

INNOSPEC INC.

FORM 10-K (Annual Report)

Filed 02/16/22 for the Period Ending 12/31/21

Address	8310 SOUTH VALLEY HIGHWAY SUITE 350 ENGLEWOOD, CO, 80112
Telephone	7203556451
CIK	0001054905
Symbol	IOSP
SIC Code	2800 - Chemicals and Allied Products
Industry	Specialty Chemicals
Sector	Basic Materials
Fiscal Year	12/31

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

ANNUALREPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2021

OR

TRANSITIONREPORT 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:

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

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

None

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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, 2021) was approximately \$1,245 million, based on the closing price of the common shares on the NASDAQ on June 30, 2021. 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 9, 2022, 24,773,694 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 4, 2022 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,” “could,” “believes,” “feels,” “plans,” “intends” 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, including, the effects of the COVID-19 pandemic, such as its duration, its unknown long-term economic impact, measures taken by governmental authorities to address it, the rise of variants, the effectiveness, acceptance and distributions of COVID-19 vaccines and the manner in which the pandemic may precipitate or exacerbate other risks and/or uncertainties, 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 Specialties business offers fuel additives to 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, completion and production chemicals which make exploration and production more effective, cost-efficient and environmentally friendly.

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 (ceased trading June 30, 2020)

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 has ceased trading and is no longer a reporting segment from July 1, 2020, as reported in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2020.

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 and 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, together with 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 chemical solutions for fracturing, stimulation and completion operations, products for oil and gas production which aid flow assurance and maintain asset integrity and products to prevent loss of mud in drilling operations.

This segment had been growing strongly in recent years until the COVID-19 pandemic adversely impacted customer demand in 2020. We expect increased customer activity to return as the global demand for fuel increases.

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

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 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 our competitors, 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 6% of Innospec's sales.

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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 for all our 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 expertise.

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. We believe we remain the world's only producer of tetra ethyl lead ("TEL") for use in aviation gasoline, which we market as our AvGas product line.

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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.

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 \$37.4 million, \$30.9 million and \$35.4 million in 2021, 2020 and 2019, respectively.

We believe that our proven technical capabilities provide us with a significant competitive advantage. Our Performance Chemicals business has launched significant new mild surfactants based on isethionate and taurate chemistry, which are well aligned with developing customer needs. In addition, the business has developed further formulations in emollients, silicones and surfactants for the personal care, homecare, agrochemical and metal extraction markets. Fuel Specialties has continued to innovate focused on bringing new technologies to market which reduce pollution and improve fuel economy, including detergents and cold flow improvers. In Oilfield Services, new technologies have been introduced to improve the hydrocarbon yield from customers’ operations and to protect assets, including friction modifiers, biocide formulations and additives to improve drilling muds.

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 asset retirement obligations is our Ellesmere Port manufacturing site in the United Kingdom. There are also asset retirement obligations and environmental remediation liabilities on a much smaller scale in respect of other manufacturing sites. We regularly review the future expected costs of remediation and

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the current estimate is reflected in Note 13 of the Notes to the Consolidated Financial Statements.

The European Union (“E.U.”) legislation known as the Registration, Evaluation and Authorization of Chemical Substances Regulations (“REACH”) requires most of the substances in the Company’s products to be registered with the European Chemicals Agency. Under this legislation the Company has to demonstrate that the substances it uses in its products are safe for use and appropriate for their intended purposes in the E.U.. During this registration and continual evaluation process, the Company incurs expense to test and register substances it manufactures or imports in the E.U..

Following the end of the Brexit transition process, on January 11, 2021 the United Kingdom (“U.K.”) government introduced U.K. REACH with the same registration requirements for substances produced in or imported into the U.K.. Furthermore, globally, similar regulatory regimes to the E.U. and U.K. REACH are also entering into force or are being proposed in several other countries. These registration based regulatory regimes will result in increasing test expenses and registration fees to ensure Innospec products remain compliant with the appropriate regulations and can continue to be sold in these markets.

Environmental, Social & Governance (“ESG”) and Corporate Social Responsibility Reporting

As part of our commitment to being open and transparent about our performance, our latest Responsible Business Report, which is our 2020 Report, was independently assured to assess its adherence to the globally recognized AA1000 Assurance Standard.

The Responsible Business Report, along with further information on our sustainability program and performance is available online in the “Corporate Social Responsibility” section of the Company’s website at <https://innospecsustainability.com>. Such information does not constitute part of, and is not incorporated by reference into this Annual Report on Form 10-K.

Employees and Human Capital Management

The Company had approximately 1900 employees in 24 countries as at December 31, 2021.

Human capital management is critical to Innospec’s ongoing business success, which requires investing in our people. Our aim is to create a highly engaged and motivated workforce where employees are inspired by leadership, engaged in purpose-driven, meaningful work and have opportunities for growth and development.

An effective approach to human capital management requires that we invest in talent, development, culture and employee engagement. We aim to create an environment where our employees are encouraged to make positive contributions and fulfill their potential.

The Board is also actively involved in reviewing and approving executive compensation, selections and succession plans so that we have leadership in place with the requisite skills

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and experience to deliver results the right way. The CEO periodically provides the Board with an assessment of senior executives that have potential as successor for the CEO position, as well as perspectives on potential candidates for other senior management positions.

Core Values & Culture

Responsible Growth through Innovation and Customer Service: Financial stability and growth are essential to maintain our goal of making a positive contribution towards a more sustainable future. Generating economic benefits for our employees, stockholders, and local communities, while encouraging ongoing innovation in our product portfolio alongside excellent customer service which will allow our business to be competitive and sustainable.

Caring for People: We strive to create a safe and caring culture where our employees are supported and encouraged to make positive contributions. Our continued success depends on keeping people safe, promoting a healthy lifestyle, protecting human rights, improving education, training and maintaining good relations with our neighbors.

Conserving & Protecting the Environment: We aim to use resources as efficiently as practicable and minimize the impact of our operations on the environment. We look to supply safe, sustainable products, designed to meet the needs of society now and in the future while minimizing their environmental impact.

Leading by Example: We understand that honest, ethical and transparent conduct is vital to our success and reputation. Every employee plays an essential part in complying with local and national laws, rules and regulations. We uphold a high standard of corporate and business integrity across all of our activities.

Employee Engagement

Attracting Talent: We believe our hardworking team of employees is our greatest asset. We employ approximately 1900 people across 24 countries and we believe that the skills, commitment and enthusiasm of our employees helps us to deliver long-term growth for investors.

Training: Across our sites, we provide local support and opportunities for the next generation of talent in our industry by offering a range of placements, internships, work experience and apprenticeships. We strive to attract and retain the best talent in a changing and competitive working environment.

As an organization, we are committed to making Innospec a great company to work for and we invest, as appropriate, in the development of our employees to meet this ambition.

Our employees are offered both internal and external training, where appropriate, to support their continued development and to meet the needs of our business. Where relevant, we support our employees' ongoing professional training and development to encourage their progression within our business.

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Pay and benefits: We offer what we believe are competitive reward and recognition programs, based on both business-wide and individual performance. Our packages have been designed to attract and retain the best employees, reward achievement and encourage our teams to deliver superior performance for our customers and our company.

In addition to our company-wide performance incentive plans, we encourage our employees to share in the long-term success of our company with incentive programs, such as our Global Sharesave Plan. This plan gives employees the opportunity to participate in a savings plan linked to an option to buy shares in Innospec at a discount and, therefore, benefit from any growth in the share price over the savings period. We also provide a range of other benefits in line with the market practice in each location we operate in, including insurance and pension arrangements.

Performance Management Framework: We conduct an annual performance management process across the organization. Together with their line managers, employees agree upon annual objectives, and, at the end of the year, review with their line manager their performance against those objectives and their overall performance. The results of each annual performance review affect performance bonus amounts, pay reviews and career advancement decisions.

Senior Leadership Communications and Transparency: We actively seek opportunities for regular engagement and communication by our CEO and other senior executives with our broader employee population. Communications are through a variety of means including written communications, webcasts and conference calls. For example, we hold a CEO Call at least once a year, during which the CEO and CFO discuss current issues and developments in the business, including a Q&A session answering questions raised by employees. The CEO Call is accessible to all employees across the Company. In addition to the CEO Calls, each financial quarter, following the quarterly financial results announcement, the CEO and CFO provide a written review of the financial results to all employees.

Diversity and Inclusion

Innospec aims to attract and retain the best people by ensuring that employment decisions are based on merit, performance, ability and contribution to the Company. As part of our Global HR Policy, our diversity and equal opportunities policy ensures that current and prospective employees receive equal opportunities irrespective of gender, sexual orientation, race, color, ethnic or national origin, marital status, age, disability, religion or belief.

Health and Safety

Objectives: We prioritize the safety of employees, communities and everyone involved in the manufacture, use or disposal of our products. We set high standards for process and occupational safety, which is managed by our network of Safety, Health and Environment (“SHE”) professionals throughout the business. SHE is a top priority for Innospec with our three core objectives being that:

- No-one gets hurt

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- We don't annoy our neighbors
- We leave only the gentlest footprints on our environment

Leadership: The Company periodically reviews the Corporate SHE structure and organization so that we have the optimum resources and correct approach. We strive to embed SHE in our culture by having leadership that comes from executive management. Our Responsible Care Executive Committee (known as RESPECT) comprises members of the senior leadership team and is led by the CEO. RESPECT is responsible for setting the group's SHE and Sustainability policies and objectives across the global business. It also monitors ongoing performance in these areas throughout the year. Through this structure, we have established a strong culture of safety within our organization. The RESPECT committee reports to the Board and conducts a major review of objectives and performance annually alongside quarterly interim reviews.

Training: Training is an essential part of our health and safety strategy. To minimize the risk of accident or injury, we give our employees the information they need, delivered effectively and at the appropriate time. Our ongoing training programs demonstrate our commitment to targeting zero accidents, making sure that safety is always front of mind and that we continually raise standards.

Every year, employees across our sites take part in a variety of site-specific training courses to enable them to be competent and safe in their roles.

Available Information

Our corporate website is www.innospec.com. We make available, free of charge, on or through this website 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 www.sec.gov that contains reports, proxy and information statements, and other information that we file electronically with the SEC.

The Company routinely posts important information for investors on its website (under Investors). The Company uses this website 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 Investors portion of the Company's website, 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.

Global Conditions

The COVID-19 pandemic has had, may continue to have, an adverse impact on our business, results of operations, financial position and cash flows.

We have been closely monitoring the impact of the COVID-19 pandemic on all aspects of our business, including how it has and will impact our customers, employees, supply chain, and distribution network. The effects of COVID-19 on the global economic environment have impacted, and may continue to impact, the results of the Company significantly, particularly with respect to reduced demand within our Fuel Specialties and Oilfield Services segments, and we are unable to predict the ultimate impact that it may have on our business, future results of operations, financial position or cash flows. The further extent to which our operations may be impacted by the COVID-19 pandemic will depend largely on future developments, which are highly uncertain and cannot be accurately predicted. These include, but are not limited to, the availability and productivity of our employees, the duration and severity of the pandemic; government restrictions on businesses and individuals; the impact of the pandemic on our customers' businesses and the resulting demand for our products; the impact on our suppliers and supply chain network; the impact on global economies, including the possibility of recession, depression and inflation, and the timing and rate of economic recovery; the development and acceptance of treatments and vaccines; the rise of new variants and the effect of treatments and vaccines on new variants; and the potential adverse effects on the financial markets.

The impact of COVID-19, as well as future pandemics or resurgences from new variants, may also exacerbate other risks discussed herein, any of which could have a material effect on us. This situation is changing rapidly and additional impacts that may occur are currently unknown.

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.

Economic, political and operational developments related to the departure of the United Kingdom from the European Union may adversely affect our business.

The U.K. ceased to be a member of the E.U. on January 31, 2020 (“Brexit”). During a prescribed period, certain transitional arrangements were in effect, such that the U.K. continued to be treated, in most respects, as if it were still a member of the E.U., and generally remained subject to E.U. law. On December 24, 2020, the E.U. and the U.K. reached an agreement in principle on the terms of certain agreements and declarations governing the ongoing relationship between the E.U. and the U.K., including the E.U.-U.K. Trade and Cooperation Agreement (the “Agreement”). The Agreement itself is limited in its scope to primarily the trade of goods, transport, energy links and fishing, and uncertainties remain relating to certain aspects of the U.K.’s future economic, trading and legal relationships with the E.U. and with other countries. The departure of the U.K. from the E.U. Single Market and Customs Union (as well as all E.U. policies and international agreements) has ended free movement of goods between the U.K. and the E.U., creating non-tariff and quota barriers (such as customs checks at the borders between the E.U. and the U.K.) to trade in goods, resulting in increased disruption and cost to businesses and requiring adjustments to integrated E.U.- U.K. supply chains. Moreover, the free movement of persons, services and capital between the U.K. and the E.U. ended on January 1, 2021, which has meant the loss for U.K. suppliers of services of their automatic right to offer such services across the E.U..

The actual or potential consequences of the Agreement, and the associated uncertainty, could adversely affect economic and market conditions in the U.K., in the E.U. and its member states and elsewhere, and could contribute to instability in global financial markets. Until the long-term level of disruption and additional cost to trading in goods and services and to the movement of persons and capital between the U.K. and the E.U. can be properly evaluated, it is not possible for us to determine the impact that the departure of the U.K. from the E.U. Single Market and Customs Union may have on us.

These developments may 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, consumer demand for premium personal care and cosmetic products, miles driven by passenger and commercial vehicles, legislation to control fuel quality, impact of alternative propulsion systems, 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.

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Demand for all of our products may be adversely impacted by the continuing impact of the COVID-19 pandemic which will continue to create uncertainty in the markets in 2022 and possibly beyond.

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.

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.

Business Operations

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, military actions and war, 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 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.

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.

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, been and will likely in the future be, subject to or targets of unauthorized or fraudulent access, including physical or electronic break-ins or unauthorized tampering, as well as attempted cyber and other security threats and other computer-related penetrations. Also, like other global companies, we have an increasing challenge of attracting and retaining highly qualified security personnel to assist us in combatting these security threats. The frequency and sophistication of such threats continue to increase and often become further heightened in connection with geopolitical tensions. 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.

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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. Our information technology costs may increase to ensure the appropriate level of cyber security as we continuously adapt to the changing technological environment.

Whilst we have limited 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 AvGas business

The sales of our AvGas product line for use in aviation fuel 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. The Federal Aviation Administration program (Piston Aviation Fuels Initiative) has been established to identify a replacement and candidate fuels are at an early pre-screening stage. This process is currently suspended and anticipated to restart in 2022. The timescale beyond this stage is unclear, but the full testing program will, of necessity, be long and comprehensive.

