec, Inc.

KPMG Audit Plc
Manchester, United Kingdom
February 19, 2020

CERTIFICATION OF PATRICK S. WILLIAMS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Patrick S. Williams, certify that:

1. I have reviewed this annual report on Form 10-K of Innospec Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ PATRICK S. WILLIAMS

Patrick S. Williams
President and Chief Executive Officer
February 19, 2020

CERTIFICATION OF IAN P. CLEMINSON PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ian P. Cleminson, certify that:

1. I have reviewed this annual report on Form 10-K of Innospec Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ IAN P. CLEMINSON

Ian P. Cleminson
Executive Vice President and Chief Financial Officer
February 19, 2020

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Innospec Inc. (the "Company") for the period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Patrick S. Williams, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ PATRICK S. WILLIAMS

Patrick S. Williams
President and Chief Executive Officer
February 19, 2020

The foregoing certification is being furnished solely pursuant to 18 U.S.C. §1350 and is not being filed as part of this Report or as a separate disclosure document.

A signed original of this written statement required by 18 U.S.C. §1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission upon request.

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Innospec Inc. (the "Company") for the period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ian P. Cleminson, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ IAN P. CLEMINSON
Ian P. Cleminson
Executive Vice President and Chief Financial Officer
February 19, 2020

The foregoing certification is being furnished solely pursuant to 18 U.S.C. §1350 and is not being filed as part of this Report or as a separate disclosure document.

A signed original of this written statement required by 18 U.S.C. §1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission upon request.