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 available alternative. 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.

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.

Industry Matters

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 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.

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.

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.

Legal, Regulatory and Tax Matters

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

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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.

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., the U.K., the E.U. 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 the amounts 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 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

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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.

Diverse chemical regulatory processes in different countries around the world might create complexity and additional cost. U.K. REACH, which was precipitated by the U.K.'s exit from the European Union, is one such example.

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 environmental 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 plant closure provision in our consolidated financial statements based on current known obligations, anticipated plans for sites or 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.

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.

Key Third Party Relationships

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 refiners, 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.

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.

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

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

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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.

Finance and Investment

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.

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

Approximately 43% of our common stock is held by four 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.

Our amended and restated by-laws designate specific Delaware courts as the exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.

Our amended and restated by-laws (the "By-laws") provide that, unless we consent in writing to the selection of an alternative forum, the appropriate court within the State of Delaware is

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the sole and exclusive forum, to the fullest extent provided by law, for the following types of actions or proceedings:

- any derivative action or proceeding brought on behalf of the Corporation,
- any action asserting a claim of breach of a fiduciary duty owed by any director, officer, other employee or stockholder of the Corporation to the Corporation or the Corporation's stockholders,
- any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law ("DGCL"), the Certificate of Incorporation, the By-laws, or as to which the DGCL confers jurisdiction upon the Court of Chancery of the State of Delaware,
- any action asserting a claim governed by the internal affairs doctrine, or
- any other internal corporate claim as defined in Section 115 of the DGCL.

This includes, to the extent permitted by the federal securities laws, lawsuits asserting both state law claims and claims under the federal securities laws.

This forum selection provision in the By-laws may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us. It is also possible that, notwithstanding the forum selection clause included in the By-laws, a court could rule that such a provision is inapplicable or unenforceable.

Application of the choice of forum provision may be limited in some instances by law. Section 27 of the Securities Exchange Act of 1934 ("Exchange Act") provides for exclusive federal court jurisdiction over Exchange Act claims. Accordingly, to the extent the exclusive forum provision is held to cover a shareholder derivative action asserting claims under the Exchange Act, such claims could not be brought in the Delaware Court of Chancery and would instead be within the jurisdiction of the federal district court for the District of Delaware. Section 22 of the Securities Act of 1933 ("Securities Act") creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. Our stockholders will not be deemed by operation of our choice of forum provision to have waived our compliance with the federal securities laws and the regulations promulgated thereunder. The selection of legal jurisdiction for litigation claims may impact the outcome of legal proceedings which could impact 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

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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.

Item 1B Unresolved Staff Comments

None.

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:

<i>Location</i>	<i>Reporting Segment</i>	<i>Operations</i>
Englewood, Colorado ⁽¹⁾	Fuel Specialties	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	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

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<i>Location</i>	<i>Reporting Segment</i>	<i>Operations</i>
Pleasanton, Texas	Oilfield Services	Sales/Manufacturing/Administration
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

⁽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.

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 8, 2022 there were 709 registered holders of the common stock.

Unregistered Sales of Equity Securities

There were no unregistered sales of equity securities during the fourth quarter of 2021.

Issuer Purchases of Equity Securities

On February 15, 2022 the Company announced a share repurchase program for the repurchase of up to \$50 million of Innospec’s common stock over a three-year period commencing on February 16, 2022.

During 2021 the Company made no open market repurchases of our common stock.

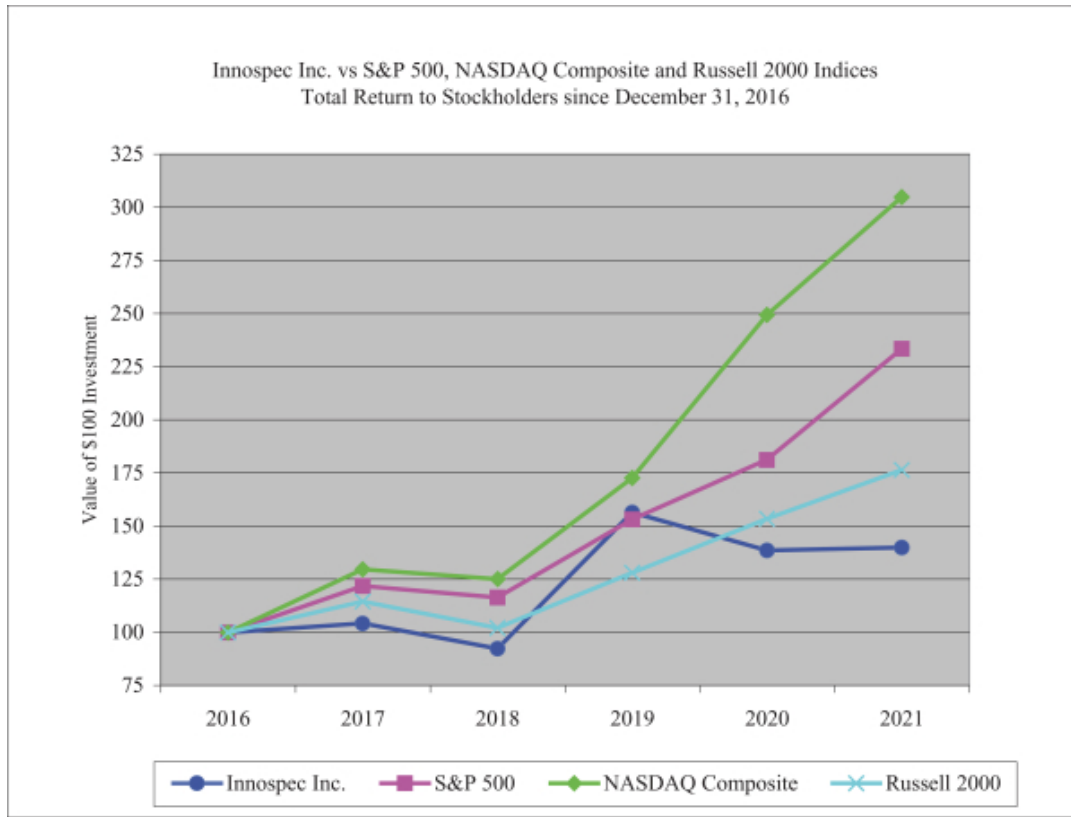
During the quarter ended December 31, 2021, the Company purchased its common stock in connection with the exercising of stock options by employees. The following table provides information about our repurchases of equity securities in the period.

Issuer Purchases of Equity Securities

<u>Period</u>	<u>Total number of shares purchased</u>	<u>Average price paid per share</u>
November 1, 2021 through November 30, 2021	485	\$ 92.23
Total	<u>485</u>	<u>\$ 92.23</u>

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, 2016, assuming a \$100 investment and the re-investment of any dividends thereafter. Historical stock price performance should not be relied upon as an indication of future stock price performance.



Value of \$100 Investment made December 31, 2016*

	2016	2017	2018	2019	2020	2021
Innospec Inc.	\$ 100.00	\$ 104.19	\$ 92.46	\$ 156.38	\$ 138.74	\$ 139.92
S&P 500 Index	100.00	121.83	116.49	153.17	181.35	233.41
NASDAQ Composite Index	100.00	129.64	124.98	172.81	249.52	304.85
Russell 2000 Index	\$ 100.00	\$ 114.65	\$ 102.02	\$ 128.06	\$ 153.62	\$ 176.38

* Excludes purchase commissions.

Item 6 **[Reserved]**

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

Our recovery during 2021 following a COVID-19 impacted 2020 was strong with all businesses achieving significant sales growth. Our business teams navigated tight supply-chain, labor and inflationary challenges to deliver record sales in the final quarter and the full year for Performance Chemicals and Fuel Specialties.

Performance Chemicals was extremely resilient during the pandemic, and performance has accelerated in 2021. We believe that the long-term sustainability and consumer trends driving this business have strengthened, and we are allocating additional organic growth capital to support the anticipated increase in demand from our customers.

Fuel Specialties recovered in-line with our expectations during 2021, although as anticipated, there currently remain some demand gaps versus 2019. As demand continues to recover towards the pre-pandemic levels, and cost inflation moderates, we expect both continued revenue growth and the return of gross margins to our target range.

In Oilfield Services, which has been our most impacted business during the pandemic, our sales, operating income and gross margins have grown for each sequential quarter during 2021. Overall activity levels and market conditions continued to improve in all the markets of our oilfield business in 2021. We anticipate opportunities for significant additional operating leverage, operating income growth and gross margin expansion into 2022.

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.

Plant Closure Provisions

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

Plant closure provisions at December 31, 2021 amounted to \$56.5 million and relate principally to our Ellesmere Port site in the United Kingdom. We recognize environmental remediation liabilities when they are probable and costs can be reasonably estimated, and asset retirement obligations when there is a legal requirement or Company promise, and the costs

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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 plant closure provisions are reasonable, they are subjective estimates 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., the U.K., the E.U. 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 the liabilities recorded in our financial statements, 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 11 of the Notes to the Consolidated Financial Statements.

Pensions

The Company maintains a defined benefit pension plan covering certain current and former employees in the United Kingdom. The United Kingdom plan is closed to future service accrual but has a large number of deferred and current pensioners. The Company also has other smaller pension arrangements in the U.S. and overseas.

Movements in the United Kingdom's 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 at December 31, 2021 by approximately \$22 million and the net pension credit for 2022 would change by approximately \$1.4 million.

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A 0.25% change in the level of price inflation assumption would change the PBO at December 31, 2021 by approximately \$14 million and the net pension credit for 2022 by approximately \$0.3 million.

Further information is provided in Note 10 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, 2021 we had \$364.3 million of goodwill relating to our Fuel Specialties, Performance Chemicals and Oilfield Services segments. Our step zero impairment review at December 31, 2021 indicated the fair value of the reporting unit is, more likely than not, higher than the carrying value, no step one impairment review was required to be performed.

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

As at December 31, 2021 we had \$214.4 million of property, plant and equipment and \$57.5 million of other intangible assets (net of depreciation and amortization, respectively), that are discussed in Notes 6 and 9 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.

Impact of COVID-19 Pandemic and Current Economic Environment

The Company's results have been adversely impacted in 2021, due to the COVID-19 pandemic and the global economic environment, although results have improved throughout the year.

Fuel Specialties have been impacted by reduced demand stemming from the reduction in freight transport and passenger miles and the widespread grounding of aircraft for a large part of the year. We have seen some improvement through 2021 as travel has begun to increase, and demand has largely returned to the pre-COVID-19 levels. We expect demand will continue to improve in 2022, to the extent global economic activity recovers, subject to the potential for future lockdowns or restrictions around the world related to the spread of new COVID variants.

Performance Chemicals have experienced little overall impact from the pandemic as increased demand for certain products linked to health, hygiene and cleaning outweighed some lost revenues linked to the short-term shutdown of some of our customers manufacturing facilities.

Oilfield Services have been heavily impacted by the reduction in oil exploration and production as the wider industry reacts to the reduction in demand. We have seen some improvement in 2021 from increasing demand for production products but demand remains below expected levels for oil exploration products and customers have reduced their capital expenditure on exploration. We do not know how long this downturn will last and the rate of recovery will depend heavily on the rate and extent to which the government restrictions on movement are lifted and not re-imposed.

Our manufacturing facilities have continued to operate with only some minor interruption, and we expect them to continue to do so. We have implemented flexible working, including working from home for our employees where possible, in line with advice and rules in each of the jurisdictions in which we operate. Additional costs have been incurred to ensure our manufacturing and administrative facilities are COVID-safe for our employees. While these costs have not been significant to date there may be increased costs in the future, if further safety restrictions are required. Raw material sourcing has been impacted and we expect that may continue into 2022. Logistics are operating with some delays but our products are currently being delivered to our customers.

We believe that our financial position remains strong. We expect to have sufficient access to capital if needed, including our \$250 million revolving credit facility we entered into in September 2019, and we do not anticipate any issues with meeting the covenants for our debt agreements. We have previously extended this facility by a further twelve months until September 2024, during the third quarter of 2020. Our major capital projects are continuing to progress as planned.

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As we operate in the chemical industry, we continue to be focused on protecting the health and safety of our employees and have procedures in place at each of our operating facilities to help ensure their well-being.

We do not know how long the pandemic and current economic environment will continue and while we have made estimates as to potential impacts on our financial position and operations, the ultimate impact on our business will depend on many factors which are very difficult to predict with certainty and substantially beyond our control.

RESULTS OF OPERATIONS

The following table provides operating income by reporting segment:

<u>(in millions)</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net sales:			
Fuel Specialties	\$ 618.3	\$ 512.7	\$ 583.7
Performance Chemicals	525.3	425.4	428.7
Oilfield Services	339.8	255.0	479.9
Octane Additives	—	—	21.0
	<u>\$1,483.4</u>	<u>\$1,193.1</u>	<u>\$1,513.3</u>
Gross profit:			
Fuel Specialties	\$ 193.2	\$ 160.3	\$ 204.5
Performance Chemicals	125.2	103.8	100.1
Oilfield Services	116.5	80.8	159.9
Octane Additives	—	(2.2)	1.7
	<u>\$ 434.9</u>	<u>\$ 342.7</u>	<u>\$ 466.2</u>
Operating income:			
Fuel Specialties	\$ 104.6	\$ 84.5	\$ 116.6
Performance Chemicals	70.9	54.8	48.7
Oilfield Services	10.4	(9.5)	39.7
Octane Additives	—	(2.8)	(0.7)
Corporate costs	(55.6)	(52.2)	(54.4)
Restructuring charge	—	(21.3)	—
Impairment of intangible assets	—	(19.8)	—
Profit on disposal	1.8	—	—
Total operating income	<u>\$ 132.1</u>	<u>\$ 33.7</u>	<u>\$ 149.9</u>
Other income, net	\$ 3.8	\$ 7.8	\$ 5.3
Interest expense, net	(1.5)	(1.8)	(4.8)
Income before income taxes	134.4	39.7	150.4
Income taxes	(41.3)	(11.0)	(38.2)
Net income	<u>\$ 93.1</u>	<u>\$ 28.7</u>	<u>\$ 112.2</u>

Results of Operations – Fiscal 2021 compared to Fiscal 2020:

(in millions, except ratios)	2021	2020	Change	
Net sales:				
Fuel Specialties	\$ 618.3	\$ 512.7	\$105.6	+21%
Performance Chemicals	525.3	425.4	99.9	+23%
Oilfield Services	339.8	255.0	84.8	+33%
Octane Additives	—	—	—	n/a
	<u>\$1,483.4</u>	<u>\$1,193.1</u>	<u>\$290.3</u>	+24%
Gross profit:				
Fuel Specialties	\$ 193.2	\$ 160.3	32.9	+21%
Performance Chemicals	125.2	103.8	21.4	+21%
Oilfield Services	116.5	80.8	35.7	+44%
Octane Additives	—	(2.2)	2.2	-100%
	<u>\$ 434.9</u>	<u>\$ 342.7</u>	<u>\$ 92.2</u>	+27%
Gross margin (%):				
Fuel Specialties	31.2	31.3	-0.1	
Performance Chemicals	23.8	24.4	-0.6	
Oilfield Services	34.3	31.7	+2.6	
Aggregate	29.3	28.7	+0.6	
Operating expenses:				
Fuel Specialties	\$ (88.6)	\$ (75.8)	\$ (12.8)	+17%
Performance Chemicals	(54.3)	(49.0)	(5.3)	+11%
Oilfield Services	(106.1)	(90.3)	(15.8)	+17%
Octane Additives	—	(0.6)	0.6	-100%
Corporate costs	(55.6)	(52.2)	(3.4)	+7%
Restructuring charge	—	(21.3)	21.3	-100%
Impairment of intangible assets	—	(19.8)	19.8	-100%
Profit on disposal	1.8	—	1.8	+100%
	<u>\$ (302.8)</u>	<u>\$ (309.0)</u>	<u>\$ 6.2</u>	+2%

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:

<u>Change (%)</u>	<u>Americas</u>	<u>EMEA</u>	<u>ASPAC</u>	<u>AvGas</u>	<u>Total</u>
Volume	+22	+6	+4	-32	+9
Price and product mix	+5	+8	+7	+36	+9
Exchange rates	—	+7	+1	—	+3
	<u>+27</u>	<u>+21</u>	<u>+12</u>	<u>+4</u>	<u>+21</u>

Volumes in all our regions have increased year over year, as the global demand for refined fuel products has returned to near the pre-pandemic levels. Price and product mix was favorable in all our regions due to increased sales of higher margin products and increased raw materials pricing being passed on through higher selling prices. AvGas volumes were lower than the prior year due to variations in the demand from customers, being offset by a favorable price and product mix with a higher proportion of sales to higher margin customers. EMEA and ASPAC benefitted from favorable exchange rate movements year over year, due to a strengthening of the British pound sterling and the European Union euro against the U.S. dollar.

Gross margin: the year over year decrease of 0.1 percentage points was impacted by the time lag for passing higher raw material costs through to selling prices in the second half of the year.

Operating expenses: the year over year increase of \$12.8 million was due to higher selling expenses to support the increased sales, together with higher research and development costs and higher personnel-related expenses including higher share-based compensation accruals and higher performance related remuneration 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:

<u>Change (%)</u>	<u>Americas</u>	<u>EMEA</u>	<u>ASPAC</u>	<u>Total</u>
Volume	+33	+1	-11	+10
Price and product mix	+12	+10	+8	+10
Exchange rates	—	+4	+2	+3
	<u>+45</u>	<u>+15</u>	<u>-1</u>	<u>+23</u>

Higher volumes for the Americas were driven by increased demand for our personal care products. Volumes in EMEA were favorable including the continued recovery of demand across several markets which have been adversely impacted by the pandemic. Lower volumes

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in ASPAC were primarily driven by a reduction in demand for our personal care products. All our regions benefitted from a favorable price and product mix due to increased sales of higher priced products and increased raw materials pricing being passed on through higher selling prices. EMEA and ASPAC benefitted from favorable exchange rate movements year over year, due to a strengthening of the British pound sterling and the European Union euro against the U.S. dollar.

Gross margin: the year over year decrease of 0.6 percentage points was due to adverse manufacturing variances as activity slowed over the holiday season in the fourth quarter, together with some one-off provisions.

Operating expenses: the year over year increase of \$5.3 million was due to increased spending on research and development, an increase in the allowance for doubtful debts and higher personnel-related expenses including higher share-based compensation accruals and higher performance related remuneration accruals.

Oilfield Services

Net sales: have increased year over year by \$84.8 million, or 33 percent, with the majority of our customer activity continuing to be in the Americas region. Customer demand has increased throughout the year as the pandemic recovery has continued. We expect to see continued growth in customer demand into 2022.

Gross margin: the year over year increase of 2.6 percentage points was due to a favorable sales mix compared to a prior year comparative which was adversely impacted by the pandemic, while management have successfully maintained prices in a competitive market.

Operating expenses: the year over year increase of \$15.8 million was driven by our continuing customer service flexibility which allows us to support the increase in demand as the pandemic recovery has continued, together with higher personnel-related expenses including higher share-based compensation accruals and higher performance related remuneration accruals.

Octane Additives

The Octane Additives business ceased trading and is no longer a reporting segment from July 1, 2020 as the production of TEL for use in motor gasoline has finished. Legacy costs related to these operations have now been recorded as operating expenses within corporate costs.

Prior to the business ceasing trade there were no sales in 2020, together with a gross loss of \$2.2 million and operating expenses of \$0.6 million.

Other Income Statement Captions

Corporate costs: the year over year increase of \$3.4 million was driven by higher personnel-related expenses including higher share-based compensation accruals and higher performance

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related remuneration accruals, together with the adverse impact of the foreign currency translation of our costs at Ellesmere Port in the United Kingdom due to a strengthening of the British pound sterling against the U.S. dollar.

Profit on disposal: there has been a profit on disposal of assets for \$1.8 million in 2021, which principally relates to the sale of land within our oilfield services business in the U.S..

Other net income/(expense): for 2021 and 2020, includes the following:

<u>(in millions)</u>	<u>2021</u>	<u>2020</u>	<u>Change</u>
United Kingdom pension credit	\$ 6.5	\$ 6.2	\$ 0.3
German pension charge	(1.1)	(0.9)	(0.2)
Foreign exchange gains/(losses) on translation	(2.6)	4.0	(6.6)
Foreign currency forward contracts gains/(losses)	1.0	(1.5)	2.5
	<u>\$ 3.8</u>	<u>\$ 7.8</u>	<u>\$ (4.0)</u>

Interest expense, net: was \$1.5 million in 2021 compared to \$1.8 million in 2020, driven by the repayment in full of our revolving credit facility in the second half of 2020. Interest expense includes a commitment fee to retain the Company's revolving credit facility for the term of the agreement.

Income taxes: The effective tax rate was 30.7% and 27.7% in 2021 and 2020, respectively. The adjusted effective tax rate, once adjusted for the items set out in the following table, was 22.7% in 2021 compared with 23.5% in 2020. 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 performance of the Company's operations and for planning and forecasting in subsequent periods.

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(in millions, except ratios)	2021	2020
Income before income taxes	\$134.4	\$39.7
Adjustment for stock compensation	4.4	5.8
Indemnification asset regarding tax audit	0.1	0.2
Restructuring charge	—	21.3
Impairment of acquired intangible assets	—	19.8
Legacy cost of closed operations	3.4	2.5
Acquisition costs	0.8	4.2
Adjusted income before income taxes	<u>\$143.1</u>	<u>\$93.5</u>
Income taxes	\$ 41.3	\$11.0
Adjustment of income tax provisions	(0.5)	0.7
Tax on stock compensation	1.3	1.7
Tax on restructuring charge	—	4.3
Tax on impairment of acquired intangible asset	—	4.6
Tax loss / (gain) on distribution	(0.2)	0.4
Change in U.K. statutory tax rate	(7.3)	(2.7)
Tax on legacy cost of closed operations	(1.5)	0.5
Tax on acquisition costs	0.2	0.9
Other discrete items	(0.8)	0.6
Adjusted income taxes	<u>\$ 32.5</u>	<u>\$22.0</u>
GAAP effective tax rate	<u>30.7%</u>	<u>27.7%</u>
Adjusted effective tax rate	<u>22.7%</u>	<u>23.5%</u>

The most significant factors impacting on our effective tax rate in 2021 are explained in Note 11 of the Notes to the Consolidated Financial Statements.

Results of Operations – Fiscal 2020 compared to Fiscal 2019:

(in millions, except ratios)	2020	2019	Change	
Net sales:				
Fuel Specialties	\$ 512.7	\$ 583.7	\$ (71.0)	-12%
Performance Chemicals	425.4	428.7	(3.3)	-1%
Oilfield Services	255.0	479.9	(224.9)	-47%
Octane Additives	—	21.0	(21.0)	-100%
	<u>\$1,193.1</u>	<u>\$1,513.3</u>	<u>\$(320.2)</u>	-21%
Gross profit:				
Fuel Specialties	\$ 160.3	\$ 204.5	(44.2)	-22%
Performance Chemicals	103.8	100.1	3.7	+4%
Oilfield Services	80.8	159.9	(79.1)	-49%
Octane Additives	(2.2)	1.7	(3.9)	-229%
	<u>\$ 342.7</u>	<u>\$ 466.2</u>	<u>(123.5)</u>	-26%
Gross margin (%):				
Fuel Specialties	31.3	35.0	-3.7	
Performance Chemicals	24.4	23.3	1.1	
Oilfield Services	31.7	33.3	-1.6	
Octane Additives	—	8.1	-8.1	
Aggregate	28.7	30.8	-2.1	
Operating expenses:				
Fuel Specialties	\$ (75.8)	\$ (87.9)	\$ 12.1	-14%
Performance Chemicals	(49.0)	(51.4)	2.4	-5%
Oilfield Services	(90.3)	(120.2)	29.9	-25%
Octane Additives	(0.6)	(2.4)	1.8	-75%
Corporate costs	(52.2)	(54.4)	2.2	-4%
Restructuring charge	(21.3)	—	(21.3)	n/a
Impairment of intangible assets	(19.8)	—	(19.8)	n/a
	<u>\$ (309.0)</u>	<u>\$ (316.3)</u>	<u>\$ 7.3</u>	-2%

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:

<u>Change (%)</u>	<u>Americas</u>	<u>EMEA</u>	<u>ASPAC</u>	<u>AvGas</u>	<u>Total</u>
Volume	-7	-8	-11	+11	-7
Price and product mix	-1	-7	-10	-19	-6
Exchange rates	—	+2	—	—	+1
	<u>-8</u>	<u>-13</u>	<u>-21</u>	<u>-8</u>	<u>-12</u>

Volumes in all our regions have suffered from the adverse impact of the COVID-19 pandemic, which has reduced the global demand for fuel additive products. During the second half of 2020, we have seen customer demand recovering steadily as lockdowns in countries around the world have been eased. However, the reintroduction of lockdowns for European countries in January 2021 could slow the return of customer demand to the pre-pandemic level. Price and product mix in all our regions was adverse due to lower sales of our higher margin products. AvGas volumes were higher than the prior year due to variations in the demand from customers, being offset by an adverse price and product mix. EMEA benefitted from favorable exchange rate movements year over year, due to a strengthening of the British pound sterling and the European Union euro against the U.S. dollar.

Gross margin: the year over year decrease of 3.7 percentage points was driven by the impact of the COVID-19 pandemic reducing demand for our higher margin products, together with adverse raw material costs and higher provisions for slow moving inventory.

Operating expenses: the year over year decrease of \$12.1 million was due to cost savings as a result of the COVID-19 pandemic, including lower travel and entertainment costs, together with lower personnel related performance-based remuneration due to a decrease in share-based compensation accruals linked to the Innospec share price.

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:

<u>Change (%)</u>	<u>Americas</u>	<u>EMEA</u>	<u>ASPAC</u>	<u>Total</u>
Volume	+13	-1	+14	+4
Price and product mix	-12	-4	+3	-6
Exchange rates	—	+2	+1	+1
	<u>+1</u>	<u>-3</u>	<u>+18</u>	<u>-1</u>

Higher volumes in the Americas and ASPAC were driven by increased demand for our personal care and home care products. Volumes were lower in EMEA primarily due to lower

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demand for home care products. The Americas and EMEA suffered an adverse price and product mix due to increased sales of lower priced products due largely to lower raw material costs. ASPAC benefitted from a favorable price and product mix due to increased sales of higher priced products. EMEA and ASPAC benefitted from favorable exchange rate movements year over year, due to a strengthening of the British pound sterling and the European Union euro against the U.S. dollar.

Gross margin: the year over year increase of 1.1 percentage points was due to a richer sales mix, the continued benefit of margin improvement projects and the timing of pricing movements for certain raw materials.

Operating expenses: the year over year decrease of \$2.4 million was driven by lower personnel related performance-based remuneration due to a decrease in the share-based compensation accruals linked to the Innospec share price, together with cost savings as a result of the COVID-19 pandemic, including lower travel and entertainment costs.

Oilfield Services

Net sales: the year over year decrease of \$224.9 million, or 47 percent, was primarily due to a collapse of customer activity for the U.S. onshore market, as a result of the COVID-19 pandemic reducing world-wide demand together with the depressed price of crude oil. The previously expected recovery in the U.S. completions market has been delayed, however the Company has seen an improvement in the demand for crude oil in the second half of 2020 leading to higher sales for our production and drag reducing agent products.

Gross margin: the year over year decrease of 1.6 percentage points was primarily due to significant inventory adjustments in the second quarter of 2020 as a result of the collapse in demand, being partly offset by margin improvements in the second half of the year due to a favorable sales mix and management cost control initiatives.

Operating expenses: the year over year decrease of \$29.9 million was driven by the right-sizing of the operations to adjust for the reduction in demand caused by the COVID-19 pandemic, together with lower accruals for long-term performance-based incentive plans due to a decrease in share-based compensation accruals linked to the Innospec share price.

Octane Additives

The Octane Additives business ceased trading and is no longer a reporting segment from July 1, 2020 as the production of TEL for use in motor gasoline has finished. Legacy costs related to these operations have now been recorded as operating expenses within corporate costs.

Prior to July 1, 2020 net sales were nil in 2020 compared to \$21.0 million in the prior year; the gross loss was \$2.2 million in 2020 compared to a \$1.7 million gross profit in the prior year; operating expenses were \$0.6 million in 2020 compared to \$2.4 million in the prior year.

Other Income Statement Captions

Corporate costs: the year over year decrease of \$2.2 million was driven by lower accruals for long-term performance-based incentive plans due to the impact of the COVID-19 pandemic on the group's profit performance together with a decrease in the share-based compensation accruals linked to the Innospec share price. There has also been a reduction in travel and entertainment expenses resulting from the COVID-19 pandemic restrictions on local and international travel. The decrease in costs was partly offset by \$4.2 million of acquisition related costs in 2020; the inclusion of legacy costs related to the now closed Octane Additives segment of \$2.5 million; and higher spending on information technology following the network security incident in the second quarter of 2019.

Restructuring charge: was \$21.3 million related to the cessation of production and sales of TEL for use in motor gasoline. See Note 5 of the Notes to the Condensed Consolidated Financial Statements for further information.

Impairment of intangible assets: was \$19.8 million related to acquired intangible assets in our Oilfield Services segment. See Note 9 of the Notes to the Condensed Consolidated Financial Statements for further information.

Other net income/(expense): for 2020 and 2019, includes the following:

<u>(in millions)</u>	<u>2020</u>	<u>2019</u>	<u>Change</u>
United Kingdom pension credit	\$ 6.2	\$ 7.7	\$ (1.5)
German pension charge	(0.9)	(0.5)	(0.4)
Foreign exchange gains/(losses) on translation	4.0	(1.3)	5.3
Foreign currency forward contracts losses	(1.5)	(0.6)	(0.9)
	<u>\$ 7.8</u>	<u>\$ 5.3</u>	<u>\$ 2.5</u>

Interest expense, net: was \$1.8 million for 2020 compared to \$4.8 million in the prior year, driven by lower average net debt as the business generated cash inflows.

Income taxes: The effective tax rate was 27.7% and 25.4% in 2020 and 2019, respectively. The adjusted effective tax rate, once adjusted for the items set out in the following table, was 23.5% in 2020 compared with 22.6% in 2019. 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 performance of the Company's operations and for planning and forecasting in subsequent periods.

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(in millions, except ratios)	2020	2019
Income before income taxes	\$39.7	\$150.4
Adjustment for stock compensation	5.8	6.6
Indemnification asset regarding tax audit	0.2	(1.6)
Restructuring charge	21.3	—
Impairment of acquired intangible assets	19.8	—
Legacy cost of closed operations	2.5	—
Acquisition costs	4.2	—
Adjusted income before income taxes	<u>\$93.5</u>	<u>\$155.4</u>
Income taxes	\$11.0	\$ 38.2
Adjustment of income tax provisions	0.7	(2.5)
Tax on stock compensation	1.7	0.9
Tax on restructuring charge	4.3	—
Tax on impairment of acquired intangible asset	4.6	—
Tax on site closure provision	—	(0.7)
Tax loss on distribution	0.4	1.2
Change in U.K. statutory tax rate	(2.7)	—
Tax on legacy cost of closed operations	0.5	—
Tax on acquisition costs	0.9	—
Other discrete items	0.6	(2.0)
	<u>\$22.0</u>	<u>\$ 35.1</u>
GAAP effective tax rate	<u>27.7%</u>	<u>25.4%</u>
Adjusted effective tax rate	<u>23.5%</u>	<u>22.6%</u>

The most significant factors impacting our adjusted effective tax rate in 2020 are the restructuring charge relating to the cessation of production and sales of TEL for use in motor gasoline, the impairment of acquired intangible assets in our Oilfield Services segment, and an increase in the statutory income tax rate in the U.K..

The most significant factor impacting our adjusted effective tax rate in 2019 relates to the adjustment of income tax provisions. During 2019, the Company recorded additional tax and interest arising as a consequence of the tax audit into Innospec Performance Chemicals Italia Srl. This item had a negative impact on the effective tax rate, which has been subsequently reversed in determining the adjusted effective tax rate. We note that any finally determined tax liabilities would be reimbursed by the previous owner under the terms of the sale and purchase agreement.

LIQUIDITY AND FINANCIAL CONDITION

Working Capital

In 2021 our working capital increased by \$77.7 million, while our adjusted working capital increased by \$37.1 million. The difference is primarily due to the exclusion of the increase in our cash and cash equivalents, together with the timing of prepaid income taxes.

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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)	2021	2020
Total current assets	\$ 728.1	\$ 566.2
Total current liabilities	(336.6)	(252.4)
Working capital	391.5	313.8
Less cash and cash equivalents	(141.8)	(105.3)
Less prepaid income taxes	(5.8)	(4.2)
Less other current assets	(0.4)	(0.4)
Add back current portion of accrued income taxes	3.7	5.5
Add back current portion of finance leases	0.1	0.5
Add back current portion of plant closure provisions	5.2	6.6
Add back current portion of operating lease liabilities	12.4	11.3
Adjusted working capital	<u>\$ 264.9</u>	<u>\$ 227.8</u>

The movements in our adjusted working capital are explained as follows:

We had a \$63.1 million increase in trade and other accounts receivable primarily driven by increased trading activity across our reporting segments, partly offset by improved debtor collections in our oilfield business. Days' sales outstanding in our Fuel Specialties segment increased from 52 days to 53 days; increased in our Performance Chemicals segment from 60 days to 64 days; and decreased from 64 days to 52 days in our Oilfield Services segment.

We had a \$57.6 million increase in inventories, net of a \$6.0 million increase in allowances, as we managed inventory levels in anticipation of the increase in demand which we are expecting in 2022, while managing the risk of potential supply chain disruption for certain key raw materials. Days' sales in inventory in our Fuel Specialties segment decreased from 116 days to 108 days; increased in our Performance Chemicals segment from 58 days to 59 days; and decreased from 95 days to 76 days in our Oilfield Services segment.

Prepaid expenses increased \$3.1 million, from \$14.9 million to \$18.0 million due to the timing of certain invoicing and higher annual insurance prepayments.

We had a \$86.7 million increase in accounts payable and accrued liabilities primarily due to increased activity across all our reporting segments as the pandemic recovery has continued. Creditor days (including goods received not invoiced) in our Fuel Specialties segment increased from 34 days to 50 days; decreased in our Performance Chemicals segment from 48 days to 47 days; and decreased from 53 days to 48 days in our Oilfield Services segment.

Operating Cash Flows

We generated cash from operating activities of \$93.2 million in 2021 compared to cash inflows of \$145.9 million in 2020. The reduction in cash generated from operating activities was primarily related to the increase in working capital as the pandemic recovery has continued, partly offset by the timing of payments for income taxes.

Cash

At December 31, 2021 and 2020, we had cash and cash equivalents of \$141.8 million and \$105.3 million, respectively, of which \$55.1 million and \$52.5 million, respectively, were held by non-U.S. subsidiaries principally in the United Kingdom.

The increase in cash and cash equivalents in 2021 of \$36.5 million was primarily driven by the cash inflows from operating activities, including the impact of our increased working capital levels, being partly offset by our investments in capital projects and the payment of our semi-annual dividends.

Debt

As at December 31, 2021 and December 31, 2020 the Company had repaid all of its borrowings under the revolving credit facility and as a result, the related deferred finance costs of \$1.0 million (December 31, 2020 – \$1.3 million) are now included within other current and non-current assets at the balance sheet date.

On September 16, 2020, Innospec and certain of its subsidiaries agreed to extend the term of its revolving credit facility, as described below, until September 25, 2024. The costs of \$0.3 million for extending the term have been capitalized on the balance sheet, which are being amortized over the expected life of the facility.

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.

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.

The 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.

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The revolving 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, 2021, we had no debt outstanding under the revolving credit facility and \$0.1 million of obligations under finance leases relating to certain fixed assets within our Fuel Specialties and Oilfield Services segments.

At December 31, 2021, our maturity profile of long-term debt and finance leases is set out below:

(in millions)	
2022	\$ 0.1
2023	—
2024	—
2025	—
Total debt	0.1
Current portion of long-term debt and finance leases	(0.1)
Long-term debt and finance leases, net of current portion	<u>\$—</u>

Contractual Commitments

The following represents contractual commitments at December 31, 2021 and the effect of those obligations on future cash flows:

(in millions)	Total	2022	2023- 24	2025- 26	Thereafter
<u>Operating activities</u>					
Plant closure provisions	56.5	5.8	9.6	6.1	35.0
Operating lease liabilities	35.5	12.4	14.7	6.7	1.7
Operating lease future commitments	8.8	1.8	3.6	3.0	0.4
Interest payments on debt	2.5	0.9	0.9	0.7	—
<u>Investing activities</u>					
Capital commitments	23.5	21.5	2.0	—	—
<u>Financing activities</u>					
Finance leases	0.1	0.1	—	—	—
Total debt	<u>\$126.9</u>	<u>\$42.5</u>	<u>\$30.8</u>	<u>\$16.5</u>	<u>\$ 37.1</u>

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Operating activities

Plant closure provisions represent those cash flows that the Company is currently obligated to pay or is expected to pay in respect of decontamination and environmental remediation activities, principally relating to asset retirement obligations at current and former facilities.

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.

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 11 of the Notes to the Consolidated Financial Statements.

Investing activities

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

Financing activities

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

Outlook

Entering into 2022, we expect tight supply chains and elevated cost inflation to persist. We believe these conditions continue to be near-term risks which have the potential to adversely impact our businesses. Technology, customer service, pricing and gross margin management are in sharp focus, and we are cautiously optimistic that the supply-chain and inflation conditions which have dominated recent quarters will moderate in 2022, and we feel well positioned for continued growth in all our businesses.

We plan to continue our investment in R&D to improve our products and technology. Our leading chemistries and formulation expertise combined with our culture of highly responsive customer service make us a unique and nimble partner to our customers. We believe that we have a solid foundation for future technology-led, organic growth.

Our strong balance sheet gives us the flexibility to move in parallel on all of our capital allocation priorities which include funding our \$70 million growth investment plan in Performance Chemicals, pursuing complimentary acquisitions that may arise and continuing

our track-record of increasing capital returns to shareholders through dividends and our newly announced \$50 million share repurchase program.

Environmental Matters and Plant Closures

Under certain environmental laws the Company is responsible for the environmental 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 environmental remediation of contaminated properties is likely to be determined under non-U.S. law.

We evaluate costs for environmental remediation, decontamination and demolition projects on a regular basis. Full provision is made for those costs amounting to \$56.5 million at December 31, 2021. See Note 13 of the Notes to the Consolidated Financial Statements for further details. Expenditure utilizing these provisions was \$5.3 million, \$4.1 million and \$4.4 million in the years 2021, 2020 and 2019, 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, 2021 the Company had cash and cash equivalents of \$141.8 million, and long-term debt and finance leases of \$0.1 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, 2021, \$0.0 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, 2021 and December 31, 2020, there were no interest rate swaps in place. Interest rate swaps have previously been used to hedge interest rate risk on a term loan for a notional value that matched the repayment profile of the term loan.

The Company has \$0.1 million long-term debt and finance leases (including the current portion) which is offset by \$141.8 million cash and cash equivalents. The interest payable, including facility commitment fees, 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 \$0.0 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 \$1.4 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.

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 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 \$1.4 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.

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 sheets of Innospec Inc. and its subsidiaries (the “Company”) as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2021, 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, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 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, 2021, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the COSO.

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 audits. 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 audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits 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 audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to

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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 audits 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide 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 Provisions

As described in Notes 2 and 13 to the consolidated financial statements, at December 31, 2021, the Company has recognized plant closure provisions of \$56.5 million principally

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relating to asset retirement obligations. The Company recognizes asset retirement obligations when there is an obligation based on a legal requirement or Company promise, and the costs can be reasonably estimated. 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 receives input from specialists to develop these estimates and assumptions utilizing the latest information available together with experience of recent costs.

The principal considerations for our determination that performing procedures over the plant closure provision is a critical audit matter are the significant assumptions made by management relating to: (i) the program of work required; (ii) the timing and cost of performing the remediation work; and (iii) the credit-adjusted risk free rate used to discount the future obligations. This resulted in a high degree of auditor judgment, subjectivity and extent of effort to evaluate management's estimates and assumptions.

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 determination of the plant closure provision. These procedures also included, among others: (i) testing management's process to develop the estimate; (ii) evaluating the appropriateness of the valuation method; (iii) assessing the reasonableness of significant assumptions, including the assessment of the program of work required, and timing and cost of remediation work; (iv) evaluating the scope, competency, and objectivity of management's specialists based on the work they were engaged to perform; and (v) evaluating the credit-adjusted risk-free rate applied to calculate the present value of the future obligations. Professionals with specialized skill and knowledge were used to assist in performing these audit procedures.

/s/ PricewaterhouseCoopers LLP
Manchester, United Kingdom
February 16, 2022.

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

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

	Years ended December 31		
	2021	2020	2019
Net sales	\$ 1,483.4	\$1,193.1	\$ 1,513.3
Cost of goods sold	(1,048.5)	(850.4)	(1,047.1)
Gross profit	434.9	342.7	466.2
Operating expenses:			
Selling, general and administrative	(267.2)	(237.0)	(280.9)
Research and development	(37.4)	(30.9)	(35.4)
Restructuring charge	—	(21.3)	—
Impairment of intangible assets	—	(19.8)	—
Profit on disposal	1.8	—	—
Total operating expenses	(302.8)	(309.0)	(316.3)
Operating income	132.1	33.7	149.9
Other income, net	3.8	7.8	5.3
Interest expense, net	(1.5)	(1.8)	(4.8)
Income before income tax expense	134.4	39.7	150.4
Income tax expense	(41.3)	(11.0)	(38.2)
Net income	\$ 93.1	\$ 28.7	\$ 112.2
Earnings per share:			
Basic	\$ 3.78	\$ 1.17	\$ 4.58
Diluted	\$ 3.75	\$ 1.16	\$ 4.54
Weighted average shares outstanding (in thousands):			
Basic	24,647	24,563	24,482
Diluted	24,854	24,779	24,728

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

Total comprehensive income for the years ended December 31	2021	2020	2019
Net income	\$ 93.1	\$28.7	\$112.2
Changes in cumulative translation adjustment, net of tax of \$2.0 million, \$3.9 million and \$(0.3) million, respectively	(20.2)	23.7	(6.0)
Changes in derivative instruments, net of tax of \$0.0 million, \$0.0 million and \$(0.4) million, respectively	—	—	(1.5)
Amortization of prior service cost/(credit), net of tax of \$(0.1) million, \$0.1 million and \$0.2 million, respectively	0.2	(0.4)	(0.7)
Amortization of actuarial net losses, net of tax of \$(0.4) million, \$(0.2) million and \$0.0 million, respectively	2.2	1.5	—
Actuarial net gains/(losses) arising during the year, net of tax of \$(9.0) million, \$1.9 million and \$(2.2) million, respectively	28.2	(7.7)	9.5
Total comprehensive income	<u>\$103.5</u>	<u>\$45.8</u>	<u>\$113.5</u>

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)

	<u>At December 31</u>	
	<u>2021</u>	<u>2020</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 141.8	\$ 105.3
Trade and other accounts receivable (less allowances of \$5.1 million and \$4.5 million, respectively)	284.5	221.4
Inventories (less allowances of \$25.4 million and \$19.4 million, respectively):		
Finished goods	188.3	156.3
Raw materials	89.3	63.7
Total inventories	277.6	220.0
Prepaid expenses	18.0	14.9
Prepaid income taxes	5.8	4.2
Other current assets	0.4	0.4
Total current assets	728.1	566.2
Net property, plant and equipment	214.4	210.8
Operating leases right-of-use assets	35.4	40.1
Goodwill	364.3	371.2
Other intangible assets	57.5	75.3
Deferred tax assets	6.4	7.6
Pension asset	159.8	118.0
Other non-current assets	5.0	8.2
Total assets	<u>\$1,570.9</u>	<u>\$1,397.4</u>
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 148.7	\$ 98.7
Accrued liabilities	166.5	129.8
Current portion of finance leases	0.1	0.5
Current portion of operating lease liabilities	12.4	11.3
Current portion of plant closure provisions	5.2	6.6
Current portion of accrued income taxes	3.7	5.5
Total current liabilities	336.6	252.4
Finance leases, net of current portion	—	0.1
Operating lease liabilities, net of current portion	23.1	28.9
Plant closure provisions, net of current portion	51.3	51.9
Accrued income taxes, net of current portion	30.6	32.4
Unrecognized tax benefits, net of current portion	16.3	16.0
Deferred tax liabilities	60.8	46.9
Pension liabilities and post-employment benefits	17.8	20.5
Other non-current liabilities	1.4	3.4
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	346.7	336.1
Treasury stock (4,780,806 and 4,958,599 shares at cost, respectively)	(90.6)	(93.3)
Retained earnings	822.9	758.6
Accumulated other comprehensive loss	(46.9)	(57.3)
Total Innospec stockholders' equity	1,032.4	944.4
Non-controlling interest	0.6	0.5
Total equity	<u>1,033.0</u>	<u>944.9</u>
Total liabilities and equity	<u>\$1,570.9</u>	<u>\$1,397.4</u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (in millions)

	Years ended December 31		
	2021	2020	2019
Cash Flows from Operating Activities			
Net income	\$ 93.1	\$ 28.7	\$ 112.2
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	42.7	46.0	47.6
Impairment of intangible assets	—	19.8	—
Impairment of tangible assets	—	2.0	—
Deferred taxes	6.4	(2.5)	(0.8)
Profit on disposal	(1.8)	—	—
Cash contributions to defined benefit pension plans	—	—	(0.4)
Non-cash income of defined benefit pension plans	(3.5)	(4.0)	(6.1)
Stock option compensation	4.4	5.8	6.6
Changes in assets and liabilities, net of effects of acquired and divested companies:			
Trade and other accounts receivable	(70.3)	74.4	(18.2)
Inventories	(62.0)	25.5	2.4
Prepaid expenses	(3.5)	(1.0)	(3.1)
Accounts payable and accrued liabilities	90.2	(45.9)	23.2
Plant closure provisions	(1.4)	8.5	—
Accrued income taxes	(3.2)	(10.3)	(2.4)
Unrecognized tax benefits	0.3	(0.4)	2.5
Other assets and liabilities	1.8	(0.7)	(1.9)
Net cash provided by operating activities	93.2	145.9	161.6
Cash Flows from Investing Activities			
Capital expenditures	(39.1)	(29.7)	(29.9)
Proceeds on disposal of property, plant and equipment	2.9	—	—
Internally developed software	—	—	(1.1)
Net cash used in investing activities	(36.2)	(29.7)	(31.0)
Cash Flows from Financing Activities			
Non-controlling interest	0.1	0.1	—
Proceeds from revolving credit facility	—	15.0	105.5
Repayments of revolving credit facility	—	(75.0)	(171.5)
Repayment of term loans	—	—	(82.5)
Repayment of finance leases	(0.6)	(1.1)	(1.7)
Refinancing costs	—	(0.3)	(1.5)
Dividend paid	(28.8)	(25.6)	(25.0)
Issue of treasury stock	10.1	2.2	1.2
Repurchase of common stock	(0.8)	(2.1)	(2.4)
Net cash used in financing activities	(20.0)	(86.8)	(177.9)
Effect of foreign currency exchange rate changes on cash	(0.5)	0.2	(0.1)
Net change in cash and cash equivalents	36.5	29.6	(47.4)
Cash and cash equivalents at beginning of year	105.3	75.7	123.1
Cash and cash equivalents at end of year	<u>\$ 141.8</u>	<u>\$ 105.3</u>	<u>\$ 75.7</u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF EQUITY
(in millions)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Treasury Stock</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Non- controlling Interest</u>	<u>Total Equity</u>
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)
Changes in 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
Net income				28.7			28.7
Dividend paid (\$1.04 per share)				(25.6)			(25.6)
Changes in cumulative translation adjustment, net of tax					23.7		23.7
Share of net income						0.1	0.1
Treasury stock re-issued		(0.1)	2.1				2.0
Treasury stock repurchased			(2.1)				(2.1)
Stock option compensation		5.8					5.8
Amortization of prior service credit, net of tax					(0.4)		(0.4)
Amortization of actuarial net losses, net of tax					1.5		1.5
Actuarial net gains arising during the year, net of tax					(7.7)		(7.7)
Balance at December 31, 2020	\$ 0.3	\$ 336.1	\$ (93.3)	\$ 758.6	\$ (57.3)	\$ 0.5	\$ 944.9
Net income				93.1			93.1
Dividend paid (\$1.16 per share)				(28.8)			(28.8)
Changes in cumulative translation adjustment, net of tax					(20.2)		(20.2)
Share of net income						0.1	0.1
Treasury stock re-issued		6.2	3.5				9.7
Treasury stock repurchased			(0.8)				(0.8)
Stock option compensation		4.4					4.4
Amortization of prior service credit, net of tax					0.2		0.2
Amortization of actuarial net losses, net of tax					2.2		2.2
Actuarial net gains arising during the year, net of tax					28.2		28.2
Balance at December 31 2021	\$ 0.3	\$ 346.7	\$ (90.6)	\$ 822.9	\$ (46.9)	\$ 0.6	\$1,033.0

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 refiners, 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 principal reportable segments are Fuel Specialties, Performance Chemicals and Oilfield Services.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 fulfillment 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.

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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)

Credit losses: With an effective date of January 1, 2020, we have applied Accounting Standards Update (ASU) No. 2016-13, Financial Instruments – Credit Losses (ASC Topic 326). This replaces the incurred loss impairment methodology under previous 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.

The standard was adopted using prospective application and principally impacts the allowance for trade and other accounts receivables. Upon adoption, there was no adjustment made to opening retained earnings as at January 1, 2020. As a result of implementing the standard, the Company did not recognize any material change to the allowance within trade and other accounts receivable as at January 1, 2020. Trade and other accounts receivable are shown net of a \$5.1 million allowance at December 31, 2021. The allowance remains immaterial to the financial statements.

The Company is exposed to credit losses primarily through sales of products. The Company's expected loss allowance methodology for trade and other accounts receivable is developed using historical collection experience, current and future economic and market conditions and a review of the current status of customers' receivables. Due to the short-term nature of such receivables, the estimate of accounts receivable amounts that may not be collected is based on aging of the accounts receivable balances and the financial condition of customers. Additionally, a further allowance is included to account for the Company's historic track record of credit losses, for balances which are not aged sufficiently to be considered under the aging based approach.

The Company considered the current and expected future economic and market conditions surrounding the COVID-19 pandemic and determined that the estimate of credit losses was not significantly impacted.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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: 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 the reporting date. 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 the reporting date.

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. We do not separate related non-lease components from lease components. 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 and are 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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.

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.

Plant closure provisions: This includes both environmental compliance and remediation costs. Environmental compliance costs include ongoing maintenance, monitoring and similar costs and extend to environmental liabilities that result from other-than-normal operation of long-lived assets, for example pollution. Remediation costs relate to asset retirement obligations at our current and former manufacturing sites following retirement of the long-lived assets, linked to their normal operation. We recognize environmental liabilities when they are probable and the costs can be reasonably estimated, and asset retirement obligations when there is an obligation based on a legal requirement or Company promise, 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 receives input from specialists to develop these estimates and assumptions utilizing the latest information available together with experience of recent costs. While we believe our assumptions for the liabilities are reasonable, they are subjective estimates 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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. The Company then 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 ceased trading and is no longer a reporting segment from July 1, 2020, as reported in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2020.

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 chemical solutions for fracturing, stimulation and stimulation operations, products for oil and gas production which aid flow assurance and maintain asset integrity and products to prevent loss of mud in drilling operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Octane Additives business has ceased trading and is no longer a reporting segment from July 1, 2020 as the production of TEL for use in motor gasoline has finished. Legacy costs related to these operations are now being recorded as operating expenses within corporate costs.

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

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)	2021	2020	2019
Net Sales:			
<i>Refinery and Performance</i>	\$ 445.3	\$ 372.9	\$ 427.9
<i>Other</i>	173.0	139.8	155.8
Fuel Specialties	618.3	512.7	583.7
<i>Personal Care</i>	296.1	231.4	228.0
<i>Home Care</i>	93.0	87.0	93.4
<i>Other</i>	136.2	107.0	107.3
Performance Chemicals	525.3	425.4	428.7
Oilfield Services	339.8	255.0	479.9
Octane Additives	—	—	21.0
	<u>\$ 1,483.4</u>	<u>\$ 1,193.1</u>	<u>\$ 1,513.3</u>

(in millions)	2021	2020	2019
Gross profit/(loss):			
Fuel Specialties	\$ 193.2	\$ 160.3	\$ 204.5
Performance Chemicals	125.2	103.8	100.1
Oilfield Services	116.5	80.8	159.9
Octane Additives	—	(2.2)	1.7
	<u>\$ 434.9</u>	<u>\$ 342.7</u>	<u>\$ 466.2</u>

Operating income/(expense):			
Fuel Specialties	\$ 104.6	\$ 84.5	\$ 116.6
Performance Chemicals	70.9	54.8	48.7
Oilfield Services	10.4	(9.5)	39.7
Octane Additives	—	(2.8)	(0.7)
Corporate costs	(55.6)	(52.2)	(54.4)
Restructuring charge	—	(21.3)	—
Impairment of intangible assets	—	(19.8)	—
Profit on disposal	1.8	—	—
Total operating income	<u>\$ 132.1</u>	<u>\$ 33.7</u>	<u>\$ 149.9</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(in millions)	2021	2020	2019
Identifiable assets at year end:			
Fuel Specialties	\$ 571.3	\$ 509.7	\$ 499.7
Performance Chemicals	469.5	391.5	383.3
Oilfield Services	230.8	210.8	316.8
Octane Additives	—	—	24.2
Corporate	299.3	285.4	244.8
	<u>\$ 1,570.9</u>	<u>\$ 1,397.4</u>	<u>\$ 1,468.8</u>

Identifiable assets relating to our tetra ethyl lead (“TEL”) operations are included within our Fuel Specialties segment in 2021 and 2020 and in our Octane Additives segment in 2019, as shown in the table above. Octane Additives ceased trading on June 30, 2020 and is no longer a reporting segment after that date. As a result, it is now appropriate to report the identifiable assets relating to the remaining TEL production within Fuel Specialties from July 1, 2020. Our TEL operations historically produced TEL for automotive gasoline, which is reported in our Octane Additives segment for the years presented above, and for our AvGas product line, which is reported in our Fuel Specialties segment.

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, product technology, safety, health, environment, accounting and human resources departments.

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

(in millions)	2021	2020	2019
Net sales by source:			
United States & North America	\$ 821.6	\$ 642.4	\$ 897.2
United Kingdom	811.9	689.1	810.9
Rest of Europe	115.6	83.4	115.7
Rest of World	66.4	45.6	47.8
Sales between areas	(332.1)	(267.4)	(358.3)
	<u>\$1,483.4</u>	<u>\$1,193.1</u>	<u>\$1,513.3</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(in millions)	2021	2020	2019
Income before income taxes:			
United States & North America	\$ 54.6	\$ —	\$ 53.9
United Kingdom	46.1	16.9	67.0
Rest of Europe	26.4	19.7	27.2
Rest of World	7.3	3.1	2.3
	<u>\$ 134.4</u>	<u>\$ 39.7</u>	<u>\$ 150.4</u>
Long-lived assets at year end:			
United States & North America	\$ 137.3	\$ 141.0	\$ 156.0
United Kingdom	55.4	61.3	70.4
Rest of Europe	112.0	123.2	116.6
Rest of World	0.2	0.2	0.3
	<u>\$ 304.9</u>	<u>\$ 325.7</u>	<u>\$ 343.3</u>
Identifiable assets at year end:			
United States & North America	\$ 464.9	\$ 368.8	\$ 419.5
United Kingdom	533.7	455.8	487.2
Rest of Europe	164.7	171.0	163.2
Rest of World	43.3	30.6	35.9
Goodwill	364.3	371.2	363.0
	<u>\$ 1,570.9</u>	<u>\$ 1,397.4</u>	<u>\$ 1,468.8</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**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:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Numerator (in millions):			
Net income available to common stockholders	\$ 93.1	\$ 28.7	\$ 112.2
Denominator (in thousands):			
Weighted average common shares outstanding	24,647	24,563	24,482
Dilutive effect of stock options and awards	207	216	246
Denominator for diluted earnings per share	<u>24,854</u>	<u>24,779</u>	<u>24,728</u>
Net income per share, basic:	<u>\$ 3.78</u>	<u>\$ 1.17</u>	<u>\$ 4.58</u>
Net income per share, diluted:	<u>\$ 3.75</u>	<u>\$ 1.16</u>	<u>\$ 4.54</u>

In 2021, 2020 and 2019 the average number of anti-dilutive options excluded from the calculation of diluted earnings per share were 18,378, 17,980 and 6,270 respectively.

Note 5. Restructuring

During 2020, the Company recorded a charge of \$21.3 million for the restructuring of its Octane Additives segment in line with the end of the manufacturing and sale of TEL for use in motor gasoline. As a result, the Octane Additives segment ceased trading and is no longer a reporting segment from July 1, 2020. Production of TEL will continue for sales of our AvGas product line, as reported within our Fuel Specialties segment.

The restructuring charge comprised the future committed costs of environmental monitoring of \$2.0 million, remediation of facilities of \$7.5 million, contract termination costs of \$7.2 million, impairment of tangible assets of \$2.0 million and costs of redundancy due to the down-sizing of the TEL operations of \$2.6 million. During the years ended December 31, 2021 and December 31, 2020 the utilization and the unwinding of the discounting was not material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**Note 6. Property, Plant and Equipment**

Property, plant and equipment consists of the following:

<u>(in millions)</u>	<u>2021</u>	<u>2020</u>
Land	\$ 20.7	\$ 21.6
Buildings	69.5	65.5
Equipment	371.5	349.9
Work in progress	23.7	27.5
	<u>485.4</u>	<u>464.5</u>
Less accumulated depreciation and impairment	(271.0)	(253.7)
	<u>\$ 214.4</u>	<u>\$ 210.8</u>

Of the total net book value of equipment at December 31, 2021, \$0.5 million are in respect of assets held under finance leases (2020 – \$1.0 million).

Depreciation charges were \$26.3 million, \$24.7 million and \$23.6 million in 2021, 2020 and 2019, respectively.

An impairment charge of \$2.0 million was incurred in 2020 as a result of the Octane Additives segment ceasing to trade on June 30, 2020.

Note 7. 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 10 years, some of which include options to terminate the leases within 1 year.

The components of lease expense were as follows:

<u>(in millions)</u>	<u>Twelve Months Ended December 31 2021</u>	<u>Twelve Months Ended December 31 2020</u>
Finance lease cost:		
Amortization of right-of-use assets	\$ 0.5	\$ 1.0
Interest on lease liabilities	—	—
Total finance lease cost	<u>0.5</u>	<u>1.0</u>
Operating lease cost	13.8	12.8
Short-term lease cost	3.8	3.2
Variable lease cost	0.3	0.3
Total lease cost	<u>\$ 18.4</u>	<u>\$ 17.3</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Supplemental cash flow information related to leases is as follows:

<u>(in millions)</u>	<u>Twelve Months Ended December 31 2021</u>	<u>Twelve Months Ended December 31 2020</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 18.1	\$ 15.9
Operating cash flows from finance leases	0.5	1.2
Finance cash flows from finance leases	—	—
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases	\$ 5.2	\$ 5.7
Finance leases	—	—

Supplemental balance sheet information related to leases is as follows:

<u>(in millions except lease term and discount rate)</u>	<u>December 31 2021</u>	<u>December 31 2020</u>
Operating leases:		
Operating lease right-of-use assets	\$ 35.4	\$ 40.1
Current portion of operating lease liabilities	\$ 12.4	\$ 11.3
Operating lease liabilities, net of current portion	23.1	28.9
Total operating lease liabilities	\$ 35.5	\$ 40.2
Finance leases:		
Property, plant and equipment at cost	\$ 5.0	\$ 9.0
Accumulated depreciation	(4.5)	(8.0)
Net property, plant and equipment	\$ 0.5	\$ 1.0
Current portion of finance leases	\$ 0.1	\$ 0.5
Finance leases, net of current portion	—	0.1
Total finance lease liabilities	\$ 0.1	\$ 0.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

<u>(in millions except lease term and discount rate)</u>	<u>December 31 2021</u>	<u>December 31 2020</u>
Weighted average remaining lease term:		
Operating leases	4.9 years	4.1 years
Finance leases	0.5 years	1.1 years
Weighted average discount rate:		
Operating leases	2.5%	3.0%
Finance leases	2.5%	2.6%

Maturities of lease liabilities were as follows as at December 31, 2021:

<u>(in millions)</u>	<u>Operating Leases</u>	<u>Finance Leases</u>
Within one year	\$ 12.5	\$ 0.1
Year two	9.0	—
Year three	6.0	—
Year four	3.9	—
Year five	3.1	—
Thereafter	3.2	—
Total lease payments	37.7	0.1
Less imputed interest	(2.2)	—
Total	<u>\$ 35.5</u>	<u>\$ 0.1</u>

As of December 31, 2021, additional operating and finance leases that have not yet commenced are \$8.8 million.

Future lease payment for all non-cancellable operating and finance leases as of December 31, 2020 were as follows:

<u>(in millions)</u>	<u>Operating Leases</u>	<u>Finance Leases</u>
Within one year	\$ 11.4	\$ 0.5
Year two	9.4	0.1
Year three	8.2	—
Year four	5.5	—
Year five	3.8	—
Thereafter	4.6	—
Total lease payments	42.9	0.6
Less imputed interest	(2.7)	—
Total	<u>\$ 40.2</u>	<u>\$ 0.6</u>

As of December 31, 2020, additional operating and finance leases that have not yet commenced are \$0.0 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Note 8. Goodwill

The following table analyzes goodwill movement for 2021 and 2020.

(in millions)	<u>Fuel Specialties</u>	<u>Performance Chemicals</u>	<u>Oilfield Services</u>	<u>Octane Additives</u>	<u>Total</u>
At December 31, 2019					
Gross cost (1)	\$ 207.7	\$ 110.5	\$ 44.8	\$ 236.5	\$ 599.5
Accumulated impairment losses	—	—	—	(236.5)	(236.5)
Net book amount	<u>\$ 207.7</u>	<u>\$ 110.5</u>	<u>\$ 44.8</u>	<u>\$ —</u>	<u>\$ 363.0</u>
Exchange effect	0.2	8.0	—	—	8.2
At December 31, 2020					
Gross cost (1)	\$ 207.9	\$ 118.5	\$ 44.8	\$ —	\$ 371.2
Accumulated impairment losses	—	—	—	—	—
Net book amount	<u>\$ 207.9</u>	<u>\$ 118.5</u>	<u>\$ 44.8</u>	<u>\$ —</u>	<u>\$ 371.2</u>
Exchange effect	(0.3)	(6.6)	—	—	(6.9)
At December 31, 2021					
Gross cost (1)	\$ 207.6	\$ 111.9	\$ 44.8	\$ —	\$ 364.3
Accumulated impairment losses	—	—	—	—	—
Net book amount	<u>\$ 207.6</u>	<u>\$ 111.9</u>	<u>\$ 44.8</u>	<u>\$ —</u>	<u>\$ 364.3</u>

⁽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 and Oilfield Services. The Octane Additives segment has ceased trading and is no longer a reporting segment from July 1, 2020, as reported in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2020. As a result the gross cost and the accumulated impairment losses have been written down to nil.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company performed its annual impairment assessment in respect of goodwill as at December 31, 2021, 2020 and 2019. Our impairment assessment concluded that there had been no impairment of goodwill in respect of those reporting units. Due to the triggering events of the COVID-19 pandemic and the reduction in oil prices and their impact on our business, we performed a step one impairment review at June 30, 2020. The impairment assessment indicated the fair values substantially exceeded the carrying values for all operating segments.

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.

Note 9. Other Intangible Assets

The following table analyzes other intangible assets movement for 2021 and 2020.

<u>(in millions)</u>	<u>2021</u>	<u>2020</u>
Gross cost at January 1	\$ 298.9	\$ 294.8
Exchange effect	(3.7)	4.1
Gross cost at December 31	<u>295.2</u>	<u>298.9</u>
Accumulated amortization at January 1	(223.6)	(181.3)
Amortization expense	(16.0)	(20.9)
Impairment	—	(19.8)
Exchange effect	1.9	(1.6)
Accumulated amortization at December 31	<u>(237.7)</u>	<u>(223.6)</u>
Net book amount at December 31	<u>\$ 57.5</u>	<u>\$ 75.3</u>

Amortization expense

The amortization expense was \$16.0 million, \$20.9 million and \$23.0 million in 2021, 2020 and 2019, respectively. Excluding the impact of foreign exchange translation on the balance sheet, \$2.3 million, \$2.9 million and \$3.4 million of amortization, respectively, was recognized in cost of goods sold, and the remainder was recognized in selling, general and administrative expenses.

During the quarter ended June 30, 2020, the Company performed an impairment review over the assets of each operating segment. This indicated the fair values substantially exceeded the carrying values for all operating segments. Further, the Company also performed an impairment review over each of the businesses within the Oilfield Services segment, as a result of reduction in demand for drilling related products. A discounted cash flow analysis was performed to determine the fair value of the assets. This indicated that the intangible assets arising from the acquisition of Strata Control Services Inc. were impaired. The impaired

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

assets relate to technology (\$10.0 million) and customer relationships (\$9.8 million). There was no impairment indicated on the other businesses within the Oilfield Services operating segment.

Other intangible assets at December 31, 2021 were:

(in millions)	Gross carrying amount	Accumulated amortization
Product rights	\$ 34.0	\$ (31.5)
Brand names	8.9	(7.2)
Technology	55.1	(37.7)
Customer relationships	125.3	(90.7)
Internally developed software	43.1	(41.8)
Other	28.8	(28.8)
	<u>\$ 295.2</u>	<u>\$ (237.7)</u>

Other intangible assets at December 31, 2020 were:

(in millions)	Gross carrying amount	Accumulated amortization
Product rights	\$ 34.0	\$ (27.7)
Brand names	8.9	(6.6)
Technology	55.1	(35.4)
Customer relationships	128.3	(84.0)
Internally developed software	43.4	(40.7)
Other	29.2	(29.2)
	<u>\$ 298.9</u>	<u>\$ (223.6)</u>

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

(in millions)	
2022	\$14.5
2023	\$11.2
2024	\$10.4
2025	\$ 7.4
2026	\$ 7.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 10. Pension and Post-Employment Benefits

United Kingdom plan

The Company maintains a defined benefit pension plan covering certain current and former employees in the United Kingdom (the “UK Plan”). The UK Plan is closed to future service accrual and 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 UK 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 UK Plan to meet its liabilities at an acceptable level of risk for the trustees and an acceptable level of cost to the Company.

In 2021, the Company contributed \$0.0 million (2020 – \$0.0 million) in cash to the UK Plan in accordance with an agreement with the trustees. For the year ending December 31, 2022, there are no plans to make cash contributions to the UK Plan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The service cost shown in the table below has been recognized in selling, general and administrative expenses within corporate costs and the other items recognized within other income, net.

(in millions)	2021	2020	2019
Service cost	\$ 1.6	\$ 1.2	\$ 0.9
Interest cost on PBO	7.6	11.2	15.2
Expected return on plan assets	(15.5)	(17.8)	(22.0)
Amortization of prior service cost/(credit)	0.3	(0.5)	(0.9)
Amortization of actuarial net losses	1.6	0.9	—
Settlement event	(0.3)	—	—
Net periodic benefit	<u>\$ (4.7)</u>	<u>\$ (5.0)</u>	<u>\$ (6.8)</u>

Plan assumptions at December 31, (%):

Discount rate	1.84	1.36	1.95
Inflation rate	3.55	2.35	2.25
Rate of return on plan assets – overall on bid-value	2.30	2.00	2.50

Plan asset allocation by category (%):

Debt securities and insurance contracts	82	86	86
Equity securities and real estate	5	10	10
Cash	13	4	4
	<u>100</u>	<u>100</u>	<u>100</u>

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 at December 31, 2021 by approximately \$22 million and the net pension credit for 2022 would change by approximately \$1.4 million. A 0.25% change in the level of price inflation assumption would change the PBO at December 31, 2021 by approximately \$14 million and the net pension credit for 2022 by approximately \$0.3 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

(in millions)	2021	2020
Change in PBO:		
Opening balance	\$ 758.7	\$ 701.0
Interest cost	7.6	11.2
Service cost	1.6	1.2
Benefits paid	(37.3)	(45.5)
Settlements	(10.6)	—
Plan amendments	5.4	5.5
Actuarial losses/(gains)	(40.5)	61.1
Exchange effect	(5.8)	24.2
Closing balance	<u>\$ 679.1</u>	<u>\$ 758.7</u>
Fair value of plan assets:		
Opening balance	\$ 876.7	\$ 816.9
Benefits paid	(37.3)	(45.5)
Settlements	(10.6)	—
Actual return on assets	17.5	77.6
Exchange effect	(7.4)	27.7
Closing balance	<u>\$ 838.9</u>	<u>\$ 876.7</u>
Net pension asset	<u>\$159.8</u>	<u>\$118.0</u>

The current investment strategy of the UK Plan is to divest equity securities and real estate in order to achieve a lower risk return on assets from debt securities and cash.

The UK Plan holds approximately 10% (December 31, 2020 – 11%) 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.

Settlement

The 2021 settlement threshold for the total of interest cost and service cost was triggered in October 2021 by the level of transfers paid out of the UK Plan during the year. As a result, a settlement value of \$10.6 million has been included for the PBO movements in 2021.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)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.

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:

<u>(in millions)</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total</u>
At December 31, 2021				
<u>Debt securities:</u>				
Debt securities issued by non-U.S. governments and government agencies	\$ 80.3	\$	\$	\$ 80.3
Corporate debt securities		445.7		445.7
<u>Equity backed securities:</u>				
Other financial derivatives		(1.5)		(1.5)
<u>Other asset backed securities:</u>				
Insurance contracts			162.2	162.2
Real estate	47.0			47.0
Total assets at fair value	<u>127.3</u>	<u>444.2</u>	<u>162.2</u>	<u>733.7</u>
Cash	105.2			105.2
Total plan assets	<u>\$ 232.5</u>	<u>\$ 444.2</u>	<u>\$ 162.2</u>	<u>\$838.9</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

<u>(in millions)</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total</u>
At December 31, 2020				
<u>Debt securities:</u>				
Debt securities issued by non-U.S. governments and government agencies	\$ 99.5	\$	\$	\$ 99.5
Corporate debt securities		488.0		488.0
<u>Equity backed securities:</u>				
Other financial derivatives		(2.3)		(2.3)
Investments measured at net asset value ⁽¹⁾				51.0
<u>Other asset backed securities:</u>				
Insurance contracts			167.4	167.4
Real estate	40.2			40.2
Total assets at fair value	139.7	485.7	167.4	843.8
Cash	32.9			32.9
Total plan assets	<u>\$ 172.6</u>	<u>\$ 485.7</u>	<u>\$ 167.4</u>	<u>\$876.7</u>

⁽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 table 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.

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

<u>(in millions)</u>	<u>Other Assets</u>
Balance at December 31, 2019	<u>\$157.9</u>
Realized/unrealized gains/(losses):	
Relating to assets still held at the reporting date	10.8
Purchases, issuances and settlements	(6.6)
Exchange effect	5.3
Balance at December 31, 2020	<u>\$167.4</u>
Realized/unrealized gains/(losses):	
Relating to assets still held at the reporting date	3.3
Purchases, issuances and settlements	(7.0)
Exchange effect	(1.5)
Balance at December 31, 2021	<u>\$162.2</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The projected net periodic benefit for the year ending December 31, 2022 is as follows:

(in millions)	
Service cost	\$ 2.4
Interest cost on PBO	11.0
Expected return on plan assets	(17.5)
Amortization of prior service credit	0.5
Amortization of actuarial net losses	—
Net periodic benefit	<u>\$ (3.6)</u>

The following benefit payments are expected to be made:

(in millions)	
2022	\$ 37.6
2023	\$ 36.8
2024	\$ 36.8
2025	\$ 36.7
2026	\$ 36.1
2027-2031	\$175.5

German plan

The Company also maintains an unfunded defined benefit pension plan covering certain current and former employees in Germany (the “German plan”), which is reported within our Fuel Specialties segment. The German plan is closed to new entrants and has no assets.

The service cost shown in the table below has been recognized in selling, general and administrative expenses within corporate costs and the other items recognized within other income, net.

(in millions)	2021	2020	2019
Service cost	\$0.1	\$0.1	\$0.1
Interest cost on PBO	0.1	0.1	0.2
Amortization of actuarial net loss	1.0	0.8	0.3
Net periodic cost	<u>\$1.2</u>	<u>\$1.0</u>	<u>\$0.6</u>

Plan assumptions at December 31, (%):

Discount rate	0.90	0.40	0.80
Inflation rate	2.00	1.50	1.75
Rate of increase in compensation levels	2.75	2.75	2.75

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Movements in PBO of the German plan are as follows:

(in millions)	2021	2020
Change in PBO:		
Opening balance	\$15.2	\$13.3
Service cost	0.1	0.1
Interest cost	0.1	0.1
Benefits paid	(0.4)	(0.3)
Actuarial losses/(gains)	(0.7)	0.8
Exchange effect	(1.1)	1.2
Closing balance	<u>\$13.2</u>	<u>\$15.2</u>

Other plans

As at December 31, 2021, we have post-employment obligations in our Performance Chemicals European businesses with a liability of \$4.6 million (December 31, 2020 – \$5.3 million). For the year ended December 31, 2021 we have recognized an actuarial loss of \$0.1 million in other comprehensive loss in relation to the Performance Chemicals pension in France (December 31, 2020 – \$0.2 million).

Company contributions to defined contribution schemes during 2021 were \$10.9 million (2020 – \$10.3 million), across all our reporting segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 11. Income Taxes

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

<u>(in millions)</u>	<u>Unrecognised Tax Benefits</u>	<u>Interest and Penalties</u>	<u>Total</u>
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	—	—	—
Non-current	\$ 14.4	\$ 2.0	\$16.4
Opening balance at January 1, 2020	\$ 14.4	\$ 2.0	\$16.4
Reductions for tax positions of prior periods	(1.2)	(0.2)	(1.4)
Additions for tax positions of prior periods	0.4	0.6	1.0
Closing balance at 31 December, 2020	13.6	2.4	16.0
Current	—	—	—
Non-current	\$ 13.6	\$ 2.4	\$16.0
Opening balance at January 1, 2021	\$ 13.6	\$ 2.4	\$16.0
Reductions for tax positions of prior periods	(1.3)	0.0	(1.3)
Additions for tax positions of prior periods	0.9	0.7	1.6
Closing balance at 31 December, 2021	13.2	3.1	16.3
Current	—	—	—
Non-current	\$ 13.2	\$ 3.1	\$16.3

All of the \$16.3 million of unrecognized tax benefits would impact our effective tax rate if recognised.

During 2021, a non-U.S. subsidiary, Innospec Limited, entered into a review by the U.K. tax authorities under the U.K.'s Profit Diversion Compliance Facility ("PDCF"). The Company determined that additional tax and interest totaling \$1.0 million may arise during the course of the PDCF review process which is currently ongoing.

As previously disclosed, a non-U.S. subsidiary, Innospec Performance Chemicals Italia Srl, is subject to an ongoing tax audit in relation to the period 2011 to 2014 inclusive. The Company has determined that additional tax, interest and penalties totaling \$3.3 million may arise as a consequence of the tax audit. This includes additional interest accrued of \$0.1 million and a reduction for foreign exchange movements of \$0.2 million recorded during 2021. 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 indemnification asset of the same amount is recorded in the financial statements to reflect this arrangement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As previously disclosed, in 2018 the Company recorded an unrecognized tax benefit in relation to a potential adjustment that could arise as a consequence of the Tax Cuts and Jobs Act of 2017 (“Tax Act”), but for which retrospective adjustment to the filed 2017 U.S. federal income tax returns was not permissible. The Company has determined that additional tax, interest and penalties totaling \$12.0 million may arise in relation to this item. This includes a reduction in the unrecognized tax benefit of \$0.9 million related to adjustments recognized during 2021 that would offset adjustments arising as a consequence of the Tax Act. This also includes an increase in interest accrued of \$0.5 million during 2021.

In addition to the items noted above, an amount of \$0.2 million was also released during 2021 in relation to a non-significant position taken in a prior period in relation to one of the Company’s non-U.S. subsidiaries. This was released following confirmation from the tax authorities that no further amounts fall due.

The Company and its U.S. subsidiaries remain open to examination by the IRS for certain elements of year 2017 and for years 2018 onwards under the statute of limitations. The Company’s subsidiaries in foreign tax jurisdictions are open to examination including Spain (2018 onwards), France (2019 onwards), Germany (2018 onwards), Switzerland (2017 onwards) and the U.K. (2017 onwards).

The sources of income before income taxes were as follows:

<u>(in millions)</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Domestic	\$ 53.2	\$ (0.7)	\$ 52.4
Foreign	81.2	40.4	98.0
	<u>\$134.4</u>	<u>\$39.7</u>	<u>\$150.4</u>

The components of income tax expense are summarized as follows:

<u>(in millions)</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Current:			
Federal	\$12.4	\$ 6.1	\$13.8
State and local	2.6	0.5	2.3
Foreign	19.4	6.8	22.9
	<u>34.4</u>	<u>13.4</u>	<u>39.0</u>
Deferred:			
Federal	(1.9)	(2.8)	(3.0)
State and local	(0.3)	(0.4)	(0.5)
Foreign	9.1	0.8	2.7
	<u>6.9</u>	<u>(2.4)</u>	<u>(0.8)</u>
	<u>\$41.3</u>	<u>\$11.0</u>	<u>\$38.2</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Cash payments for income taxes were \$36.8 million, \$23.4 million and \$37.6 million during 2021, 2020 and 2019, respectively.

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

(in percent)	2021	2020	2019
Statutory rate	21.0%	21.0%	21.0%
Foreign income inclusions	1.7	7.1	0.3
Foreign tax rate differential	1.0	4.2	(0.3)
Tax charge/(credit) from previous years	0.6	3.7	1.8
Net charge/(credit) from unrecognized tax benefits	0.4	(1.7)	1.1
Foreign currency transactions	0.1	(4.5)	(1.0)
Effect of U.S. tax law change	—	—	0.6
Tax on unremitted earnings	0.1	0.3	(0.1)
Non-deductible foreign interest	—	0.7	0.8
Change in U.K. statutory tax rate	5.4	6.9	—
State and local taxes	1.3	1.5	1.4
U.S. incentive for foreign derived intangible income	(1.5)	(1.5)	(0.5)
Innovation incentives – current year	(1.1)	(4.9)	(0.6)
Innovation incentives – prior years	—	(5.3)	—
Non-deductible officer compensation	0.2	1.8	0.2
Tax on closure of legacy operations	1.6	—	—
Other items and adjustments, net	(0.1)	(1.6)	0.7
	<u>30.7%</u>	<u>27.7%</u>	<u>25.4%</u>

During 2021, an income tax rate increase was enacted in the U.K.. The increase in the rate of tax from 19% to 25% will take effect on 1 April 2023. The Company's U.K. deferred tax liabilities have been revalued at the higher rate. This revaluation increased the 2021 tax charge by \$7.3 million and had a significant negative impact on the effective tax rate.

Foreign income inclusions arise each year from certain types of income earned overseas being taxable under U.S. tax regulations. Foreign tax credits can fully or partially offset these incremental U.S. taxes from foreign income inclusions. The utilization of foreign tax credits varies year on year as this is dependent on a number of variable factors which are difficult to predict and may prevent offset. The effective tax rate is negatively impacted by the net impact of foreign inclusions post foreign tax credit usage in 2021.

During 2021, to facilitate the closure of legal entities who had historically operated as part of the Octane Additives business segment, that ceased to operate in June 2020, a reorganization took place to distribute assets unrelated to the Octane Additives business prior to commencing liquidation proceedings. Tax arising on the distribution of assets in relation to the reorganization totaled \$2.2 million and this had a negative impact on the effective tax rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The effective tax rate was positively impacted by an increase in foreign-derived intangible income, as a result of U.S. subsidiaries serving non-U.S. markets. This reduced the tax charge in 2021 by \$2.0 million which had a positive impact on the effective tax rate.

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

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

<u>(in millions)</u>	<u>2021</u>	<u>2020</u>
Deferred tax assets:		
Stock compensation	\$ 5.2	\$ 5.3
Net operating loss carry forwards	12.0	9.8
Other intangible assets	11.1	10.6
Accretion expense	3.2	3.2
Restructuring provision	2.0	1.4
Employee related liabilities	4.1	0.2
Foreign tax credits	1.9	2.0
Operating lease liabilities	10.6	9.2
Other	7.4	6.7
Subtotal	<u>57.5</u>	<u>48.4</u>
Less valuation allowance	<u>(0.8)</u>	<u>(1.1)</u>
Total net deferred tax assets	<u>\$ 56.7</u>	<u>\$ 47.3</u>
Deferred tax liabilities:		
Property, plant and equipment	\$ (23.6)	\$(21.3)
Intangible assets including goodwill	(29.8)	(28.3)
Pension asset	(38.2)	(20.5)
Customer relationships	(4.5)	(4.4)
Unremitted overseas earnings	(1.9)	(2.0)
Right-of-use assets	(10.6)	(9.2)
Other	(2.5)	(0.9)
Total deferred tax liabilities	<u>\$(111.1)</u>	<u>\$(86.6)</u>
Net deferred tax liability	<u>\$ (54.4)</u>	<u>\$(39.3)</u>
Deferred tax assets	\$ 6.4	\$ 7.6
Deferred tax liabilities	<u>(60.8)</u>	<u>(46.9)</u>
	<u>\$ (54.4)</u>	<u>\$(39.3)</u>

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. Available evidence considered in determining the use of deferred tax assets includes, but is not limited to, cumulative losses arising in recent accounting periods, the Company's estimate of future taxable income and any applicable tax-planning strategies. Based on such

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

evidence, if it is more likely than not that some portion or all of such deferred tax assets will not be realized, a valuation allowance is recorded to reduce the Company's deferred tax assets. On the basis of this evaluation, as of December 31, 2021, a valuation allowance of \$0.8 million has been recorded to recognize 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 other evidence becomes available.

As of December 31, 2021, the Company has approximately \$5.4 million of tax-effected U.S. federal net operating loss carryforwards. These loss carryforwards can be carried forward indefinitely without expiration, and the Company expects to utilize the losses in their entirety. The Company has approximately \$0.4 million of tax-effected state net operating loss carryforwards, net of federal benefit. Some of these loss carryforwards will begin to expire in 2036 if not utilized, while other can be carried forward indefinitely. The Company also has approximately \$5.4 million of tax-effected foreign net operating loss carryforwards, net of valuation allowance, across five of the Company's foreign subsidiaries, which can also be carried forward indefinitely.

Note 12. Long-Term Debt

As at December 31, 2021, and December 31, 2020, the Company has not drawn down on its revolving credit facility.

The Company continues to have available a \$250.0 million revolving credit facility until September 25, 2024. The facility 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.

The deferred finance costs of \$1.0 million (December 31, 2020 – \$1.3 million) related to the arrangement of the credit facility, are included within other current and non-current assets at the balance sheet dates.

<u>(in millions)</u>	<u>2021</u>	<u>2020</u>
Gross cost at January 1	\$ 1.8	\$ 1.5
Capitalized in the year	—	0.3
	<u>1.8</u>	<u>1.8</u>
Accumulated amortization at January 1	\$(0.5)	\$(0.1)
Amortization in the year	(0.3)	(0.4)
	<u>\$(0.8)</u>	<u>\$(0.5)</u>
Net book value at December 31	<u>\$ 1.0</u>	<u>\$ 1.3</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Amortization expense was \$0.3 million, \$0.4 million and \$1.0 million in 2021, 2020 and 2019, 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 contains 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, 2020 and does not expect to breach these covenants for the next 12 months.

The weighted average rate of interest on borrowings was 0.00% at December 31, 2021 and 2.20% at December 31, 2020. Payments of interest on long-term debt were \$0.0 million, \$0.8 million and \$4.8 million in 2021, 2020 and 2019, respectively.

The net cash outflows in respect of refinancing costs were \$0.0 million, \$0.3 million and \$1.5 million in 2021, 2020 and 2019, respectively.

Note 13. Plant Closure Provisions

The Company has continuing plans to remediate manufacturing facilities at sites around the world as and when those operations are expected to cease or we are required to decommission the sites according to local laws and regulations. The liability for estimated plant closure costs includes costs for environmental remediation liabilities and asset retirement obligations.

The principal site giving rise to asset retirement obligations is the manufacturing site at Ellesmere Port in the United Kingdom. There are also asset retirement obligations and environmental remediation liabilities on a much smaller scale in respect of other manufacturing sites.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Movements in the provisions are summarized as follows:

(in millions)	2021	2020	2019
Total at January 1	\$58.5	\$49.3	\$49.5
Charge for the period excluding restructuring	3.9	5.1	4.4
Restructuring (see Note 5)	—	7.5	—
Utilized in the period	(5.3)	(4.1)	(4.4)
Exchange effect	(0.6)	0.7	(0.2)
Total at December 31	56.5	58.5	49.3
Due within one year	(5.2)	(6.6)	(5.6)
Due after one year	<u>\$51.3</u>	<u>\$51.9</u>	<u>\$43.7</u>

Amounts due within one year refer to provisions where expenditure is expected to arise within one year of the balance sheet date.

The charge for the period in 2021 represents the accretion expense recognized of \$3.8 million and a further \$0.1 million primarily in respect of changes in the expected cost and scope of future remediation activities. The charges for plant closure provisions are recognized in cost of goods sold for our reporting segments and within selling, general and administrative expenses for Corporate costs.

The Octane Additives segment ceased trading and is no longer a reporting segment from July 1, 2020. As a result, there was a one-off charge in 2020 of \$7.5 million for the restructuring activities related to the legacy production of TEL for use in motor gasoline.

We recognize environmental remediation liabilities when they are probable and the costs can be reasonably estimated, and asset retirement obligations when there is an obligation based on a legal requirement or Company promise, and the 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.

Expenditure utilizing plant closure provisions was \$5.3 million, \$4.1 million and \$4.4 million in 2021, 2020 and 2019, respectively.

Note 14. 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 2019, 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.

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, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Non-derivatives:				
Cash and cash equivalents	\$ 141.8	\$141.8	\$ 105.3	\$105.3
Derivatives (Level 1 measurement):				
Other current and non-current assets:				
Emissions Trading Scheme credits	3.9	3.9	—	—
Liabilities				
Non-derivatives:				
Finance leases (including current portion)	0.1	0.1	0.6	0.6
Derivatives (Level 1 measurement):				
Other current liabilities:				
Foreign currency forward exchange contracts	1.2	1.2	0.5	0.5
Non-financial liabilities (Level 3 measurement):				
Stock equivalent units	17.3	17.3	17.2	17.2

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

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

Emissions Trading Scheme credits: The fair value is determined by the open market pricing at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 15. 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, raw material cost exposures and greenhouse gases emission allowances, as the need arises.

The Company previously entered into interest rate swap contracts to reduce interest rate risk on its core debt. As at December 31, 2021 and at December 31, 2020, there were no interest rate swaps in place with all swaps having been settled during 2019. Interest rate swaps were previously 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 interest rate swaps in the prior years were designated as hedging instruments, and their impact on other comprehensive loss for 2019 was a loss of \$1.9 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, 2021, foreign currency forward exchange contracts with a notional value of \$113 million were in place (December 31, 2020 \$127.2 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 2021 was a gain of \$1.0 million (2020 – loss \$1.5 million).

As at December 31, 2021 and December 31, 2020 the Company did not hold any raw material derivatives.

The Company participates in the new United Kingdom Emissions Trading Scheme (“UK ETS”) which was launched on January 1, 2021. Emissions trading schemes work on the ‘cap

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

and trade' principle, where a cap is set on the total amount of certain greenhouse gases that can be emitted by sectors covered by the scheme. This limits the total amount of carbon that can be emitted. Within this cap, participants receive free allowances and/or buy emission allowances at auction or on the secondary market which they can trade with other participants as needed. As at December 31, 2021, the Company held UK ETS credits of \$3.9 million (December 31, 2020 – \$0.0 million).

The Company sells a range of specialty chemicals to major oil refiners 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 16. Commitments and Contingencies

Environmental remediation liabilities and asset retirement obligations

Commitments in respect of environmental remediation liabilities and asset retirement obligations are disclosed in Note 13 of the Notes to the Consolidated Financial Statements.

Capital commitments

The estimated additional cost to complete work in progress at December 31, 2021 is \$23.5 million (2020 – \$14.7 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, 2021, such guarantees which are not recognized as liabilities in the consolidated financial statements amounted to \$4.6 million (December 31, 2020 – \$9.9 million). The remaining terms of the fixed maturity guarantees vary from approximately 1 month to 5 years, with some further guarantees having no fixed expiry date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 17. Stockholders' Equity

<u>(number of shares in thousands)</u>	<u>Common Stock</u>			<u>Treasury Stock</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
At January 1	29,554.5	29,554.5	29,554.5	4,959	5,047	5,121
Exercise of options	—	—	—	(185)	(109)	(104)
Stock purchases	—	—	—	7	21	30
At December 31	<u>29,554.5</u>	<u>29,554.5</u>	<u>29,554.5</u>	<u>4,781</u>	<u>4,959</u>	<u>5,047</u>

At December 31, 2021, the Company had authorized common stock of 40,000,000 shares (2020 - 40,000,000).

Note 18. Stock-Based Compensation PlansStock option plans

The Company has two stock option plans, the Omnibus Long-Term Incentive Plan and the ShareSave Plan 2008 under which it currently grants awards. The stock options have vesting periods ranging from 2 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.

In the fourth quarter of 2020, a number of stock options that were granted to 14 employees in February 2018 were modified to extend the vesting period by two years. The incremental compensation cost resulting from the modifications was \$2.4 million, resulting from the performance targets that were not achieved in 2020 being extended to a future period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Dividend yield	1.03%	1.18%	1.09%
Expected life	5 years	5 years	5 years
Volatility (daily)	40.3%	27.0%	26.8%
Risk free interest rate	0.23%	1.13%	2.48%

The following table summarizes the transactions of the Company's stock option plans for the year ended December 31, 2021:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Grant-Date Fair Value</u>
Outstanding at December 31, 2020	442,893	\$ 32.49	\$ 45.31
Granted – at discount	81,596	\$ 0.00	\$ 92.37
– at market value	10,688	\$ 99.85	\$ 32.73
Exercised	(185,488)	\$ 53.07	\$ 30.28
Forfeited	(63,656)	\$ 6.29	\$ 68.80
Outstanding at December 31, 2021	<u>286,033</u>	\$ 18.08	\$ 62.88

At December 31, 2021, there were 107,383 (Weighted Average Exercise Price \$22.54, Weighted Average Grant-Date Fair Value \$43.65) stock options that were exercisable, 66,190 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 2021, 2020 and 2019 was \$4.4 million, \$5.8 million and \$6.6 million, respectively. The total intrinsic value of options exercised in 2021, 2020 and 2019 was \$3.7 million, \$4.9 million and \$3.5 million, respectively. The total intrinsic value of options outstanding at December 31, 2021 is \$20.7 million.

The total compensation cost related to non-vested stock options not yet recognized at December 31, 2021 was \$7.1 million and this cost is expected to be recognized over the weighted-average period of 1.93 years.

In 2021, the Company recorded a current tax benefit of \$1.3 million in respect of stock option compensation (2020 – \$1.6 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)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 six months to 5 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, 2021 the liability for SEUs of \$17.3 million is included in accrued liabilities in the consolidated balance sheets until they are cash settled.

In the fourth quarter of 2020, a number of SEUs that were granted to 61 employees in February 2018 were modified to extend the vesting period by two years. The adjusted compensation cost resulting from the modifications has been recognised by the fair valuation at the balance sheet date based on the extended vesting period.

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:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Dividend yield	1.28%	1.15%	0.99%
Expected life	5 years	5 years	5 years
Volatility (daily)	39.6%	39.9%	26.6%
Risk free interest rate	0.97%	0.17%	1.62%

The following table summarizes the transactions of the Company’s SEUs for the year ended December 31, 2021:

	<u>Number of SEUs</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Grant-Date Fair Value</u>
Outstanding at December 31, 2020	390,164	\$ 4.35	\$ 63.96
Granted – at discount	199,431	\$ 0.00	\$ 85.54
– at market value	3,803	\$ 99.85	\$ 32.71
Exercised	(40,115)	\$ 17.27	\$ 44.22
Forfeited	(25,345)	\$ 2.52	\$ 66.45
Outstanding at December 31, 2021	<u>527,938</u>	\$ 2.50	\$ 73.27

At December 31, 2021, there were 25,877 (Weighted Average Exercise Price \$12.41, Weighted Average Grant-Date Fair Value \$47.12) SEUs that were exercisable, 21,074 had performance conditions attached.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 2021, 2020 and 2019 was \$3.1 million, \$1.9 million and \$20.1 million, respectively. The total intrinsic value of SEUs exercised in 2021, 2020 and 2019 was \$1.8 million, \$6.3 million and \$7.3 million, respectively. The total intrinsic value of SEUs outstanding at December 31, 2021 is \$46.4 million.

The weighted-average remaining vesting period of non-vested SEUs is 1.31 years.

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

Note 19. Reclassifications out of Accumulated Other Comprehensive Loss

Reclassifications out of accumulated other comprehensive loss for 2021 were:

<u>(in millions)</u>	<u>Amount Reclassified from AOCL</u>	<u>Affected Line Item in the Statement where Net Income is Presented</u>
Details about AOCL Components		
Defined benefit pension plan items:		
Amortization of prior service credit	\$ 0.3	See (1) below
Amortization of actuarial net losses	2.6	See (1) below
	2.9	Total before tax
	(0.5)	Income tax expense
Total reclassifications	<u>\$ 2.4</u>	Net of tax

⁽¹⁾ These items are included in the computation of net periodic pension cost. See Note 10 of the Notes to the Consolidated Financial Statements for additional information.

Changes in accumulated other comprehensive loss for 2021, net of tax, were:

<u>(in millions)</u>	<u>Defined Benefit Pension Plan Items</u>	<u>Cumulative Translation Adjustments</u>	<u>Total</u>
Balance at December 31, 2020	\$ (19.9)	\$ (37.4)	\$(57.3)
Other comprehensive income before reclassifications	—	(20.2)	(20.2)
Amounts reclassified from AOCL	2.4	—	2.4
Actuarial net gains arising during the year	28.2	—	28.2
Net current period other comprehensive income	30.6	(20.2)	10.4
Balance at December 31, 2021	<u>\$ 10.7</u>	<u>\$ (57.6)</u>	<u>\$(46.9)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Reclassifications out of accumulated other comprehensive loss for 2020 were:

<u>(in millions)</u>	<u>Amount Reclassified from AOCL</u>	<u>Affected Line Item in the Statement where Net Income is Presented</u>
Details about AOCL Components		
Defined benefit pension plan items:		
Amortization of prior service credit	\$ (0.5)	See (1) below
Amortization of actuarial net losses	1.7	See (1) below
	1.2	Total before tax
	(0.1)	Income tax expense
Total reclassifications	<u>\$ 1.1</u>	Net of tax

⁽¹⁾ These items are included in the computation of net periodic pension cost. See Note 10 of the Notes to the Consolidated Financial Statements for additional information.

Changes in accumulated other comprehensive loss for 2020, net of tax, were:

<u>(in millions)</u>	<u>Defined Benefit Pension Plan Items</u>	<u>Cumulative Translation Adjustments</u>	<u>Total</u>
Balance at December 31, 2019	\$ (13.3)	\$ (61.1)	\$(74.4)
Other comprehensive income before reclassifications	0.0	23.7	23.7
Amounts reclassified from AOCL	1.1	—	1.1
Actuarial net gains arising during the year	(7.7)	—	(7.7)
Net current period other comprehensive income	(6.6)	23.7	17.1
Balance at December 31, 2020	<u>\$ (19.9)</u>	<u>\$ (37.4)</u>	<u>\$(57.3)</u>

Note 20. Recently Issued Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2019-12, Simplifying the Accounting for Income Taxes (Topic 740). This guidance removes certain exceptions to the general principles in Topic 740 and improves consistent application of and simplifies GAAP for other areas of Topic 740 by clarifying and amending existing guidance. This ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Adopting the new standard on January 1, 2021 has not impacted the Company's prior period comparatives and has not had a material impact on the Company's consolidated financial statements, including its accounting policies, processes and systems.

In March 2020, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Topic 848). This provides various practical expedients to account for

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

contract modification for loan agreements, lease agreements and derivative instruments currently referencing the London Interbank Offered Rate (“LIBOR”) up to December 31, 2022. At December 31, 2021 the Company has not modified contracts covered by this ASU to change a reference to LIBOR. We will continue to evaluate the use of the expedients covered by this ASU through 2022, but we do not expect there to be a material impact on the Company’s results.

Note 21. Related Party Transactions

Mr. Patrick S. Williams has been an executive director of the Company since April 2009 and has been a non-executive director of AdvanSix, a chemicals manufacturer, since February 2020. In 2021 the Company purchased product from AdvanSix for \$0.4 million (2020 – \$0.3 million). As at December 31, 2021, the Company owed \$0.1 million to AdvanSix (December 31, 2020 – \$0.0 million).

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 2021, 2020 and 2019 the Company incurred fees payable to SGR of \$0.1 million, \$0.8 million and \$0.5 million, respectively. As at December 31, 2021 the Company owed \$0.0 million to SGR (December 31, 2020 – \$0.1 million).

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 2021 for a value of \$0.6 million (2020 – \$0.2 million; 2019 – \$0.4 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, 2021 EMR owed \$0.0 million (December 31, 2020 – \$0.0 million).

Note 22. 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.

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, 2021.

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,

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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, 2021.

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, 2021. Their report is included in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Controls over Financial Reporting

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.

Item 9B Other Information

None.

Item 9C Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10 Directors, Executive Officers and Corporate Governance

The information set forth under the headings "Election of three Class III Directors," "Ratification of the election of one Class I Director," "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 4, 2022 ("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@innospec.com. These and other documents can also be accessed via the Company's website, www.innospec.com.

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The Company intends to disclose on its website www.innospec.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 – Identifying and Evaluating Nominees for Director" in the 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 "Who Owns Our Stock? 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 "Corporate Governance – Related Person Transactions and Relationships," "Corporate Governance – 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, 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.

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 (PCAOB ID 00876) dated February 16, 2022, 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 \(Incorporated by reference to Exhibit 3.1 of the Company's Form 10-K on February 19, 2020\).](#)
- [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 \(Incorporated by reference to Exhibit 4.1 of the Company's Form 10-K on February 19, 2020\).](#)
- [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 \(Incorporated by reference to Exhibit 10.23 of the Company's Form 10-K on March 28, 2003\). *](#)

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- [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 \(Incorporated by reference to Exhibit 10.3 of the Company's Form 8-K filed on February 27, 2014\).](#)

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10.15	<u>Employment contract for Brian Watt (Incorporated by Reference to Exhibit 10.4 of the Company's Form 10-Q filed on May 7, 2014).</u> *
10.16	<u>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).</u> *
10.17	<u>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).</u> *
10.18	<u>\$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).</u>
10.19	<u>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).</u>
10.20	<u>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).</u>
10.21	<u>Extension Request for Multicurrency Revolving Facility Agreement and Confirmation (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed October 6, 2020).</u>
21.1	<u>Principal Subsidiaries of the Registrant (filed herewith).</u>
23.1	<u>Consent of Independent Registered Public Accounting Firm, PricewaterhouseCoopers LLP (filed herewith).</u>
31.1	<u>Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u>
31.2	<u>Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u>
32.1	<u>Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u>
32.2	<u>Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u>
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.

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Item 16 **Form 10-K Summary**

Not Applicable.

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 16, 2022

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 16, 2021:

<u>/s/ MILTON C. BLACKMORE</u> Milton C. Blackmore	Chairman and Director
<u>/s/ PATRICK S. WILLIAMS</u> Patrick S. Williams	President and Chief Executive Officer (Principal Executive Officer); Director
<u>/s/ IAN P. CLEMINSON</u> Ian P. Cleminson	Executive Vice President and Chief Financial Officer
<u>/s/ GRAEME BLAIR</u> Graeme Blair	Head of Group Finance (Principal Accounting Officer)
<u>s/ KELLER ARNOLD</u> Keller Arnold	Director
<u>/s/ DAVID F. LANDLESS</u> David F. Landless	Director
<u>/s/ LAWRENCE J. PADFIELD</u> Lawrence J. Padfield	Director
<u>/s/ ROBERT I. PALLER</u> Robert I. Paller	Director
<u>/s/ LESLIE J. PARRETTE</u> Leslie J. Parrette	Director
<u>/s/ CLAUDIA POCCIA</u> Claudia Poccia	Director

EXHIBIT 21.1 PRINCIPAL SUBSIDIARIES OF THE REGISTRANT

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 Performance Chemicals France SA (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)

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 16, 2022 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 16, 2022

**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 16, 2022

**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 16, 2022

**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, 2021 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 16, 2022

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.

**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, 2021 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 16, 2022

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.